FINANCIAL WELLNESS SERIES

STRIDE
A Retirement Income Store

RESET YOUR RETIREMENT

The Retirement Income Store®

The Retirement Income Store, is made up of a national network of Income Specialists with a common goal of helping retirees and pre-retirees reduce their exposure to stock market risk, so they can use their retirement savings to establish ongoing streams of income for retirement. Our Income Specialists are not just fiduciaries; they understand both pre-retiree and retiree investment needs. They provide guidance and take comfort in knowing that our income-based strategies better protect clients from market turmoil.

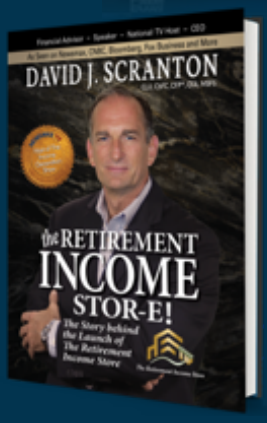
Sound Income Strategies

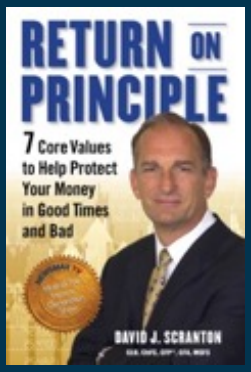
Sound Income Strategies is a Fort Lauderdale based Registered Investment Advisory (RIA) firm that differs from most other RIAs due to our fundamental experience in the "universe" of income-generating savings and investment strategies. Our network of Income Specialists specialize in income-generating strategies, that help our customers build more secure and dependable retirement plans through the active management of individual bonds, preferred stocks and other bond like instruments.

DAVID J. SCRANTON

Independent financial advisor, with more than 30 years of experience specializing in income-generating investment strategies.

- Founder of Sound Income Strategies, The Retirement Income Store®, Advisors' Academy, and Scranton Financial Group.
- Sound Income Strategies manages over $1.25 Billion AUM
- Host of the national TV show, The Income Generation with David J. Scranton
- Three-Time Published Author





THE INCOME GENERATION

With David J. Scranton

Tune In Every Sunday at 10 AM EST
On YouTube

FELLOWSHIP FINANCIAL GROUP

A Retirement Income Store®

Who We Serve

After the Stock Market dropped by nearly 50% during the Dot.Com bubble in 2000-2003, and then again by nearly 60% during the Great Recession from 2007-2009, many investors, particularly Baby Boomers, realized they needed a new approach to saving and investing for retirement. More recently, the markets' volatility and decline of over 20% has forced many of us the rethink and reset our retirement strategies.

Unfortunately, despite these dramatic drops, many financial advisors and stockbrokers were still advocating old stock market-based investment strategies, or they would just take the easy way out and invest their clients' hard-earned money in bond funds.

Investing in individual fixed-income securities were merely an afterthought for most advisors because they lacked the specialized training required to effectively implement and manage individual fixed-income strategies.

With that in mind, we work with all clients to make sure they have the best possible investment strategies that are tailored to meet their goals – placing a priority on financial self-defense and generating ongoing income for retirement.

HOW WE GOT HERE

Our generation, baby boomers, was led into the best bull market in U.S. history with the perfect storm: the onset of 401(k)s and the emerging popularity of mutual funds. No longer was the stock market exclusively for the affluent; it had become a place for the average investor.

With more money flowing into the market than ever before, it rose faster, causing investors to speculate even more, and the cycle was off and running.

DOT COM BUBBLE

The Internet has changed our lives profoundly. Altering many aspects of our lives from shopping to communication to banking, the Internet has affected the way business has evolved.

Entrepreneurs' unrealistic expectations of the potential of the Internet was the tipping point to the Dot Com bubble. Many investors foolishly ignored the fundamental rules of investing in the stock market, such as analyzing P/E ratios, studying market trends and reviewing business plans.

Bankruptcies ensued and some employees who worked for companies 20 plus years watched their retirement savings evaporate. And eight years later, the Great Recession.

THE GREAT RECESSION

In the Unites States, the Great Recession was attributed to a severe financial crisis combined with a deep recession. Although officially lasting eighteen months, it took many years for the economy to recover to pre-crisis levels of employment and output.

The Great Recession was particularly difficult for older Americans – especially those approaching retirement. Many had to delay retirement in order to rebuild savings lost.

Fast forward to April 2020, it only took four weeks for the U.S. economy to wipe out all the job gains in the last eleven years and stock market value to decline over twenty percent.

Real Life Challenges: Resetting Your Retirement

Planning for retirement is a personal journey. A journey that means more than deciding where you'll live, how you'll spend days or buying an RV and becoming a road warrior. Retirement can be the most rewarding and exciting phase of your life, but to make the most of it, you'll need an ongoing stream of reliable income sources.

Retirement just requires a slight change of thinking if your primary purpose-based goal is income now or later. The income you generate from your principal is your usable wealth. Your principal—the money you actually use to generate your income—is your unusable wealth.

Those who retired in the last few years are depending more and more on their investments to fulfill basic needs. Without the proper income, many are utilizing the withdrawal method, and are lucky in that they haven't been doing it long enough to risk running out of money yet. The problem is that the more money you withdraw, the less income you can generate, and the less money you'll have when you actually need it.

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TO ILLUSTRATE:

Joe is planning to retire from his Company. The Company set aside $1 million for Joe as a retirement benefit. He has two options on how to take it:

Option A

is to receive company stock. Of course, Joe cannot sell it right away because it's restricted stock. But he can collect a 2% dividend on it, each and every year. That's $20,000 in income.

Option B

is a defined benefit pension where Joe's company pays him $60,000 a year for the rest of his life. Joe doesn't get any stock, however, he will get $60,000 a year for the rest of his life.

Knowing that, which option would you take?

It's hard to turn down $1 million, but until he can sell that stock, that money really isn't Joes. It's restricted. And, Joe couldn't even list it as an asset of he were to go to the bank a get a loan.

Sure, Joe will get $20,000 in income. But in some respect, that's the best he will get with Option A. Essentially, the $1 million lump sum is unusable because if Joe was to spend it, he'd lose his income. With Option B, Joe will get $60,000 a year no matter what. With Option B, the entire $60,000 is usable year after year.

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TO ILLUSTRATE:

Ana is retired and is no longer a net-*contributor* to the market, but instead she is a net-*distributor*. Most of her money is in stocks or mutual funds. She relies on withdrawals to supplement retirement.

What happens if the market drops?

Obviously, Ana's supplemental income needs to come from somewhere. That puts her in the unfortunate situation where she will need to sell more share of stocks or mutual funds.

That's called "reverse dollar cost averaging" and it's one of the most dangerous strategies there is.

By employing this strategy, Ana's money depletes at a fast rate. Over time, she will end up in a position where she cannibalizes her portfolio – leaving her less money to draw from later on. Life is filled with zero-sum-game examples where things may work great in one direction but not in the other.

Retirement Lifestyle

Picture your retirement? What do you see? Are you maintaining the same standard of living you have now? Or, will you be content living with a leaner budget? Are you open to working part-time?

These are just a few of the questions to ask yourself as you consider which retirement income sources can help you live the future you envision.

When considering your retirement income source options, one thing to keep in mind is how long you expect to be retired. In general, people are living longer lives than in the past. If you retire at age 65, you could have 20 or more years ahead of you. That's a long time to go without a reliable income. At the end of the day, investing for income can be a more conservative way to get a return on your investment.

How much will you need?

Moving forward without a financial strategy invites disaster. To help avoid all that, you need a plan. Estimating your retirement budget can give insight into how much money you may need to fund your retirement. Your retirement budget should include: Housing Costs, Personal Expenses, Transportation, Insurance, Living Expenses, Medical Expenses, Insurance and Taxes.

HAVING A RETIREMENT BUDGET

IS A CRITICAL FIRST STEP WHEN DEVELOPING YOUR FINANCIAL STRATEGY

Where will the money come from?

There are several potential income sources to choose from — all offering various different benefits, risks and consideration

Stock Market – Offers the potential for significant growth, though comes with significant risk.

Fixed Instruments – Offer stable income streams over a period of time, though they may not offer significant growth opportunities.

Social Security – Provides some dependable, guaranteed income, but will likely be insufficient as your sole source of retirement income.

Annuities – A fixed annuity offers guarantees on the value of your money and a steady income in retirement.

Portfolio Allocation – Unique to each investor

There's no one-size-fits-all strategy for retirement income planning

Each option has its own benefits, risks and complexities. On some level, most people understand they're supposed to de-risk as they age. The options pursued will be correlated to your risk tolerance.

For people at or near retirement, a dependable income source with a guaranteed, steady payout is preferable to a high-risk investment with only the possibility of a higher return. Reallocating a portion of your investment dollars to the world of bonds and other bond-like instruments to continue generating a steady income stream seems like a sensible approach.

You don't have to choose only one type of retirement income. Many people reset their portfolios to include both guaranteed and non-guaranteed sources of income which together forms the foundation for years to come.

No two people are alike, neither are their retirement portfolios.

Other Considerations

Inflation

Prices fluctuate, moreover things get pricier as the years go by. That's today's economic reality. A great example of this: You have $100 in your pocket today, assuming a modest three percent inflation rate, that same $100 will be worth approximately $64 dollars in 2035. In summary, over time inflation erodes the value of money.

Inflation is just one of many concerns, and a good financial advisor will factor this into the equation, making sure you have income coming into account for it.

Healthcare Costs

The biggest concern for retirees that almost always makes retirement more expensive than they ever could image is healthcare.

Healthcare costs are subject to some of the greatest inflation rates in the country. The only other things that come close are college tuition and childcare. In the last 18 years, inflation has grown at an average annual rate of 2.2 percent[1]. Since 1948, the price of medical care has grown at an average annual rate of 5.3 percent compared to 3.5 percent for the consumer price index overall[2]. So, at close to six percent, healthcare and medical costs are essentially doubling every 12 years.

Longevity

With advances in medical care, people are living longer. Today, the Society of Actuaries says that the average man at 65 can expect to live another 21.5 years, and the average woman another 23 years[3]. If you have family members living longer than that, plan for the change that your retirement savings will need to stretch 30 years or more.

Long-Term Care

Long-term care involves a variety of services designed to meet a person's health or personal care needs. It can be in the form of independent or assisted living. It is difficult to predict how much or what type of long-term care a person might need. Factors that influence care include: age, gender, marital status, lifestyle and health history.

Legacy Planning

Just as with writing a will, it's important to start planning your legacy early so that when the time comes, your affairs are in order. In concert, your financial advisor will work with you to help prepare your legacy and assist you with any questions that may arise. Surprisingly, many people forget they cannot leave a financial legacy if they aren't financially secure enough to amass one.

1 https://www.usinflationcalculator.com/inflation/current- inflation-rates/

2 https://fredblog.stlouisfed.org/2017/07/healthy-inflation/

3 Wall Street Journal [http://www.wsj.com/articles/rising-u-s-lifespans-spell-likely-pain-for-pension-funds-1414430683]

Jerry and Kris. Married 35 years with three grown children and grandchildren. They built a wonderful life together, family friends and a thriving business. But as they enter their sixties, they are starting to map out an encore chapter. And with recent 20% declines in the stock market, an encore chapter that's relatively safe from fluctuations.

As owners of a family-business with retirement on the horizon, the options to consider are countless. They can sell the business or may consider passing the business to their children. There are many options in this scenario too, since multiple children are involved.

Discussing a transition plan is an essential first step for Jerry and Kris.

Preparing for the Unexpected

Although not all unexpected events are negative, generally, the big ones that affect your financial future tend to be negative. To combat against unexpected financial hardship, you will need to better handle your money. Your emergency fund should be relatively liquid and cover three to six months of living expenses.

Disability, long-term illness, the death of a spouse and the special needs of children or aging parents – these are the kind of personal life events that can affect your financial security and well-being. Your plans should include contingencies in the event of job loss, reduction of retiree benefits or changes to Social Security and Medicare.

Working After Retirement

Being retired doesn't mean that you have to stop working. You may find the satisfaction in having a job that really suits your interest, regardless of salary. Continuing to work can also help you stay active and connected.

A 2013 study conducted by Northwestern Mutual found Americans simply planned to continue working into their 60s, 70s and even 80s[1]. Many people assume they must begin taking Social Security as soon as they retire. The longer you wait, the more each payment maybe. If you're healthy and don't need the income right away, it may be wise to delay as long as you can up to the age of 70.

1 "Retirement and Longevity," Northwestern Mutual, 2013 [https://www.northwesternmutual.com/about-us /studies/ planning-and-progress-2013-study]

THIS IS CARLA

...a single mother and empty nester who just turned 60. All through her fifties, she envisioned retiring in her early sixties. But there were several financial setbacks, including most recently, a significant drop in the stock market.

Carla can be considered a diligent saver and financially conservative. Yet, her nest egg, at nearly a $500,000 would not sustain her throughout her retirement life if she drew down her savings at $40,000 a year.

In an effort to save as much as possible, Carla plans on a transitioned retirement, where she will continue to work part-time at her current employer.

She is less worried about meeting everyday expenses and more concerned about maintaining her good health while saving enough money to enjoy a comfortable retirement. She understands that healthcare and its rate of inflation can quickly chip away at her savings.

The Rise of Boomerang Kids

Whether due to student loan debt, a less than successful job hunt or economic conditions, twenty- and thirty-somethings are moving back in with their parents at a historic rate.

Baby boomers who are still financially supporting their children (a group called boomerang kids) are increasingly finding that doing so is keeping them from reaching retirement. In fact, only 21% of baby boomers who support their adult children are retired – compared with 52% of boomer households whose adult children are financially independent.[1]

Not only is impacting when boomers are retiring but also how much they can save before retiring.

Summary

You worked hard for the money you've saved and you should be able to spend it on your terms. Retirement is something to be enjoyed, and the way you do that is by having your money work for you. However, in a 2010 study, 47 percent of the study's participants were afraid of not being able to cover their basic living expenses[2].

The reality is that you may no longer be able to rely, measure or plan your retirement based on what you thought was supposed to happen. Remember, the money you have saved and invested for retirement should be working for you until you withdraw it. Your retirement should include a continual investment strategy throughout your lifetime.

When we're young, we have grandiose ideas of taking on the world and pursuing our passions. After decades of work, all we wish is to be able to fulfill purpose-based goals that are important to us, retire someday, make sure we will never run out of money, keep up with inflation, and, for some, to leave a modest legacy. Your investment strategy should obviously follow suit. It should have a specific and defined purpose. And smart investors are, indeed, purpose-based investors. Bottom line, you don't retire to skimp and save. You retire to enjoy it. To do that, you need a plan. More specifically, you need income.

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1 https://web.archive.org/web/20150316163438/http:/heartsandwallets.com/baby-boomers-whove-cut-apron-strings-for-adult-kids-twice-as-likely-to-be-retired-than-ones-who-havent/news/2015/03/

2 "Reclaiming the Future" by Allianz Life Insurance Company, 2010, ENT-991-N [https://www2.allianzlife.com/content/public/ literature/ documents/ent-991-N.pdf]