<u>Retirement Income Portfolio for a Retiree</u>

As people enter retirement, they face a new challenge: **turning their savings into sustainable income.** Most retirees recognize they must continue investing to keep up with the rising cost of living, yet they also need to begin drawing from their accounts for income.

That's why a **retirement income portfolio** is fundamentally different from an **accumulation portfolio** built during working years. Structuring a portfolio for retirement requires a different mindset, greater diversification, and strategies to reduce risk and preserve income over time.

Here are **<u>five key differences</u>** between retirement and accumulation portfolios:

1) **Shift Toward Conservative Stock Exposure**

   Retirees generally still need some stock market exposure, but the focus changes:
   - Favor **conservative, income producing stock funds**
   - Look for **dividend-paying and dividend-growing investments**
   - Emphasize **quality** (e.g., blue-chip companies) over high-growth risk investments
   - Consider **lower-volatility** or balanced strategies

   Funds categorized as **dividend, value, or growth-and-income** may be well-suited to generate ongoing cash flow while reducing risk.

2) **Inflation Protection Becomes Critical**

   While younger investors rely on raises to keep up with inflation, retirees must rely on their **investments** to protect purchasing power.

   Ways to address inflation include:
   - **Treasury Inflation-Protected Securities (TIPS)**
   - **Rising dividend stocks**
   - **Real Estate Investment Trusts (REITs)** for additional diversification and inflation hedging

     Even though inflation has averaged about 2.1% since 2000, its compounding effect has pushed up some prices by over 45%.

3) **Reduce Exposure to Aggressive Asset Classes**

   Accumulation portfolios may include aggressive sectors like **small-cap stocks** and **emerging markets.** In retirement, however:
   - Limit small-cap and emerging markets to 3% each
   - Reduce high-volatility sectors to help lower portfolio risk

- Focus instead on **stability and predictable income**

Younger investors might hold 5-10% in these aggressive sectors – but retirees typically benefit from a more measured approach.

4) **Diversify Across Multiple Income-Producing Asset Classes**
   Diversification is always important – but for retirees, its essential for **generating income from multiple sources.** These may include:

- Dividend-paying US. Stocks
- Real estate (via REITs)
- International equities
- Treasury and corporate bonds
- Global fixed income
- Money market accounts

Having various asset classes improves your ability to **withdraw from strong-performing areas** and selling during downturns.

5) **Maintain a Money Market Account for Income Stability**
   Retirees should consider **opening or maintaining a money market account** and directing portfolio dividends and interests into it. When income is needed, this cash can be withdrawn first. This can help **avoid selling stocks during market declines,** such as fourth quarter of 2018 when equities dropped 20%. Cash buffers can reduce the need to liquidate core holdings inopportune times.

Manage Sequence-of-Return Risk

One of the biggest threats retirees face is **sequence-of-return risk** – taking withdrawals from an account that is experiencing a temporary market decline. Losses early in retirement can significantly impact portfolio longevity.
By building a **well-diversified retirement income strategy,** retirees increase their chances of sustaining income and avoiding premature depletion of their assets.

Retirement Portfolios Require a Different Approach

Retirees today are living longer – and that requires smarter planning. A **retirement income portfolio** is not just a continuation of a growth portfolio. It's an actively managed retirement strategy that considers income, risk, inflation and longevity.
With a thoughtful allocation and proactive income planning, retirees can increase the odds that their money will last well into their golden years – and perhaps even leave a legacy.

<u>*Disclosures & Risks:*</u>
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Investing involves risk, including the ***loss of principal****. No strategy or diversification approach guarantees success or prevents loss. Specific risks include:*

- ***Market risk*** *and* ***systematic risk***
- ***Small-cap and mid-cap volatility***
- ***International investing risks,*** *including currency and political risk*
- ***Bonds risk,*** *such as interest rate and credit risk*
- ***REIT risks,*** *such as liquidity and interest rate sensitivity*
- ***Money market risk –*** *these funds are not FDIC insured and may lose value*
- ***TIPS*** *(Treasure Inflation-Protected Securities) are backed by the U.S. government and indexed to inflation.* ***CPI*** *(Consumer Price Index) measures cost-of-living changes based on a standard basket of goods.*
- *Before investing, always review a fund's* ***prospectus,*** *which outlines risks, charges, and expenses.*