NEIRG
Wealth Management | A Connectus Partner

WEALTH WISDOM

MONTHLY FINANCIAL INSIGHTS

Welcome

Welcome to "NEIRG Wealth Wisdom: Monthly Financial Insights," your go-to source for insightful and educational content on various financial topics. Designed for the informed investor, our goal is to empower you with clear and concise knowledge, helping you stay ahead in the complex financial world.

Purposeful Investing

In this month's edition of Wealth Wisdom, NEIRG is reviewing the bedrock concept that defines the firm's wealth management philosophy; *goals-based investing,* - as well as income-based investment portfolios that may make sense for investors nearing (or in) retirement.

Investing with a Purpose

Rather than focusing on style boxes and benchmark performance, goals-based investing reflects the reality that an investment portfolio is a part of a comprehensive financial plan, not *the* financial plan. Investors are often reaching for multiple goals and *goals-based wealth management* provides the road map for matching cash flow needs with time horizons.

This reality is why investment performance is all relative. Measuring the returns of an investor in

their twenties with thirty plus years to retirement against an investor in retirement looking for positive cash flow from their portfolio is like comparing apples and oranges. At NEIRG, we focus on our client's goals, needs, and opportunities to craft a portfolio that works uniquely for them.

In this month's edition of NEIRG's Wealth Wisdom, we focus on possible portfolio solutions for investors in their retirement.

Constructing an Income-Based Portfolio

For investors who are currently in, (or approaching) retirement, an income portfolio can be constructed using a generally conservative strategy of bonds, mortgage-backed securities, stocks, and other investments that pay interest or dividends to create income from the underlying assets. The goal of this portfolio is to offer long-term sustainability and generate an income stream that can compound and increase the value of the investment or be used to defray retirement expenses.

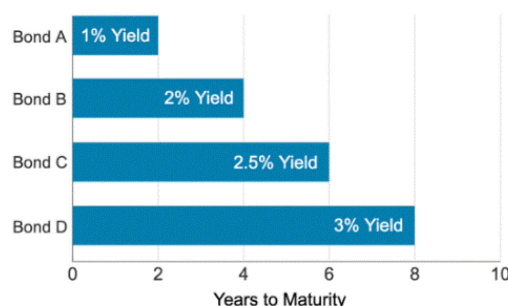
Using Bonds in Retirement

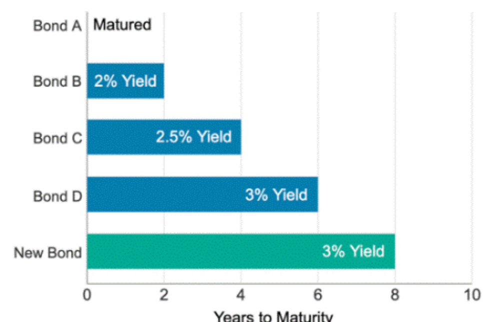
When an investor purchases a bond, they are lending money to the issuer, which may be a government, municipality, or corporation. That issuer promises to pay the investor a specified rate of interest during the life of the bond and to repay the principal, also known as *face value or par value* of the bond, when it "matures," or comes due. Because bonds don't represent underlying ownership in the issuer, they typically are thought of as more conservative investment vehicles than stocks which do represent ownership in the issuer.

U.S. Treasuries carry the full faith and credit of the U.S. government and are often the foundation of income portfolios. Types of US Treasury debt are categorized based on maturity and include bills, notes, bonds, and TIPS (Treasury Inflation Protected Securities). Higher yields may be achieved by allocating to other areas of the fixed income market such as corporate bonds, global bonds, mortgage-backed securities or corporate bonds of lower credit quality. Typically, investors have bonds of various credit quality; from the highest available (U.S. Treasuries), to corporate grade bonds (Apple, Microsoft), to more speculative (or high-yield) bonds to provide diversification.

In addition to diversifying "issuers," many investors will use bond-ladders to purchase debt of different maturity dates which minimizes reinvestment risk (the risk of interest rates fluctuating). When each bond matures, the investor will typically roll the proceeds into a new bond extending the duration of the bond ladder. The basic idea is the rungs of the ladder shift over time and the constant reinvestment on the longest rungs act to preserve the structure of the ladder. While individual bonds will fluctuate in value after initial purchase as rates oscillate in the bond market, investors will receive the par value at maturity assuming no credit risk.

For example, in two years, when Bond A matures, the proceeds can be rolled into a new bond, extending the bond ladder. The investor can continue to do this as bonds mature in the future.





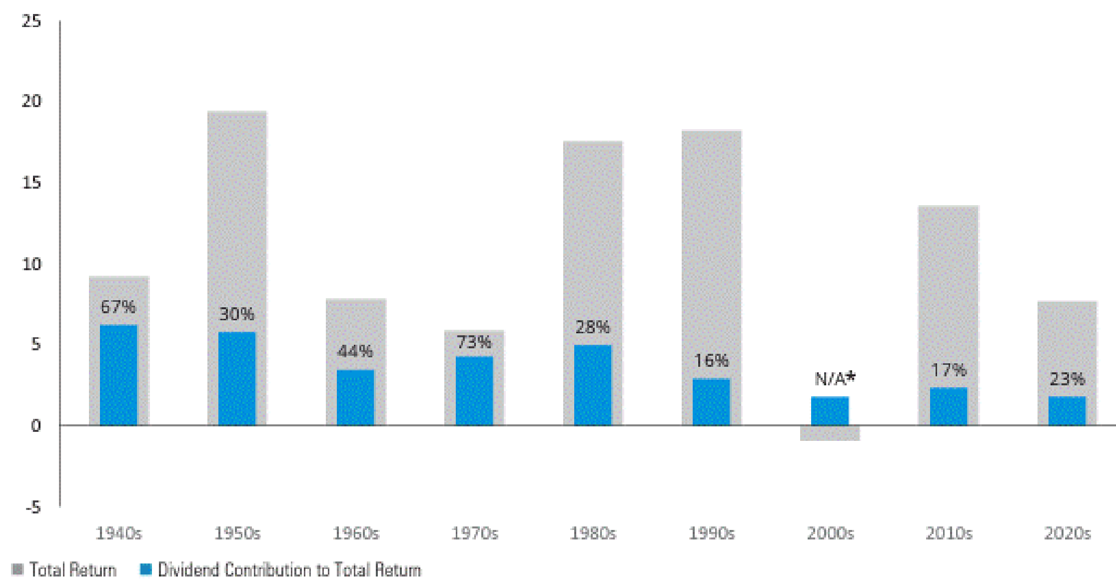
https://www.schwab.com/fixed-income/bond-ladders

This strategy ensures that an investor's total bond portfolio isn't subject to falling interest rates

over time, minimizing the risk of having to reinvest funds into less efficient bond vehicles all at once. Bond ladders can only be properly constructed **specific to an investor's needs**; an example where goals-based investing is key.

"Value" Stocks & Their Use in Retirement

In addition to fixed income, a "dividend-equity" strategy could also be implemented to achieve after-tax income goals. Dividends often provide evidence of financial strength and business durability. Historically, companies that have increased their dividend have outperformed those that cut or don't pay dividends. Over the last 90 years, about 40% of total stock market return as measured by the S&P 500 index was generated from dividend income. While these returns vary from decade to decade as growth oriented stocks continually compete for capital, dividend paying stocks often exhibit lower volatility than the overall market.



https://www.hartfordfunds.com/dam/en/docs/pub/whitepapers/WP106.pdf

*Total return for the S&P 500 Index was negative for the 2000s. Dividends provided a 1.8% annualized return over the decade. For illustrative purposes only. Data Sources: Morningstar and Hartford Funds, 12 /22

Unlike a bond strategy, a dividend strategy results in investors taking ownership stakes in companies so that the investor is entitled to receive a dividend, or a share of the corporate profits. These dividends may provide additional stability in stock ownership because they are not directly tied to the stock's value but rather longer-term profitability and consistent cash flow generation from the underlying business. An investor who is investing in "value" stocks expect some component of their return from dividends rather than stock appreciation alone. Additionally, qualified dividends are taxed at preferential rates and could also increase after-tax returns.

At NEIRG, we use both stocks and exchanged trade funds (ETFs) with a track record of paying high and/or increasing dividends to generate tax-preferred income for clients. These stocks and ETFs produce steady income based on dividends and allow for diversification across greater geographical areas and business sectors. Real estate investment trusts (REITs) are also used to invest in a broad range of real estate holdings that pass through commercial rents.

Goals-Based Investing in Income Portfolios

For investors with a need to draw funds from their portfolio without significantly depleting principal, an income-based portfolio can be appropriate. At NEIRG, we use a combination of bonds and dividend paying equity vehicles to tailor income-based solutions to our clients' needs.

Please contact your wealth advisor at **NEIRG** directly for additional information.

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