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DUMONT & BLAKE
INVESTMENT ADVISORS

731 Alexander Road, Suite 301
Princeton, New Jersey 08540

609-514-1899 800-345-3200
609-514-4222 Fax

Money In Motion

www.dumontandblake.com

Long-Term Investing Truths

You learn lessons as you invest in pursuit of long-run goals. Some of these lessons are conveyed and reinforced when you begin saving for retirement, and others, you glean along the way.

First and foremost, you learn to shut out much of the "noise." News outlets take the temperature of global markets five days a week (and on the weekends), and economic indicators change weekly or monthly. The longer you invest, the more you learn that breaking news can create market volatility. While the day trader sells or buys in reaction to immediate economic or market news, the buy-and-hold investor has a long-term perspective and understands that the market can have periods of volatility.

You learn how much volatility you can stomach. Market sentiment can quickly shift and so can index performance. Across 2008-18, the S&P 500 had a cumulative total return (dividends included) of almost 140%, compared to just 8% for the MSCI Emerging Markets Index. During 2003-07, though, the Emerging Markets index returned 391%, while the S&P returned 83%.[1,2]

Here are the recent yearly total returns of the S&P: 2013, +30.71%; 2014, +13.57%; 2015, +1.30%; 2016, +11.94%; 2017, +21.83%; 2018, -4.38%. Do you see any kind of "norm" or pattern there? That is the kind of year-to-year volatility that leads people to find an asset allocation that is comfortable for them.[2,3]

You learn why liquidity matters. The older you get, the more you appreciate being able to quickly access your money. A family emergency might require you to tap into your investment accounts. An early retirement might prompt you to withdraw from retirement funds sooner than you anticipate. Should you misgauge your need for liquidity, you could find yourself under sudden financial pressure.

You learn the merits of rebalancing your portfolio. To the neophyte investor, rebalancing when the bulls are stampeding may seem illogical. If your portfolio is disproportionately weighted in equities, is that a problem? It could be.

Across a sustained bull market, it is common to see your level of risk rise parallel to your return. When equities return more than other asset classes, they end up representing an increasingly large percentage of your portfolio's total assets. Correspondingly, your cash allocation shrinks.

The closer you get to retirement, the less tolerant of risk you may become. Even if you are strongly committed to growth investing, approaching retirement while taking on more risk (continued on page 2)

Reducing the Risk of Outliving Your Money

What steps might help you sustain and grow your retirement savings?

"What is your greatest retirement fear?" If you ask any group of retirees and pre-retirees this question, "outliving my money" will likely be one of the top answers. In fact, 61% of investors surveyed for a 2018 AIG retirement study ranked outliving their money as their top anxiety.[1]

Retirees face greater "longevity risk" today. The Census Bureau says that Americans typically retire around age 63. Social Security projects that today's 63-year-olds will live into their mid-eighties, on average. This is a mean life expectancy, so while some of these seniors may pass away earlier, others may live past 90 or 100.[2,3]

If your retirement lasts 20, 30, or even 40 years, how well do you think your retirement savings will hold up? What financial steps could you take in your retirement to try and prevent those savings from eroding? As you think ahead, consider the following possibilities and realities.

Realize that Social Security benefits might shrink in the future. In 2000, there were four workers funding Social Security for every retiree receiving benefits. By federal estimates, there will be only 2.2 workers funding Social Security for every retiree in 2035. This may not bode well for the health of the program.[4]

For decades, Social Security typically took in more dollars per year than it paid out. That ongoing surplus – also known as the Social Security Trust Fund – is now projected to dry up by 2034. Congress may act to address this financing issue before then, but the worry is that future retirees could get slightly less back from Social Security than they put in. It may be smart to investigate other potential retirement income sources now.[4]

Understand that you may need to work part time in your sixties and seventies. The income from part-time work can be an economic lifesaver for retirees. Suppose you walk away from your career with a hypothetical $500,000 in retirement savings. In your first year of retirement, you decide to withdraw $25,000 of that for some of your income. You keep doing that year after year. That money will be gone in 20 years. (Inflation might lead you to draw (continued on page 2)

Long-Term Investing Truths *(continued from page 1)*

than you feel comfortable with is problematic, as is approaching retirement with an inadequate cash position. Rebalancing a portfolio restores the original asset allocation, realigning it with your long-term risk tolerance and investment strategy. It may seem counter-productive to sell "winners" and buy "losers" as an effect of rebalancing, but as you do so, remember that you are also saying goodbye to some assets that may have peaked, while saying hello to others that might be poised to rise.[4,5]

You learn not to get too attached to certain types of investments. Sometimes an investor will succumb to familiarity bias, which is the rejection of diversification for familiar investments. Why does he or she have 9% of their portfolio invested in just two Dow components? Maybe the investor just likes what those firms stand for or has worked for them. The inherent problem is that the performance of those companies exerts a measurable influence on overall portfolio performance.

Sometimes you see people invest heavily in sectors that include their own industry or career field. An investor works for an oil company, so they get heavily into the energy sector. When energy companies go through a rough patch, that investor's portfolio may be in for a rough ride. Correspondingly, that investor may have less capacity to tolerate stock market risk than a faculty surgeon at a university hospital, a federal prosecutor, or someone else whose career field or industry will be less buffeted by the winds of economic change.[6]

You learn to be patient. Time teaches you the importance of investing based on your time horizon, risk tolerance, and goals. The pursuit of your long-term financial objectives should not falter. Your financial future and your quality of life may depend on realizing them.

Citations

1 - etf.com/sections/features-and-news/swedroe-investing-uncomfortably?nopaging=1 [12/31/18]
2 - The performance data quoted herein represents past performance and does not guarantee future results. Individuals cannot invest directly in an index. Investing in securities involves risk of loss that clients should be prepared to bear. No investment process is free of risk; no strategy or risk management technique can guarantee returns or eliminate risk in any market environment. Market volatility can dramatically impact short-term investment performance. Current performance may be lower or higher than figures shown. An investment's return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.
3 - indexologyblog.com/2019/02/04/sp-500-performance-in-2018-how-much-does-size-matter/ [2/4/19]
4 - Neither asset allocation nor diversification can eliminate the risk of fluctuating prices and uncertain returns. All investment strategies have the potential for profit or loss. Changes in investment strategies, contributions or withdrawals, and economic conditions may materially alter the performance of your portfolio. There are no assurances that a portfolio will match or exceed any particular benchmark.
5 - Tax loss harvesting is not suitable for all investors. Nothing herein should be interpreted as tax advice, and the author of this article does not represent in any manner that the tax consequences described herein will be obtained, or that any investment product will result in any particular tax consequence. Please consult your personal tax advisor as to whether tax loss harvesting is a suitable strategy for you, given your particular circumstances. The tax consequences of tax loss harvesting are complex and uncertain and may be challenged by the IRS. You and your tax advisor are responsible for how transactions conducted in your account are reported to the IRS on your personal tax return. The author assumes no responsibility for the tax consequences to any client of any transaction.
6 - Because of its narrow focus, a sector investing strategy tends to be more volatile than an investment strategy that is diversified across many sectors and companies. Sector investing also is subject to the additional risks that are associated with its particular industry. Sector investing can be adversely affected by political, regulatory, market, or economic developments.

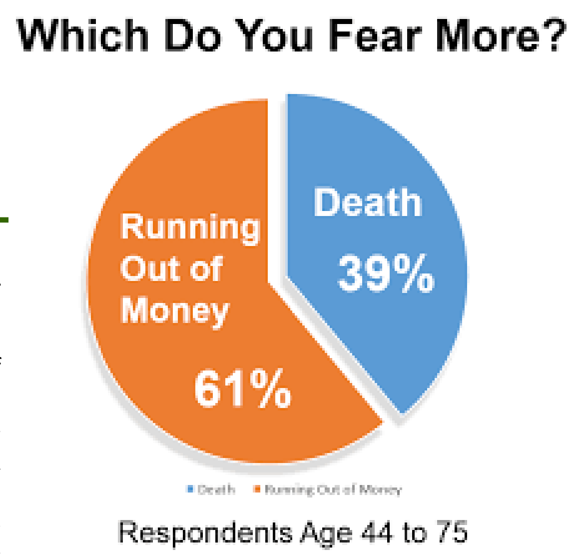
Reducing the Risk of Outliving Your Money

(continued from page 1)

it down faster.) What if you worked part time and earned $20,000-30,000 a year? If you can do that for five or ten years, you effectively give those retirement savings five or ten more years to last and grow.

Retire with health insurance and prepare adequately for out-of-pocket costs. Financially speaking, this may be the most frustrating part of retirement. You can enroll in Medicare at age 65, but how do you handle the premiums for private health insurance if you retire before then? Striving to work until you are eligible for Medicare makes economic sense and so does building a personal health care account. According to Fidelity research, a typical 65-year-old couple retiring today will face out-of-pocket health care costs approaching $300,000 over the rest of their lives.[5]

Many people may retire unaware of these financial factors. With luck and a favorable investing climate, their retirement savings may last a long time. Luck is not a plan, however, and hope is not a strategy. Those who are retiring unaware of these factors may risk outliving their money.



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3 - ssa.gov/oact/population/longevity.html [3/6/19]
4 - forbes.com/sites/catherineschnaubelt/2018/05/30/social-security-past-present-and-future [5/30/18]
5 - fidelity.com/viewpoints/retirement/transition-to-medicare [4/24/18]