Volume 14, Issue 1

March 2023

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

Your Changing Definition of Risk in Retirement

During your accumulation years, you may have categorized your risk as "conservative," "moderate," or "aggressive" and that guided how your portfolio was built. Maybe you concerned yourself with finding the "best-performing funds," even though you knew past performance does not guarantee future results.

What occurs with many retirees is a change in mindset—it's less about finding the "best-performing fund" and more about consistent performance. It may be less about a risk continuum—that stretches from conservative to aggressive—and more about balancing the objectives of maximizing your income and sustaining it for a lifetime. You may even find yourself willing to forego return potential for steady income. A change in your mindset may drive changes in how you shape your portfolio and the investments you choose to fill it. Let's examine how this might look at an individual level.

Still Believe

During your working years, you understood the short-term volatility of the stock market but accepted it for its growth potential over longer time periods. You're now in retirement and still believe in that concept. In fact, you know stocks remain important to your (continue on page 2)

Inflation & Your Money

"If the current annual inflation rate is 7.9 percent, why do my bills seem like they're 10 percent higher than last year?"[1]

Many of us ask ourselves that question, and it illustrates the importance of understanding how inflation is reported and how it can affect investments.

What Is Inflation?

Inflation is defined as an upward movement in the average level of prices. Each month, the Bureau of Labor Statistics releases a report called the Consumer Price Index (CPI) to track these fluctuations. It was developed from detailed expenditure information provided by families and individuals on purchases made in the following categories: food and beverages, housing, apparel, transportation, medical care, recreation, education and communication, and other groups and services.[2]

How Applicable Is the CPI?

While it's the commonly used indicator of inflation, the CPI has come under scrutiny. For example, the CPI rose 7.9 percent for the 12-months ending in February 2022. However, a closer look at the report shows movement in prices on a more detailed level. Energy prices, for example, rose 25.6 percent during those 12 months.[1]

Are Investments Affected by Inflation?

They sure are. As inflation rises and falls, three notable effects are observed.

First, inflation reduces the real rate of return on investments. So, if an investment earned 6 percent for a 12-month period and inflation averaged 1.5 percent over that time, the investment's real rate of return would have been 4.5 percent. If taxes are considered, the real rate of return may be reduced even further.[3]

Second, inflation puts purchasing power at risk. When prices rise, a fixed amount of money has the power to purchase fewer and fewer goods.

Third, inflation can influence the actions of the Federal Reserve. If the Fed wants to control inflation, it has various methods for reducing the amount of money in circulation. Hypothetically, a smaller supply of money would lead to less spending, which may lead to lower prices and lower inflation.

Empower Yourself with a Trusted Professional

When inflation is low, it's easy to overlook how rising prices are (continue on page 2)

Your Changing Definition of Risk in Retirement

(continued from page 1)

financial strategy over a 30-year or more retirement period.[1]

But you've also come to understand that withdrawals from your investment portfolio have the potential to accelerate the depletion of your assets when investment values are declining. How you define your risk tolerance may not have changed, but you understand the new risks introduced by retirement. Consequently, it's not so much about managing your exposure to stocks, but considering new strategies that adapt to this new landscape.[1]

Shift the Risk

For instance, it may mean that you hold more cash than you ever did when you were earning a paycheck. It also may mean that you consider investments that shift the risk of market uncertainty to another party, such as an insurance company. Many retirees choose annuities for just that reason.

The guarantees of an annuity contract depend on the issuing company's claims-paying ability. Annuities have contract limitations, fees, and charges, including account and administrative fees, underlying investment management fees, mortality and expense fees, and charges for optional benefits. Most annuities have surrender fees that are usually highest if you take out the money in the initial years of the annuity contract. Withdrawals and income payments are taxed as ordinary income. If a withdrawal is made prior to age 59½, a 10% federal income tax penalty may apply (unless an exception applies).

The march of time affords us ever-changing perspectives on life, and that is never more true than during retirement.

1. Keep in mind that the return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.This is a hypothetical example used for illustrative purposes only.

Inflation & Your Money *(continued from page 1)*

affecting a household budget. On the other hand, when inflation is high, it may be tempting to make more sweeping changes in response to increasing prices. The best approach may be to reach out to your financial professional to help you develop a sound investment strategy that takes both possible scenarios into account.

1. USInflationCalculator.com, 2022
2. BLS.gov, 2022
3. This is a hypothetical example used for illustrative purposes only. It is not representative of any specific investment or combination of investments. Past performance does not guarantee future results.