Investor Insights & Outlook

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So, You're Ready for Retirement…Or Are You?

Regarding the caveat

- In this article benefits are not reduced if your earned income is less than $15,120/year or $1260/month for a partial a year of benefits (2013 figures).

In the past, retirement planning used to involve two planning stages: the accumulation of assets, and the distribution of assets. Nowadays, there may be three periods to consider: accumulation, transition, and distribution. "Transition" can be defined as the period between full employment and full retirement when a person is working on a reduced or part-time basis.

What are some reasons to consider working a little longer? Working gives many people a purpose and a sense of self-worth—two benefits that can be more valuable than money in some cases. Working just a few extra years also prolongs the start of the distribution period and enables you to accumulate more savings. This becomes especially important when you consider that life expectancies are rising and you may need to fund a longer retirement than your grandparents, or even parents, did. Continuing to work in the transition years can also provide one additional advantage—it might enable you to receive medical benefits of higher quality than what you would receive as a retiree from your job or from Medicare. This strategy can go a long way in reducing the impact on your portfolio of unforeseen medical bills in early or mid retirement.

Caveat: While we have explored the positives of continuing to work in the transition years, you also need to consider the negatives. One negative is the impact on Social Security benefits. If you decide to start receiving Social Security benefits at age 62, you will be penalized with a reduction in those benefits for any income you receive from working until you reach full retirement age. In addition, Social Security benefits are taxed if you make more than a certain amount each year from earned and investment sources. It may be best to plan this out with your financial advisor to make sure you maximize your benefits.

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Three Popular ETF Questions Answered

Although exchange-traded funds, commonly known as ETFs, have existed for almost two decades, they've only recently caught on with investors. The ETF market has evolved, and investors now have hundreds of ETFs from which to choose. Here are three commonly asked questions to consider when adding ETFs to a portfolio.

Q: What is the difference between the ETF market price and net asset value (NAV), and why do ETFs trade at a premium or discount?

A: An ETF's NAV is the value of all the fund's assets divided by the total number of shares. This calculation is done at the close of each trading day and can be affected by changes in the market value of the underlying securities. The market price is the price at which the ETF is trading on the exchange, which can be affected by supply and demand. During times when demand for an ETF exceeds supply, the market price of the ETF is higher than its NAV and the ETF is said to trade at a premium; when supply exceeds demand, the market price of the ETF is lower than its NAV and the ETF is said to trade at a discount. ETFs generally do not trade at persistent large premiums or discounts.

Q: What are the tax advantages of ETFs?

A: Taxable capital gains are realized when a fund buys and sells securities at a profit, which is then passed on to investors. When an ETF buys and sells (creates and redeems) shares, it is usually done in-kind, which means no cash is involved, as ETF shares are exchanged for an equivalent basket of its underlying securities instead. This helps the ETF to minimize realizing and then passing taxable capital gains on to investors.

Q: Is it a good idea to use ETFs in retirement accounts?

A: Buying and selling ETFs incurs a brokerage fee, along with other potential costs. If an investor makes frequent contributions, brokerage fees can add up and pose a significant drag on long-term performance. Different plan providers will charge participants differently. That said, several brokerage platforms offer commission-free trades for certain families of ETFs, so check with your plan provider.

Holding an exchange-traded fund does not ensure a profitable outcome and all investing involves risk, including the loss of the entire principal. Since each ETF is different, investors should read the prospectus and consider this information carefully before investing. The prospectus can be obtained from your financial professional or the ETF provider and contains complete information, including investment objectives, risks, charges and expenses. ETF risks include, but are not limited to, market risk, market trading risk, liquidity risk, imperfect benchmark correlation, leverage, and any other risk associated with the underlying securities. There is no guarantee that any fund will achieve its investment objective. In addition to ETF expenses, brokerage costs apply. Fees are charged regardless of profitability and may result in depletion of assets.

The market price of ETFs traded on the secondary market is subject to the forces of supply and demand and thus independent of the NAV. This can result in the market price trading at a premium or discount to the NAV which will affect an investor's value. The market prices of ETF's can fluctuate as a result of several factors, such as security-specific factors or general investor sentiment. Therefore, investors should be aware of the prospect of market fluctuations and the impact it may have on the market price. ETF trading may be halted due to market conditions, impacting an investor's ability to sell the ETF. Please consult with a financial or tax professional for advice specific to your situation.

Benefits of Staying Invested Through Market Volatility

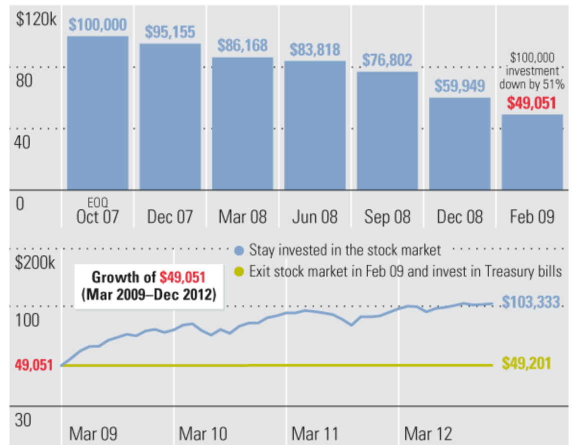
The recent market volatility has investors questioning, “Are stocks still a good investment?” It’s a good question, and one way to address this issue is to look at the recent 2007–2009 market crash. Investors who bailed out of the stock market following the significant decline and moved their money to the safety of cash would be quite disappointed to learn that the stock market, in fact, recovered significantly.

The top image illustrates the value of a $100,000 investment in the stock market at the end of October 2007 (when the downturn began). Over the next several quarters, this $100,000 investment declined significantly, and by February 2009 (the trough date) was down to $49,051, a 51% decline. If an investor panicked and exited the stock market to invest the remainder ($49,051) in Treasury bills (proxy for cash), here’s what would have happened. The bottom graph illustrates the growth of the $49,051 investment in both the stock market and Treasury bills since March 2009. The difference in the ending wealth values of the two investments is considerable. If an investor remained invested in the stock market, the ending value of the investment would be $103,333. If the same investor exited the market at the bottom to invest in Treasury bills, the ending value of the investment would be only $49,201. While exiting the market during a downward spiral may mean avoiding down days, it also means missing days when the market bounces back. While all recoveries may not yield the same results, investors may be well advised to stick with a long-term approach to investing.

The beginning investment time period of October 2007 was chosen to illustrate two concepts: (1) investing right before a significant market downturn and (2) the contrast between exiting the stock market and staying invested during a recovery. The exact timeline of the downturn-recovery is as follows: October 2007 (peak before the downturn), February 2009 (trough), March 2012 (recovery).

Past performance is no guarantee of future results. Returns and principal invested in stocks are not guaranteed. Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest. Stocks are not guaranteed and have been more volatile than bonds or cash. Holding a portfolio of securities for the long term does not ensure a profitable outcome and investing in securities always involves risk of loss.

Ending Wealth Values After a Market Decline and Recovery



How Much Foreign-Bond Exposure Do You Need?

The European debt crisis took a toll on many world bonds in 2011. The performance of world- and emerging-market bonds may have you wondering how big a role foreign bonds should play in a portfolio, particularly for pre-retirees and retirees. As with most asset-allocation decisions, setting a strategic, long-term allocation to foreign bonds can help you avoid being whipped around by market sentiment. Your decision also depends on where you are in your investing life cycle and on your goals. Younger investors who are in growth mode might look to foreign-currency exposure as a source of diversification. For investors nearing retirement, the bond sleeve of their portfolios may provide stability more than diversification or return-generating potential. A retired investor with a more conservative foreign-bond investment might stake more in such an offering than another retired individual with an investment that's heavy on emerging-market debt. If you have a high weighting in foreign stocks overall, bear in mind that layering on a foreign bond will further subject your portfolio to currency fluctuations.

Diversification does not eliminate the risk of experiencing investment losses. Bonds are subject to credit/default risk, which is the risk associated with the issuer failing to meet its contractual obligations either through a default or credit downgrade. Bonds have varying levels of sensitivity to changes in interest rates. In general, the price of a debt security tends to fall when interest rates rise and rise when interest rates fall. Securities with longer maturities and mortgage securities can be more sensitive to interest rate changes.International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, liquidity risks, and differences in accounting and financial standards. Emerging-market investments are riskier than developed-market investments.

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