

# AWM Financial Planning

## How Sequence of Returns Can Affect Your Retirement



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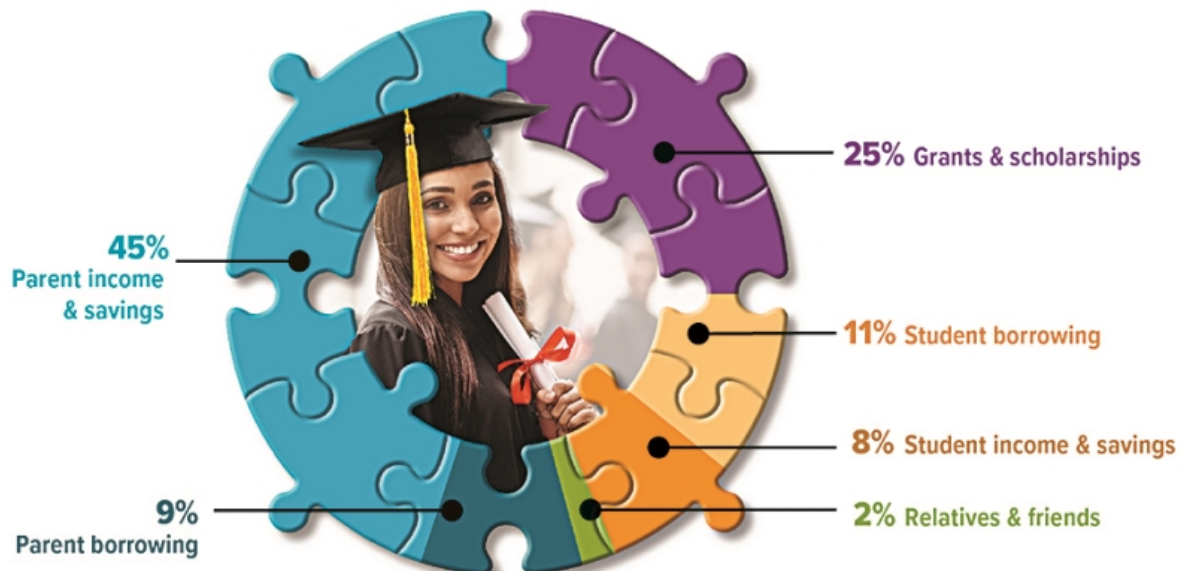
If retirement is near, make sure you are familiar with “sequence-of-returns” (SOR) risk. SOR risk is the chance of experiencing poor investment returns in early retirement (i.e. a bear market). Here is an example. Over a 10-year period, two \$500,000 portfolios earned identical annual returns, but in the exact opposite order. Investor A’s portfolio earned negative returns in the first three years, and positive returns for the remaining seven. Investor B’s portfolio earned positive returns in the first seven years, and negative returns for the last three. Both investors withdrew \$35,000 a year for retirement income. At the end of the decade, Investor A ended up with \$337,734. Investor B had \$485,532. Although both investors achieved the same 6% average yearly return over the 10-year time frame, Investor B wound up with nearly \$150,000 more. Why? The results are due to the sequence of the returns. Don’t let SOR risk disrupt your retirement, give us a call to discuss how to plan for it!

## Paying for College: Pieces of the Funding Puzzle

The typical family uses a combination of income, savings, borrowing, and grants/scholarships to pay for college. Not surprisingly, the largest source of funding — 45% — comes from parents in the form of current income and savings.

Starting a college fund as early as possible and aggressively looking for grant aid at college time can help families reduce the amount they may need to borrow, giving students greater flexibility when making decisions. Colleges are usually the best source of grant aid. A net price calculator (available on every college website) can help students estimate how much grant aid they might receive at specific colleges.

### College funding sources for the 2020–2021 school year



# Dividends for Income and Total Returns

John D. Rockefeller, one of the wealthiest Americans in history, loved receiving stock dividends. "Do you know the only thing that gives me pleasure?" he once asked. "It's to see my dividends coming in."<sup>1</sup>

There may be many things other than money that give you pleasure, but you can still appreciate the stabilizing role that dividends might play in your portfolio.

## Steady and Dependable

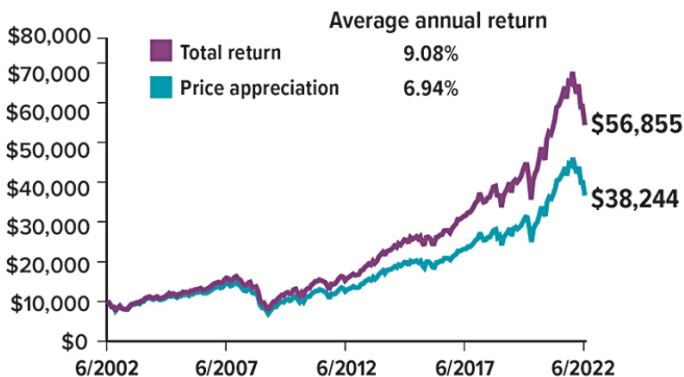
Dividends can be a dependable source of income for retirees and others who want an income stream without selling their underlying investments. If you do not need your dividends for current income, reinvesting these relatively small payments can become a powerful growth engine (see chart). Because dividends are by definition a positive return, they can boost returns in an up market and help balance declining stock prices in a down market.

Whereas stock prices are often volatile and may be influenced by factors that do not reflect a company's fiscal strength (or weakness), dividend payments tend to be steadier and more directly reflect a company's financial position. Larger, well-established companies are more likely to pay dividends, but many midsize and smaller companies do as well. Stock funds usually pay dividends based on the dividends of the stocks held by the fund. Some funds focus specifically on dividend stocks.

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## The Power of Reinvestment

Growth in value of a hypothetical \$10,000 investment in the S&P 500 index for the 20-year period ending in June 2022, comparing price appreciation and total return, which includes reinvesting dividends.



Source: Refinitiv, 2022, for the period 6/30/2002 to 6/30/2022. The S&P 500 index is an unmanaged group of securities considered representative of U.S. stocks. Expenses, fees, charges, and taxes are not considered and would reduce the performance shown if included. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Rates of return will vary over time, particularly for long-term investments. Actual results will vary.

## Quarterly Payments

Dividends are typically paid quarterly but quoted by the annual dollar amount paid on each share, so your annual income from an individual stock can be estimated by multiplying the dividend payment by the number of shares you own. Of course, the income will change if the dividend increases or decreases, or you obtain additional shares.

Dividends are also expressed as yield — the annual dividend income per share divided by the current market price. By this measure, the yield increases as the share price decreases, and vice versa, assuming the dividend payment remains the same. Current dividend yields can be helpful in deciding whether to invest in a stock or stock fund, and historical yields can provide insight into what you might expect from dividends over the long term.

At the end of June 2022, the average yield of dividend-paying stocks in the S&P 500 (about 79% of companies) was 2.18%, but the yield of the S&P High Dividend Index, which focuses on 80 stocks that pay higher dividends, was 4.11%.<sup>2</sup>

## Some Caveats

The flip side of dividend power is that dividend-paying stocks may not have as much growth potential as non-dividend payers that plow their profits back into the company. And there are times when dividend stocks may drag down, not boost, portfolio performance. Dividend stocks can be particularly sensitive to interest-rate changes. When rates rise, as in the current environment, higher yields of lower-risk, fixed-income investments may be more appealing to investors, placing downward pressure on dividend stocks. As long as a company maintains its dividend payments, however, lower stock prices could be an opportunity to buy shares with higher dividend yields.

Investing in dividends is a long-term commitment. Dividends are typically not guaranteed and could be changed or eliminated. The amount of a company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events. The return and principal value of all investments fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Investments offering the potential for higher rates of return also involve higher risk.

*Stock funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*

1) BrainyQuote.com, 2022; 2) S&P Dow Jones Indices, 2022

# What's Your Retirement Dream Elevator Pitch?

Imagine stepping into an elevator and realizing that you're about to spend the 30-second ride with someone who could make your retirement dreams come true — if only you could explain them before the doors open again. How would you summarize your financial situation, outlook, aspirations, and plans if you had 30 seconds to make an "elevator pitch" about achieving one of your most important goals?

Answering that question — and formulating your own unique retirement dream elevator pitch — could help bring your vision of the future into sharper focus.

## What Are Your Goals?

Start with an overview of what you hope to accomplish. That typically includes describing what you want, when you want it, and why. For example, you might say, "My goal involves retiring in 10 years and moving to a different state so I can be closer to family." Or, "In the next 15 years, I need to accumulate enough money to retire from my regular job and open a part-time business that will help sustain my current lifestyle."

If your plans include sharing life with a loved one, make sure you're both on the same page. Rather than assume you have similar ideas about retirement, discuss what you want a future together to look like.

## How Much Will It Cost?

To put a price tag on your retirement dream, consider working with a financial professional to calculate how much money you'll need. Making multiple calculations using different variables — such as changing your anticipated retirement date and potential investment growth rate — will help you develop a better understanding of the challenges and opportunities you may encounter.

It's important to remember that plans don't always work out the way we intend. For example, 72% of workers surveyed in 2021 said they expect to continue working for pay during retirement, but only 30% of retirees said they actually did so. And nearly half (46%) of current retirees left the workforce earlier than expected.<sup>1</sup> Understanding the financial implications of an unanticipated change in plans *before it happens* could make it easier to adjust accordingly.

## How Will You Do It?

If your calculations indicate you may be facing a retirement savings shortfall, take a fresh look at your spending habits to help find ways to save more money. Make a list of your fixed expenses and then keep track of your discretionary purchases every day for a month. It might be startling to realize how much you routinely spend on non-essential items, but you'll quickly discover exactly where to start applying more financial discipline.

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Among workers surveyed in 2021:

72%



Were very or somewhat confident about being able to afford a comfortable retirement

31%



Made changes to their workplace retirement account strategies in the past year

32%



Said the pandemic negatively affected their ability to save for retirement

54%



Said they had either a major (18%) or minor (36%) debt problem

Source: Employee Benefit Research Institute, 2021

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Finally, you'll need to manage the funds you earmark for retirement by choosing the types of accounts to use and allocating your money within each account. If you have access to an employer-sponsored retirement account with matching contributions from your employer, you might want to start there and then invest in additional tax-deferred and taxable investments.

Regardless of the types of accounts you choose, your specific investment decisions should reflect your personal tolerance for risk and time frame, while addressing the priorities outlined in your retirement dream elevator pitch. If your retirement outlook changes at any point, take a fresh look at your investment strategy to make sure you're still potentially on course.

*All investing involves risk, including the possible loss of principal. There is no guarantee that any investment strategy will be successful. Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss. There is no assurance that working with a financial professional will improve investment results.*

1) Employee Benefit Research Institute, 2021

# What the Red-Hot Job Market Means for Workers

The COVID-19 pandemic kicked off a severe labor shortage — and quite possibly the most worker-friendly job market in many years. Unpredictable demand shifts exposed pre-existing mismatches between the knowledge and skills of available workers and the tasks for which they are needed. The sheer number of available jobs has also been running far above the number of unemployed job seekers. For example, employers reported 11.4 million job openings in April, while there were only 6.0 million unemployed persons.<sup>1</sup>

This smorgasbord of open positions provides job seekers with more choices and more leverage. U.S. workers have been quitting their jobs at record rates, in many cases to join new employers offering higher pay, lucrative benefits, better working conditions, or the option to work remotely.<sup>2</sup>

## Higher Wages

More intense competition for workers drove the average hourly wage up 5.5% for the year ending in April 2022, but inflation rose 8.3% over the same period, according to the Consumer Price Index (CPI).<sup>3</sup> Unfortunately, real wages, which are adjusted for inflation, dropped as prices spiked. Workers don't really benefit from wage gains unless they outpace inflation, because it cuts into their buying power.

Even so, labor shortages have been more acute in some industries, especially for lower-paying and in-person jobs, which led to bigger wage increases for some types of workers. For the year ending in April 2022, wages grew 11.0% in the hospitality and leisure industry and 7.4% in transportation and warehousing.<sup>4</sup>

## Longer-Term Changes

The labor force has been aging and shrinking, and retirees' share of the U.S. population has been growing. Economists have been anticipating a wave of baby boomer retirements, some of which were accelerated by the pandemic. Between February 2020 and November 2021, up to 2.6 million more people retired than were expected to based on previous trends.<sup>5</sup>

Bigger paychecks could inspire some early retirees and stay-at-home parents to seek jobs, but labor force participation may never return to pre-pandemic levels. This means employers might need to change their hiring practices, reduce experience and education requirements, or provide training programs, opening the door to better-paying jobs for more workers. It's also possible that automation technologies will help fill the gap.

1-4) U.S. Bureau of Labor Statistics, 2022

5) *The Wall Street Journal*, March 15, 2022

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## IMPORTANT DISCLOSURES

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