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THE STRATEGICVIEW

Retirement Planning: The ‘Good Ole Days’ are Gone

DIFFERENT ENVIRONMENT REQUIRES DIFFERENT APPROACH

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- Retirement planning today should be different than retirement planning in the past because of the different environment.
- Retirees can no longer rely on pensions, high yielding ‘risk-free’ investments, or holding stocks forever.
- Today, the value of sound financial advice has never been higher.

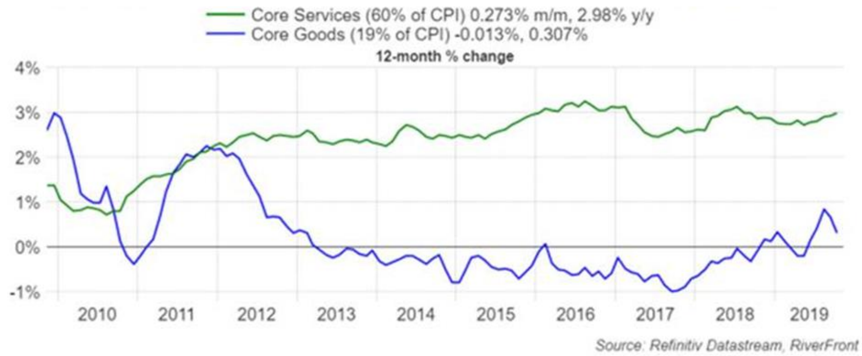
When it came to the stock market my grandparents must have slept like babies. I honestly cannot remember a time they fretted about how they would afford retirement. It wasn’t because they were rich, one grandfather retired from GM and the other was a small business owner. Instead, I would attribute their ‘peace of mind’ to the fact that retirement planning was a whole lot simpler in the past. Fifty years ago, for example, one could rely on the ‘rule of thumb;’ subtracting one’s age from 100 to determine an appropriate equity exposure.

Unfortunately, times have changed and the ‘good ole days’ of simple retirement planning are gone. In our view, investors face three major differences between today’s investment environment and those of our grandparents:

PENSIONS ARE BECOMING EXTINCT:
My grandparents didn’t worry about retirement, because somebody else worried about it for them. Back then, defined benefit plans (pensions) were far more common, which not only provided a paycheck until death but also often kicked in free healthcare to boot. Today, if you have a pension, count yourself lucky. According to research by the Pension Rights Center, only 22% of American workers participated in a pension plan in 2017. That 22% figure is boosted substantially by the public sector. When analyzing the benefits of those working in the private sector, which represent about 85% of the American workforce, the number declines sharply to just 13%. This means that the majority of Americans can not rely on their former employers to take care of them. Essentially, the company’s problem, has now become their problem and the average retiree loses more sleep than ever before. (Bureau of Labor Statistics 2018 National Compensation Survey).

TRADITIONAL ‘SAFE’ ASSETS ARE STRUGGLING TO KEEP UP WITH INFLATION:
While pensions and free healthcare covered the bases, my grandparents also had the ability to squirrel away additional savings into ‘safe’ assets, like municipal bonds, CDs, or Treasuries; that more than offset inflation. Inflation has been called the ‘thief in the night,’ because it robs investors of performance, yet is rarely identified until it is too late. Think of your bank statement as an example. While statements do an accurate job of reporting month-to-month price swings of investments, the purchasing power lost to inflation every month is never recorded. The truth is that the value of $100 fifty-years ago was far greater than the value of $100 today. Therefore, to maintain purchasing power, investments must grow at a rate fast enough to compensate for the eroding impact of inflation. Compounding this fact is that as life expectancy increases, so too does the opportunities for inflation to ‘rob’ the investor of purchasing power. According to a 2016 *USA Today* article, an individual born in 2014 will need to fund an extra decade of retirement versus someone born in the 1950s.

Today, the Consumer Price Index (CPI) is running at around 1.8% annually, according to the Bureau of Labor Statistics. While 1.8% may not sound like much, that number alone can be deceiving. This is because the 1.8% number is an aggregate of consumer goods and consumer services inflation (see chart). This is relevant, because in our view, retirees tend to spend less on consumer goods (autos, appliances, etc.) where inflation is low (0.3%); and spend more on consumer services (healthcare, travel, restaurants, etc.) where inflation is high (2.98%). Aggregate inflation numbers like CPI also fail to capture geographic differences, like the fact that prices in popular retirement areas tend to be higher than prices around the rest of the country. Unfortunately, whether inflation is 1.8%, 2.98% or higher, there are few if any 'safe' investments that offer high enough yields to offset that. 10-year US Treasury Notes, for example, are yielding roughly 1.8% and bank CDs offer little more.



Disclosures: Shown for illustrative purposes.

MORE DIFFICULT TO BUY 'BLUE-CHIPS' AND HOLD FOREVER:

Stock picking also seemed less complicated back then. My grandparents' generation did not 'trade' stocks or need to access stocks through large and complex stock baskets. They would simply buy a handful of stocks representing their favorite large and recognizable companies (blue-chips) and hold them forever. In fact, in the past some stocks were referred to as 'one-ticket stocks,' because they only required a 'buy-ticket' and never a 'sell-ticket'. Unfortunately, stock-picking today has become more complicated for a number of reasons. We think the biggest contributor to the increasing complexity is the fact that company life-spans have significantly shortened. According to a 2017 publication by Credit Suisse, the average company listed on the S&P 500 is less than 20-years old, which represents a significant decline from the 60-year old average in the 1950s. A study by the Santa Fe Institute and published in the *Journal of the Royal Society* in May 2015 came to a similar conclusion. While the cause of shortening corporate life-spans can be disputed (technology disruption, acquisition, etc.); the conclusion that companies die more quickly today is what is important in our view. To investors, this means two things. First, we believe it is always unwise, to buy a stock and forget about it.. In a world where companies do not endure like they used to, the necessity of risk management has become increasingly important. Second, since it is difficult to predict which companies will endure and which won't, investors should diversify more today than they may have in the past.

BOTTOM LINE: WE BELIEVE THAT A DIFFERENT APPROACH IS REQUIRED FOR A DIFFERENT ENVIRONMENT

We believe that the 'good ole days' of simple retirement planning are gone. Today's investment environment is different and requires a different approach. Without pensions, retirees need to rely on someone other than their former employer to take care of them, which is a role often filled by an experienced Financial Advisor. Investors also need to recognize that traditional 'risk-free' assets like CDs or Treasuries can no longer be relied upon to protect them from the 'thief in the night.' Ultimately, inflation-protection will have to come from riskier assets like equities, which means accepting more day-to-day volatility in their portfolios. In our view, this trade-off should be preferred by most investors versus the alternatives, which may include working longer or accepting a lower standard of living in retirement. Lastly, with company life-spans shortening by the day, holding a stock forever may be a luxury that no longer exists, necessitating a more active and diversified approach.

Here at RiverFront, managing portfolios for this current reality is why we exist. From dynamic asset allocation, to active and diversified security selection to a disciplined risk management process, we are prepared. Through a partnership with your Financial Advisor we can help you if you are not.

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In a rising interest rate environment, the value of fixed-income securities generally declines.

It is not possible to invest directly in an index.

The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living; the CPI is one of the most frequently used statistics for identifying periods of inflation or deflation.

Standard & Poor's (S&P) 500 Index measures the performance of 500 large cap stocks, which together represent about 80% of the total US equities market.

Technical analysis is based on the study of historical price movements and past trend patterns. There are no assurances that movements or trends can or will be duplicated in the future.

Stocks represent partial ownership of a corporation. If the corporation does well, its value increases, and investors share in the appreciation. However, if it goes bankrupt, or performs poorly, investors can lose their entire initial investment (i.e., the stock price can go to zero). Bonds represent a loan made by an investor to a corporation or government. As such, the investor gets a guaranteed interest rate for a specific period of time and expects to get their original investment back at the end of that time period, along with the interest earned. Investment risk is repayment of the principal (amount invested). In the event of a bankruptcy or other corporate disruption, bonds are senior to stocks. Investors should be aware of these differences prior to investing.

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