

#1 Mistake

Retirees Make When Investing in the Stock Market



DISCOVER ONE OF THE BIGGEST FINANCIAL
DANGERS FACING RETIREES TODAY.



Hello.

What will you do if your retirement assets don't last you to the end of your life? Will you be able to begin working again? Will you move in with your adult children? Will you be able to provide for your housing, utilities, food, transportation, health insurance, medical bills, and long term care expenses?

In today's volatile financial landscape, facing challenges like these could be a reality for many Americans.

However, we do feel that many Americans could have more financial confidence in their retirement, without having to radically change much of what they're doing. In some cases, the confidence to maintain your lifestyle in your later years without concern about running short of money can simply be a matter of avoiding common mistakes, as we will discuss in this report.

In real world terms, what this could mean for you is more nights spent eating out with your significant other, more vacations, and more confidence you'll be able to pay your bills and expenses for as long as you live.

The bottom line is to make your money work around your life, rather than to make your life work around your money.

Wishing you the best in your retirement,

A handwritten signature in black ink that reads "Josh Mellberg". The signature is fluid and cursive, with the first name "Josh" and last name "Mellberg" clearly legible.

JOSHUA D. MELLBERG
FOUNDER & PRESIDENT

#1 MISTAKE

Retirees Make When Investing in the Stock Market

First of all, welcome to the wonderful world of retirement. As you know, money mistakes are a common learning experience from which we can all grow. However, when you are already in your retirement phase, the results can be a little more catastrophic. You rely on your nest egg and you have less resources at your disposal to replenish your savings. Luckily, by using this book as a guide, you can learn from the experience of others and avoid or fix some of the more common missteps.

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#1

MISTAKE

REVERSE DOLLAR COST AVERAGING

Many people use their investments for money to live on in their retirement years. That's why we think it's really important that we explain the mistake that we see many people making, and how it might erode your retirement assets very quickly.

If you haven't heard of dollar cost averaging (DCA), the simple definition comes from Investopedia: "The technique of buying a fixed dollar amount of a particular investment on a regular schedule, regardless of the share price. More shares are purchased when prices are low, and fewer shares are bought when prices are high."¹ This technique is often used when investing for growth.

Essentially, dollar cost averaging means that you buy a fixed dollar amount of a particular investment on a regular schedule. DCA is promoted as a more prudent way to invest than making your investment in a stock or mutual fund all at one time. To use dollar cost averaging, on a monthly or annual basis, you place a specified amount of money into a stock or mutual fund for several years or longer. Since the price of any stock or mutual fund will fluctuate, during some years you will pay a higher price, and during other years you will pay a lower price.

However, there is a downside. Let's say that in early 2007, you decided that Citigroup was a good investment. At that time, Citigroup was one of the largest banks in America and consistently one of the highest volume stocks traded on the New York Stock Exchange.

In June of 2007, Citigroup stock started the month at about \$53.33. It was down from a high price

of more than \$55 a share, so a number of people thought it was "on sale" and bought what they thought was a bargain.

To make a long story short, Citigroup fell to about \$4.78 by the end of 2010. If you were practicing dollar cost averaging on this stock, you would have lost approximately \$47.55 on every share you had purchased. After patiently waiting 3 ½ years, you would have lost a staggering 89% of your money from your supposedly "prudent" investment using dollar cost averaging.

As disturbing as DCA losses are, even greater losses have been experienced by millions of investors who engaged in a practice we call "reverse dollar cost averaging" (RDCA).

Like DCA, RDCA involves designating a fixed dollar amount during a specified time period. The difference is that with DCA, you invest a fixed amount of money every cycle; with RDCA, you withdraw a certain amount of money every cycle, perhaps to meet living expenses and cover extraordinary expenses.

Of course, you can live with a smaller balance in your retirement account(s) as long as you still have enough money to fund your lifestyle and for medical expenses.



However, RDCA can quickly erode your principal. And obviously, the more cash you withdraw from your retirement account(s), the less money you will have working for you.



*In summary, then:
Don't pull money when
the market is down, no
matter what else you do!*

HOW RDCA AFFECTS "BUY AND HOLD" STRATEGY

"Buy & hold" is the concept that if you buy stocks and hold onto them long enough, over time your returns will be high. If you average the stock market returns over any given period of time, the result could look pretty respectable. But averaging is not really an accurate picture of reality.

Let's say I tell you that my sister and I run an average of 20 miles per week. That sounds pretty good for both of us getting our exercise, right? But then if I tell you that my sister runs about 40 miles per week and I hardly run at all, things look a whole lot different.

Relate that to the stock market. There will be moments during the time you have investments when the market will be up, and other times when it will be down. Are you willing to assume that you will not need money during those dips?

RDCA AND THE 4% RULE

Some people are still trying to follow the 4% rule. An article from CNNMoney.com explains this rule:

Here's how it works. Let's say you have a nest egg of \$1 million and inflation is running at 2% a year. Basically, the rule says if you withdraw 4% of your nest egg's value, or \$40,000 the first year of retirement, increase that withdrawal by 2% to \$40,800 the next year, boost it again by 2% to \$41,600 the third year and continue along that path, you have roughly a 70% to 80% chance that your savings will last at least 30 years.²

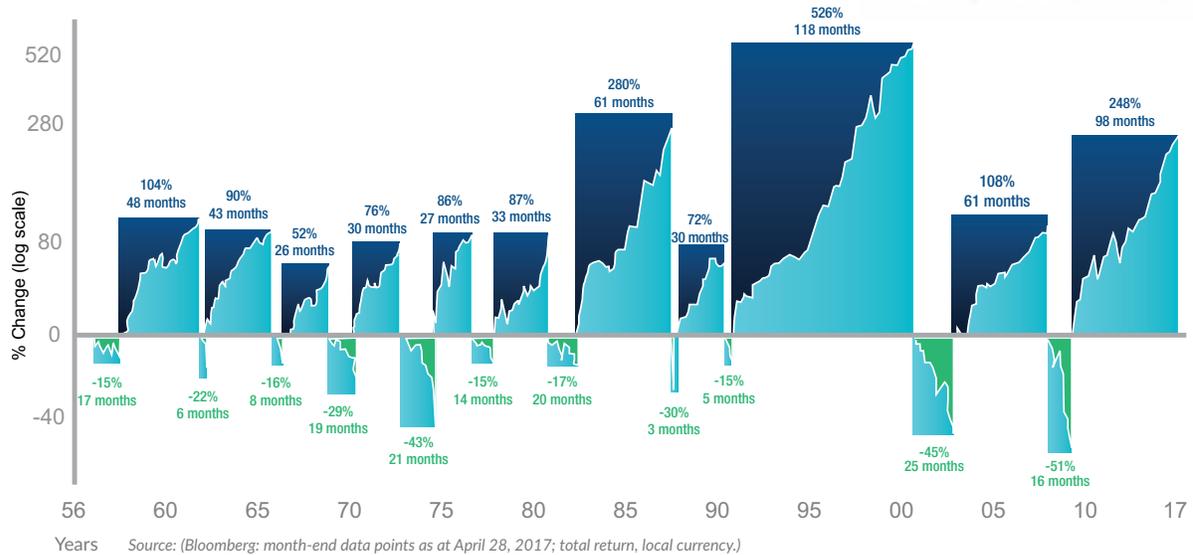
That rule assumes that market returns surpass or at least keep up with those withdrawal percentages; because when they don't, the retiree must adjust their spending.

As noted in the next chart, bull markets (going up) last an average of 52 months, followed by bear markets (going down) that last an average 14 months.

You may remember the dramatic corrections we saw in 2000 and 2007. Look at the chart. In both instances, the market was in an upturn for much longer than the average time period - and when the market eventually fell, it fell hard. Based on historical averages, we might conclude that the market is overdue for a correction after our current extended bull market.³

BULL & BEAR MARKETS

S&P Composite Index to April 28, 2017



BULL MARKET	
Average Gain:	+157%
Average Length:	52 months
BEAR MARKET	
Average Loss:	-27%
Average Length:	14 months

A realistic timeline for any one person to earn money in the stock market is a complete cycle—27 to 30 years. The likelihood that your investments will have to endure some downturns is pretty certain. Therefore, surfing the wave of the market with the hope of having what you need at the end of the ride is not likely to be a winning approach.

With market volatility, withdrawals when it's going down or not returning enough, plus increasing cost of living and potentially higher medical bills later in life, you may not feel financially confident during your retirement years.

#2

MISTAKE

NOT HAVING A STRATEGY

By the time they are ready to retire, many Americans feel like the wheels are already in motion and that their financial future is set. Rather than maximizing their retirement income, many find themselves simply planning a budget to accommodate the monthly amount they already expect they will receive.

We're certainly not suggesting you shouldn't budget! However, what we are saying is that you could potentially boost the quality of your retired years by not only strategizing what to do with the money you already expect to receive, but to also **maximize that income**.

Let's take Social Security for example. What we have found in our practice is that with special maximization strategies, many retirees and pre-retirees have been able to increase their Social Security benefits by as much as **half a million dollars over their retirement lifetime**.

If you want to maximize your retirement income, you can't just wait and see if it will happen to you. You need to take the reins and start delegating what your assets will do for you.

[READ MORE >>>](#)

1

SET CLEAR OBJECTIVES

What are things that you need to do during your retirement (i.e.: maintain housing, pay utilities, etc)? What do you want to be able to do during your retirement? What expenses other than the basics do you want to know you'll be able to meet?

While there are many bills you may have already taken into account, we've found that there may be others which people don't think of until they are confronted with them. When creating your own retirement income plan, keep the following checklist handy.

ANNUAL EXPENSES

- Housing
- Transportation and Fuel
- Utilities
- Food
- Medical/Prescriptions
- Insurance (property, auto, health)
- Clothing
- Entertainment/Hobbies
- Periodic Expenses (home and auto maintenance, taxes, travel, holidays)
- Gifts

2

ESTIMATE YOUR LIFE EXPECTANCY

It's well-known that life expectancy for children born today varies greatly from the life expectancy of children born a century ago. But, even that isn't the whole picture. Your life expectancy isn't predictable.

The following chart is compiled from data prepared by The Society Of Actuaries. This graphic shows how the same person can have different life expectancies as they progress through retirement.⁴



CURRENT LIFE EXPECTANCIES⁴

	Current Age	Additional Years	Life Expectancy
MALE	65	23	88
FEMALE	65	25	90
COUPLE	65	29	94

for couples at least one person.

These numbers are only a general snapshot. Details such as how often you exercise, what your diet is like, and sometimes even where you live can alter this estimate yet again.

3

YOUR RETIREMENT INCOME NUMBER

Visit the U.S. Department of Labor's Lifetime Income Illustration Calculator at <https://www.askebsa.dol.gov/lia/home> to help you assess your retirement readiness and plan for your retirement. Simply answer a few questions and it will help you determine what you will need today to generate the desired income at the retirement age you select.

4

MONTHLY INCOME SOURCES

- Salary
- Social Security Benefits
- Stocks, Bonds, Commodities
- Pension
- Annuities
- Savings
- 401(k), IRA, any Qualified Account

5

FACTOR IN INFLATION

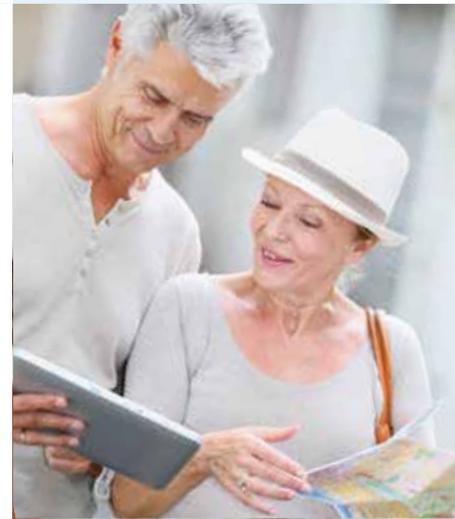
While there's no way to know for sure how much inflation you will encounter throughout your retirement, knowing what inflation rates were in the past can help give you a general idea.⁵

For your own purposes, we recommend using a 2-3% average inflation rate to predict how your expenses might rise.

6

INCOME GAPS? OVER WHAT PERIOD(S)?

- When can/should you retire?
- When can you begin claiming your Social Security income benefits?
- Will you be able to meet the demands of any potential future healthcare expenses?
- How will you hedge against living beyond your life expectancy?



LEARN WHAT IT COULD REALLY TAKE TO MAINTAIN YOUR LIFESTYLE

Can you possibly know? Probably not, but you can get a much better idea if you ask yourself more in depth questions.

Do you plan to stay in the same home you're living in now? Is that home paid-off? Is it in good repair? Will it stay in good repair for the years to come?

Even if your house is in great shape now, it will need upkeep as it ages. Depending on where you live, there are a number of potential future issues you may want to prepare for such as water or storm damage, tree trimming and grounds maintenance, replacement of your roof, air conditioner or water heater down the road.

What about your utilities? You may have a good feel for how much you're paying for them now, but will that number be the same once you've retired and are spending more time at home?

In addition to these somewhat straightforward needs, you may find that a few new ones pop-up after you've retired. Needs, such as activities and hobbies, you will need something to help keep you active and healthy.

When you were working, the activities that helped keep you in good health actually helped provide you income. Once you're retired, the tables flip, and instead of getting paid for being active, you will be paying someone else for the privilege to be active. So remember, anything from a gym membership to an art class will now be a potential expense and needs to be included to your current spending as a basis for the amounts you might need in the future.

PREPARE FOR UNEXPECTED BILLS

Typically, as we age, our bodies need an increasing amount of care. When you retire, it's likely that you will be in better health at that time than you will be in a decade or two (or even three!) down the line. It's not enough to consider the healthcare bills you currently experience – you should plan for an increased amount of medical expenses.

These expenses could be for anything from more frequent doctor office visits, to a need for intensive medical treatment, to surgery, to home healthcare. You may even eventually need to live in an assisted care facility, which can be costly, and may get more expensive as time goes on and your medical or activity assistance needs increase.

PREPARE FOR LONGEVITY

We want to introduce you to someone you may have heard about already: Ida May Fuller.

Ida May's claim to fame is that she was the very first person to receive a Social Security check. For our purposes here today, though, we want to talk about her life expectancy.



Ida May Fuller with her Social Security check.

Ida May was born in 1874. At the time, a baby girl could be expected to live to around age 45.⁶ While only projected to live to be to her mid-40s, she actually lived to be 100 years old!⁷

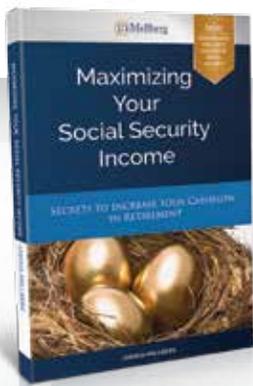
According to Dr. Aubrey de Grey, a researcher in gerontology, the first person to live to 150 has already been born.⁸ While that person may not be you, it's worth preparing for a very long life.

You not only need to prepare for having more years to account for in your retirement, but for each passing year, the costs will likely be **greater than the years before it.**

While you may only need \$35,000 to sustain yourself and your lifestyle when you're age 70, it could turn out that you need \$35,700 to maintain that same lifestyle at age 71. While that might not seem like a huge leap, after 10 years, that \$35,700 turns into \$42,664.

This is only factoring in inflation, but it's also important to keep in mind the potentially increasing medical costs associated with age. Not only are we facing future inflation here too, we will be less able to return to work if we end up running short of money.

You need to know that your money will be there should you need it, because the longer you wait, the less chance there is of recovery.



*This book is offered
FREE OF CHARGE!*

Call (877) 857-7911

*To Receive a FREE copy of
Maximizing Your Social Security or
to Speak to a Licensed Agent.*

Better Maximize Your Social Security Benefits

There are hundreds of different ways to claim your Social Security benefits.[▲] That means the room for maximizing what you'll receive is immense, but also that it is a very deep and complex topic. While we won't be able to outline all of your options in this report, here are a few basics to get you started.

1 RETIREMENT AGE MATTERS. You have the option to turn on your Social Security income, your benefits at any time between age 62 and age 70. The longer you wait, the more baseline amount that you will receive monthly for the rest of your life. Especially if you continue working past your "full benefit" age, you may be able to delay starting benefits until the maximum amount has been earned at age 70.

2 SPOUSAL BENEFITS CAN OFFER A HUGE BOOST TO YOUR HOUSEHOLD INCOME. Whether you're currently married, divorced, or widowed, you may be eligible to collect a spousal benefit. For most, their spousal benefit will be half the amount that the primary earner is receiving, or would receive, if they were collecting benefits at the time.

In the case of survivor's benefits, you may be entitled to the entire monthly amount that your deceased spouse was receiving at the time of his or her death.

3 OTHER INCOME SOURCES CAN CAUSE A PORTION OF YOUR BENEFITS TO BE DEFERRED. If you begin collecting your Social Security benefits early, and continue to work, a portion of your Social Security check could be withheld until a later date. How much of your benefit might be withheld will depend on how much you are making while working.

4 THE TYPE OF INCOME YOU ARE RECEIVING FROM YOUR SOURCES CAN IMPACT HOW MUCH OF YOUR BENEFITS ARE TAXED. Many people assume that their Social Security benefit will not be taxed, and for as many as two thirds of recipients this is true! However, about 40% of Social Security beneficiaries pay taxes on their benefits.⁹ Much of this depends on how much you are bringing in per year, and also from what sources.

For more information, visit the Social Security Administration website: www.ssa.gov

USING “OLD ECONOMY” RULES IN TODAY’S ECONOMY

We want to talk to you about a method of taking income from your assets that thousands of retirees were previously advised to use. Doing this in today’s economy could actually put you at a substantial risk of running short of money.

In the past, many seniors were successful in amassing a robust investment portfolio throughout their working years, and then withdrawing a fixed amount of those funds every year to meet the income demands of their later years.

As we mentioned earlier in this report, previously pre-retirees would be advised to withdraw about 4% of their total portfolio amount per year and they would have excellent odds it would last 30 years.

During the stock market’s more lush years, this proved to be a sound idea, but as you’ll see in the examples to come, this same practice might be detrimental to today’s retirees.

THE 4% RULE WAS CREATED IN A DIFFERENT ERA

Some of the greatest gains in the United States stock market history were between 1982 and 1999. With market increases like that, withdrawing 4% per year was pretty sound advice. However, with the current interest rates and the returns on bonds, the **4% rule is no longer ruled as safe!**

USING THE OLD RULES YOU COULD HAVE A 57% FAILURE RATE

When the 4% rule was first developed, the odds of running short on money was just 6%. That’s a

pretty safe bet for most. But according to a new study by Michael Finke, Wade D. Pfau, and David M. Blanchett,¹⁰ they found that the projected failure rate has now **jumped to 57%**. That means well over half the people who use this rule could outlive their retirement funds.

They concluded, “The 4% rule cannot be treated as a safe initial withdrawal rate in today’s low interest rate environment.”



In fact, some studies have suggested that the new withdrawal rate should actually be 2.8%. That could mean you will have to live on a pretty tight budget throughout your retirement. But by using our NextGen Annuity™ strategies, you could have a steady rate of return that is guaranteed for life! Let's take a closer look at how this is possible...

ASSUMED RISK vs. GUARANTEED INCOME ANNUITIES

Let's begin with a \$400,000 example and we'll walk you down both paths. One would be the Assumed Risk—putting your money in the stock market with a 7% rate of return. In 7 years, you would expect to have an account balance of about \$642,313.

Now, if you have decided to take the risk of withdrawing according to the old rule -- 4%, you would expect to receive about \$25,693 annually.

However, using the new rule of withdrawing 2.8%, your annual income would change to \$17,985. That's a difference of \$7,708! **And it's not guaranteed!**

Now using the same \$400,000 and placing it into one of our NextGen Annuity™ strategies, you could get **\$35,327 of guaranteed* annual income for the rest of your life.**** That's 96% more income than using the 2.8% rule. ...and this is money that you cannot outlive!

ASSUMED RISK		GUARANTEED INCOME ANNUITIES
BEGINNING BALANCE \$400,000		BEGINNING BALANCE \$400,000
YEAR	INCOME ACCOUNT VALUE 7.00%	INCOME ACCOUNT VALUE 7.00%
1	\$428,000	\$428,000
2	\$457,960	\$457,960
3	\$490,017	\$490,017
4	\$524,318	\$524,318
5	\$561,021	\$561,021
6	\$600,292	\$600,292
7	\$642,313	\$642,313
Old Rule 4.00% \$25,693		GUARANTEED LIFETIME INCOME \$35,327
New Rule 2.80% \$17,985		

#4

MISTAKE

NOT BEING TAX-WISE

Albert Einstein once said, “The hardest thing in the world to understand is the income tax.”¹¹

If the man who conceived the theory of relativity finds taxes arduous, we imagine there's a chance you do, too. We understand it's not a fun topic, or easy to keep track of all the time, but understanding ways to lower your tax bill can be just as important as understanding ways to ensure more income – after all, what good is **having that extra income if it's not in your pocket?**

When you are tax-wise, you could find yourself starting with the exact same gross income per year as your neighbor, but taking home a bigger net check.

TAXED NOW

When we're talking about “taxed now” vehicles, we mean you pay taxes on them throughout the maturation process. For some, this will mean that you pay taxes as you put your money into them. For others, it could mean that you pay taxes on what is in those vehicles every year. Or it could mean both!

CDs, bonds, and stock dividends are among the “taxed now” types of vehicles.

There are some advantages to “taxed now” vehicles such as the fact that once you are past working age, and don't plan on continuing to generate additional income, you won't have the added taxes being taken from your income stream.

The disadvantage of this, however, is that if you want that taxed now vehicle to grow, you could find yourself set back by paying taxes on the growth each year.

TYPES OF VEHICLES THAT ARE OFTEN TAXED NOW:

CDs, Bonds and Stock Dividends

TAX DEFERRED

In vehicles where taxes are deferred, you can put money without being taxed at that time. These may be the right vehicles for those wanting to allow their assets to grow at a faster rate than if they were being taxed on them every year.

While these vehicles won't be taxed as you put money in, it will be taxed later when you pull money out.

The disadvantage could potentially come later if tax rates go up. We never know for sure if this will happen by the time you retire, but it is definitely a factor you will want to work into your overall retirement income plan.

These vehicles include retirement accounts like pre-tax, or qualified, IRAs and 401(k)s.

TYPES OF VEHICLES THAT ARE OFTEN TAX DEFERRED:

Qualified IRAs and 401(k)s

TAX ADVANTAGED

Tax-advantaged vehicles give you a little bit of the better of two worlds.

You can pour after-tax money into these vehicles without the interest being taxed along the way, allowing for maximum growth. And then when you get to your actual retirement, you are able to withdraw or borrow funds from those assets without having to pay income taxes on the withdrawn funds. Among these vehicles are Roth IRAs and certain life insurance policies.

The most important note here is that **in order to tap into these advantages, you must follow very specific tax rules.** Working with a qualified tax professional or retirement income planner could help you ensure that you are following all these necessary rules and prevent you from running into any tax liability surprises in the future.

TYPES OF VEHICLES THAT ARE OFTEN TAX ADVANTAGED:

Roth IRAs and Life Insurance Policies

NOT ACCOUNTING FOR INFLATION

You might have noticed a recurring theme in this report – something that is critical to consider in your financial strategies: inflation, or what we call “the invisible tax.”

For simplicity's sake, let's suppose that you put money away in your bank savings account that has a 1% interest rate. If you deposit \$10,000 into your account, because it's not wrapped up in a stock, bond, or any other type of investment that carries with it the risk of possibly losing money, in 10 years, that \$10,000 will still be there plus \$1,051 of compounded interest (assuming the interest rate does not change in those 10 years). In total, you'll have \$11,051 after 10 years.¹²

At first glance, this can appear as a relatively “safe” method. You put \$10,000 in and you know that you'll have that same \$10,000 when you need it and then some. There appears to be \$0 money lost. However, when we consider the impact of inflation, we see a different picture.

For example, let's take a look at the last 10 years to identify how inflation could undermine what you thought were your more secure methods of preparing for retirement. If you had only \$10,000 worth of expenses in 2006, to cover those exact same expenses in 2016, you would need \$11,971.88. In effect, using those “safe” methods, you would need an extra \$920.88 to pay for your expenses.¹³

Because your expenses are likely double, triple or some other multiple of \$10,000 per year, you can see how the effects of inflation can quickly leave you with less purchasing power every year if you don't strategize ways to potentially overcome the impact of this “invisible tax.”

You may have enough funds prepared to last you to the end of life at today's rates, but you need to be prepared for the anticipated cost of living increases in the decades to come.



RECOGNIZE THE CONSEQUENCES OF REDUCED SPENDING POWER

While CDs and T-bills may be considered low-risk when compared to more volatile vehicles, **they may not help you spend with confidence in retirement.**

What will your life look like if you're taking the same income per year in the future? The U.S. inflation has ranged from minus 15.80% to plus 23.70%, averaging 3.29% over the past 100 years. At this writing, inflation is at 2.7% in the U.S.¹⁴ Which way do you think inflation will go in the future? Even if we assume a conservative rate of inflation every year to be 2%, then every \$100 you put aside for retirement last year would only be worth \$98 next year. The year after that, it'll be worth \$96. After 5 years, it's worth \$90. After 10 years, it's worth only \$80.20. Therefore, your initial \$100 is now only worth \$60.

With only 60 cents of purchasing power to the dollar, will you still be able to pay all your bills? Will you be able to financially sustain your lifestyle and fund the dreams you have for the future?

NOT DIVERSIFYING YOUR RETIREMENT STRATEGY

Often by diversifying, you can reap the benefits of both helping protect your principal and continuing to accumulate wealth.

Even when it comes to investing in a less conservative vehicle versus a more conservative one, it can be important to diversify. One method may fall through, while another is successful.

TIME IS CENTRAL TO HOW YOU DIVERSIFY

Your retirement portfolio at age 20 is going to look radically different than it will at age 50. When you are young, you're in wealth accumulation mode. At this stage, you may get the most out of your money if you focus on vehicles that emphasize the potential to have significant growth. Typically, with vehicles that offer high gains, there is also the higher risk that you could run up considerable losses.

The longer you have between the time during which you are investing and the age at which you plan to retire, the greater chance you have of recovering from those losses.

Because of this, as you approach retirement, it's time to shift gears from wealth accumulation mode to wealth preservation mode. This shift may not happen all at once. With each passing stage of your life, you may want to modify the risk level of the financial vehicles you are using, step by step. By the time you are 10 years away from retirement, it may be in your best interest to be focused almost exclusively on wealth preservation vehicles.

If you use methods that are too risky in later life, you could lose principal/assets/etc. when you don't have the luxury of time to make it back.

WHAT IS THE PURPOSE OF THAT MONEY?

When putting money aside, it's not only helpful to think of your timeline, but to also determine specifically when you'll need that money, and for what purpose(s). You may want to ensure that the money you use to pay your bills will be put into different vehicles than the money you use to take vacations.

When you diversify your assets and financial tools, you will want to use different types of vehicles for your paychecks than you will for your "playchecks".

Vehicles that work well for paychecks provide guaranteed* income, principal protection, and enough growth to account for inflation.** When setting aside funds in these vehicles, most people want to know what set amount they can expect to get from it on the other end.

Vehicles that work well as playchecks offer more growth, more liquidity and don't necessarily need to equal a specific amount at a regular, specific time.





#7

MISTAKE

TAKING INCOME WITHDRAWALS From Vehicles that Go Up and Down for Retirement Income

While we think that select investment vehicles can be great assets as pieces of your larger portfolio picture, we find that many retirees are relying heavily on them to provide income through their retirement. Of particular concern is the reliance on these vehicles to pay for your basic needs.

As we mentioned earlier, if you were to withdraw funds while the market was declining, you could easily erode your principal down too soon. As we all know – and as we’ve discussed here – the market offers no guarantees. You are familiar with the term “dollar cost averaging” to define the practice of purchasing so much in investments on a regular basis, whether costs are up or down. If you put yourself in a position where you are relying on income coming from investment vehicles, you could find yourself withdrawing funds when the market is in a downturn.

If there is one thing you take away from this report, it’s that you should never withdraw from a vehicle that is decreasing in value. We call this “reverse dollar cost averaging.”

If you're relying on investments such as the ones we talk about in this section to cover your necessities, you could be hit twice by a downturn:

- Having to withdraw during market slumps, and falling victim to asset erosion
- Not having enough time to recover

While there are a number of different investment vehicles, for the purpose of this report, we'll focus on the most familiar, which are stocks and bonds.

STOCKS

Among all the investment vehicles out there, stocks are among those that can have the greatest growth potential. On the flip side, they also have the most significant potential for losses.

Another great aspect of stocks is that they can be very liquid should the need arise. This goes back into the "playchecks" idea. If you're not relying on your stock returns for predictable income you need to count on, they can still accommodate a sudden need to cash them out.

MUTUAL FUNDS

One of the pros of mutual funds is that they come pre-diversified. Mutual funds are also quite often flexible in their initial investment amounts, making them accessible to people from all income levels.

Due to their diversified and professionally-managed nature, mutual funds are often considered more secure than stocks and easier for the investor to include in their portfolio. They have a lower growth

potential and also a lower risk for loss. However, here are five things you might not know about mutual funds that you may want to take into consideration:

1. Expenses can be relatively high.

An investor's goal is to keep as many dollars as possible, and to do that investors must keep expenses low and total returns high. Two types of expenses work against an investor's goals: stated and unstated. Together they can constitute a formidable obstacle for growing wealth. Like an iceberg, the unstated costs below the waterline may dwarf the stated costs that are easily visible above.

STATED COSTS	UNSTATED COSTS
Administrative fees	Trading costs
Management fees	Commissions
Marketing fees	Market impact costs
Loads	Taxes

2. Mutual funds can be tax inefficient.

If a fund has assets that have appreciated over time, and they are sold during the current tax year, it could create a situation where a new investor buying shares could inherit the tax liability of existing holdings. For example, an investor purchases ten shares of an equity mutual fund for \$10 per share (total investment of \$100). Shortly thereafter, the mutual fund passes through a \$2 per share short-term capital gain that has built up during the previous 12 months. If we assume that the shareholder simply reinvests all dividends and capital gains, here is what happens:

STARTING VALUE	\$100	10 x \$10
CAPITAL GAIN	\$20	\$2 per share
NEW SHARE PRICE	\$8	\$10 minus \$2 capital gain distribution to shareholders
CAPITAL GAIN REINVESTED	\$20 ÷ \$8 per share	2.5 shares purchased
ENDING VALUE	\$100	12.5 x \$8



The only difference is that the shareholder now has an unexpected tax liability. Assuming the \$20 short-term capital gains distribution is taxed at 25%, he or she has a \$5 tax liability that reduces the value of the investment to \$95. Direct owners of stocks are allowed to defer taxation on the appreciated value of their stock shares, while mutual fund shareholders may be required to pay taxes yearly, even if they don't sell any of their mutual fund shares!

The inability to control their taxes can frustrate investors and create a serious headwind for investment performance.

3. Mutual fund performance: mixed results.

Many mutual fund companies face a conflict between providing maximum performance for investors and generating profits for themselves.

It is no mystery that most mutual funds have a difficult time providing above average returns. The majority of funds have a goal to **beat the market**. That typically means they are charged with the task of outperforming a given benchmark index, such as the S&P 500® Index, the Dow Jones Industrial Average or the Barclays Aggregate Bond Index, etc. If a mutual fund is faced with an expense hurdle of several percentage points, it is extremely difficult for most managers to keep pace with any benchmark index. Only a minority of fund managers can beat their benchmarks—and the members of that minority are constantly changing.

4. Share classes compensate brokers in several ways.

Many investors are unfamiliar with the jargon that surrounds mutual funds. Funds tend to have several share class options that could impact investor returns. These include (but are not limited to):

A. SHARES Also called front-end load shares; this share class can charge a sales commission at the time of purchase. For example, if you invest \$100 in the Mutual Fund that has a 5% sales load, only \$95 is actually invested in the fund. The commission goes to pay your stockbroker.

B. SHARES Also referred to as back-end load shares; these shares charge no commission up front. The broker receives compensation through a combination of higher marketing fees (12b-1 fees) and contingent deferred sales charges (CDSCs), taken from your holdings if you sell your shares before six to seven years. B shares typically have higher expense ratios during this penalty period.

C. SHARES There is typically no front-end sales load on these shares. However, normally a 1% CDSC is charged against your holdings if these shares are sold during the first year. A higher 12b-1 fee will continue to be charged against the portfolio until the shares convert to other share classes as stated in the prospectus.

The whole share class system exists as a way to provide that all intermediaries are compensated. The fact that mutual funds are sold by securities brokers means that the funds must charge higher loads and commissions to provide a broker's compensation. It's not uncommon for funds to have many different share classes. Investors have the choice of which type of fund they like, or they can seek out other vehicles that can carry potentially lower expenses that may benefit them more

over the long term. An option is to work with a fee-based advisor, who is compensated based on an agreed-upon annual advisory fee for their guidance, no matter which investments they recommend or which ones you purchase or sell.

5. A bond mutual fund is not a bond.

If you purchase a 20-year bond, its price sensitivity to changes in interest rates declines as the bond moves closer to maturity (i.e., the older the bond gets, the less interest rate changes affect your principal). If you buy a bond fund that has an average maturity of 20 years, you're dealing with a different animal. The bond fund does not have a maturity date. Quite often the fund maintains a fixed average maturity that does not decline over time. If you are a conservative investor that has adequate assets and your desire is to maintain a fixed stream of interest payments, an individual bond may serve your purposes better than a bond fund. It is up to the individual investor to take on the risks appropriate to his or her situation.



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COUNTING ON BONDS FOR INCOME

Bonds are widely known for being less risky than many of their other investment counterparts. Unlike the vehicles we've talked about so far, bonds are a loan. Unless the issuer defaults, bonds don't rely on the market to do well to produce returns.

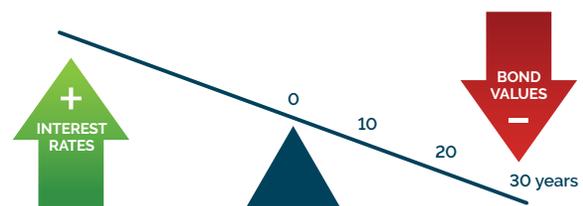


Even if the issuing company doesn't see gains, the investor will still be able to make money from their bond.

The question is whether or not your bond can keep pace with inflation. The average rate of inflation in the United States between 1913 and 2013 is 3.22%.¹⁵ If you purchase a bond that doesn't match this rate, then you could be losing purchasing power of those funds.

A bond used to be known for being a conservative asset in your portfolio that could generate stable cash flow, especially during market swings. We recommend you avoid buying for yield rather than delving deep into the product types because not all bonds are the same.

In some, the issuer has a right to repay their debt before maturity. Other bonds can be difficult to sell, as many of us learned in 2001 and 2008 when the market experienced a dramatic downturn.



Six ways bonds may not meet your needs and objectives.

1

THE RISK OF INTEREST RATES

When interest rates go up, bonds go down. Have you heard that before?

It's true.

Interest rates will rise eventually, and when they do, your coupon rate (or interest payments) on the bonds you own will not be attractive to buyers. You may have to offer them at a lower price, which enables them to get essentially the same return as if they purchased a new bond at the higher rate.

2

THE RISK OF BOND FUNDS

Many are not aware that bond funds carry additional risks that individual bonds do not carry. This is due to the fact that they are not sold with a set maturity date like individual ones are.

Here too bond fund returns also decline when interest rates rise.

Fixed-income securities within a bond fund are designed with staggered maturity dates to maintain the income purpose. Bond fund managers replace bonds as they mature and they may have to sell some holdings to meet the commitments. Sometimes, that means their higher-yielding ones. Sometimes, that means replacing them with lower-yield ones.

3

THE RISK OF CREDIT-WORTHINESS

Bond returns depend on the financial stability and projected ability of the bond issuer. Credit rating agencies, such as Moody's and Standard & Poor's, perform this review of corporate or government issuers.

Yields to the investor correlate with how much risk he/she is assuming. High yield corporate bonds, emerging markets, floating-rate bonds and low-grade municipals pay the most, but you assume a higher risk of the issuer defaulting. Investment-grade corporate bonds are moderate investments and Treasury bonds are considered the lowest risk.

4

THE RISK OF LIQUIDITY

The ability to sell your bond depends on the stock market's ups and downs. Depending on the bond type, you may have to sell for a lower price if you are able to sell it at all. The bond market is less liquid than the stock market.

Government bonds typically sell quickly, while corporate bonds can be more difficult. To put it simply, you take a bigger liquidity risk with a smaller issuer.

5

THE RISK OF INFLATION

When inflation is higher, the value of your bond – which is calculated after inflation – can decline. For example, a 5-year bond at 5% would essentially be a -2% bond if inflation was at 7%. Shorter-term bonds and TIPS (Treasury Inflation Protected Securities), as well as commodities like gold, are often used for inflation defense.

6

THE RISK OF REINVESTMENT

When investors' bonds mature while interest rates are decreasing, the bond issuers need to find reinvestment opportunities which can result in a lower rate of return, less income. Risk levels vary here too by bond type – the higher the coupon, the greater the reinvestment risk.



JUST RETIRED

IN CONCLUSION

Keep in mind that everything we've talked about in this report is a general synopsis of somewhat complicated economic subjects and issues. You may want to seek more detailed research or advice from a J.D. Mellberg Financial professional who focuses on retirement income strategies.

We feel retirement should be the most fulfilling stage of life, and we hope that it is for you.

FOR MORE INFORMATION, CALL

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We hope we have been able to help you get started down the path towards greater financial confidence in your retirement. We believe that when you can be confident in how you're spending during retirement, that's one less thing getting in the way of what really matters – your valuable time. That's time enjoying travel, hobbies, social activities, time for relaxing, and time with your loved ones.

To help you get to that place, we suggest you begin with the things we covered in this report:

- Have a clear financial and retirement income strategy.
- Prepare for potential life-event expenses.
- Plan for longevity.
- Identify any potential income gaps during retirement.
- Maximize your Social Security benefits.
- Separate your paychecks from your "playchecks."
- Strategize among taxed now, tax deferred and tax advantaged vehicles.
- Account for inflation.
- Diversify your asset strategies based on time and by the purpose of your money.
- Learn pros and cons of various vehicles when it comes to income purposes.

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