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SUMMARY

- Investors in the sustain phase face new challenges.
- Portfolios will likely need greater exposure to 'risk assets' such as stocks and higher yielding bonds to meet return objectives, in our view.
- We believe understanding and managing those risks is key to finding the right balance between preservation and growth.

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The 21st Century Retirement Plan: Sustain Phase Balancing 'Growth' and 'Preservation' Pre-Retirement

The ten years leading up to retirement, what we call the '[Sustain Phase](#)', can be scary with questions such as:

- Will I have saved enough to fund my retirement?
- How can I mitigate the risk that my savings will see a significant decline just before I retire?
- If I feel I have not saved enough, should I take more risk to seek higher returns?

Broadly, these questions lead to the two pillars of the sustain phase: **Grow and Preserve**. This in turn likely necessitates a better understanding of your own risk tolerance -- really understanding the trade-offs between growing the portfolio and preserving what you have already saved during the accumulate phase. Following the accumulation phase, the size of your portfolio likely means that market returns will have a bigger impact than contributions, and so the consequences of your decisions increase as retirement approaches. We have observed over many years how a well thought out plan, combined with regular reviews and ongoing market insight can significantly increase investors' confidence and peace of mind.

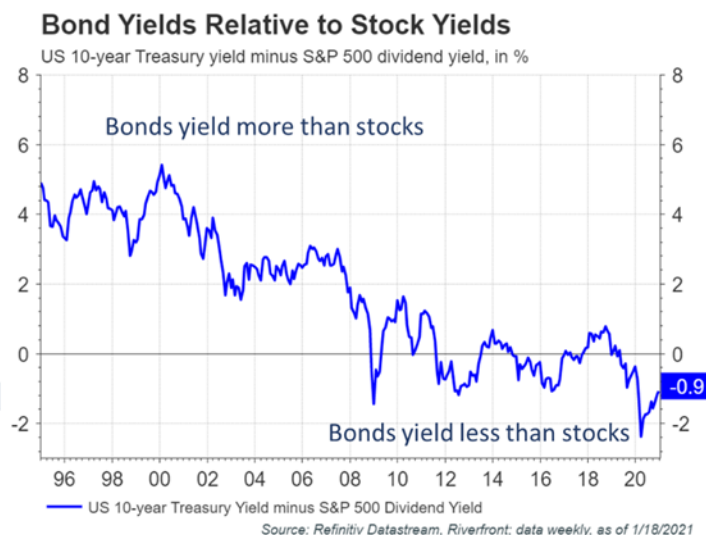
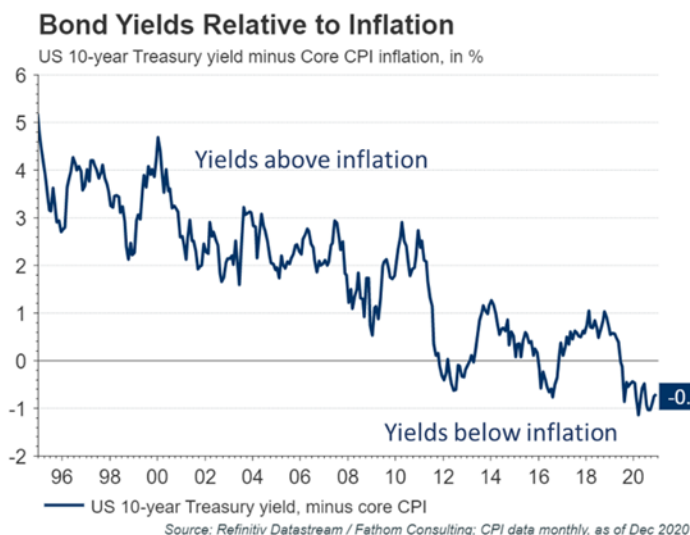
The process of deciding on a spending plan for retirement and ensuring there are sufficient funds to make the plan work is the goal of the sustain phase. When the sustain journey ends, a potentially long distribution phase begins. (See [The 21st Century Retirement: Distribute Phase](#)). Investing is not a science and long-term assumptions about returns should, by necessity, include a variety of scenarios in our view. Equally as life circumstances change, so should the plan, and so we advise flexibility and regular reviews.

Managing a portfolio in the lead up to retirement is challenging for the following reasons:

1. **Life expectancy is increasing:** In the US, life expectancy has increased steadily from 68 in 1950 to 79 today, according to the United Nations, and they forecast it will rise to 84 by 2055. Therefore, the asset pool at retirement must be larger than has historically been the case.
2. **Few guaranteed pensions:** Most employers no longer provide a guaranteed pension. In the 'good ole days' when many companies had guaranteed pensions, retirement income was your employer's problem. Now with defined contribution plans (such as 401k plans), that responsibility has been shifted to employees who must build up savings and invest it themselves. Investors with insufficient savings and unrealistic spending goals are sometimes tempted to have excessive exposure to risky assets. This is not something we would advise. Retirement is a balance of income and spending; and being flexible about non-essential spending following market declines can really help preserve your portfolio's value until markets recover. Being flexible with your retirement age (if possible) is also a better solution than taking excessive risk in our view.

3. **The stakes are higher:** If successful in the accumulation phase, your 'Nest Egg' has grown larger and so the dollar swings are amplified, both literally and emotionally. We think this requires a new mindset. Contributions are now much smaller in relation to the portfolio's size and so new contributions are usually too small to offset large drawdowns of the total portfolio.
4. **Managing the time horizon:** In the accumulation phase time is your friend, since a longer time horizon offers the chance for the portfolio to recover from a setback; and contributions can take advantage of bear markets to buy at lower prices. However, the sustain phase is a diminishing time horizon in the journey to the distribute phase. In one sense the sustain investor still has the longer time horizon of their retirement years, but they must also manage the risk of a significant drawdown just before contributions stop and distributions begin.
5. **Low Interest rates have increased the need for stocks:** 20 -25 years ago, when the 10-year Treasury bond yield was significantly higher and well above the rate of inflation, many retirees were on a glide path to retire with 60-70% of their assets in bonds. The income from their assets (yields and dividends), would often cover most of their spending needs. This changed following the 2008 Financial Crisis and as our charts below show, not only is the 10-Year Treasury bond yield currently less than the rate of inflation, it is also less than the dividend yield on the S&P 500 as of January 2021 (source: Bloomberg and S&P Dow Jones). As a result, higher stock weightings are now much more common in both the sustain and distribute phases.

A New World: Bond yields not keeping up with inflation or dividends.



Past performance is no guarantee of future results. Shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

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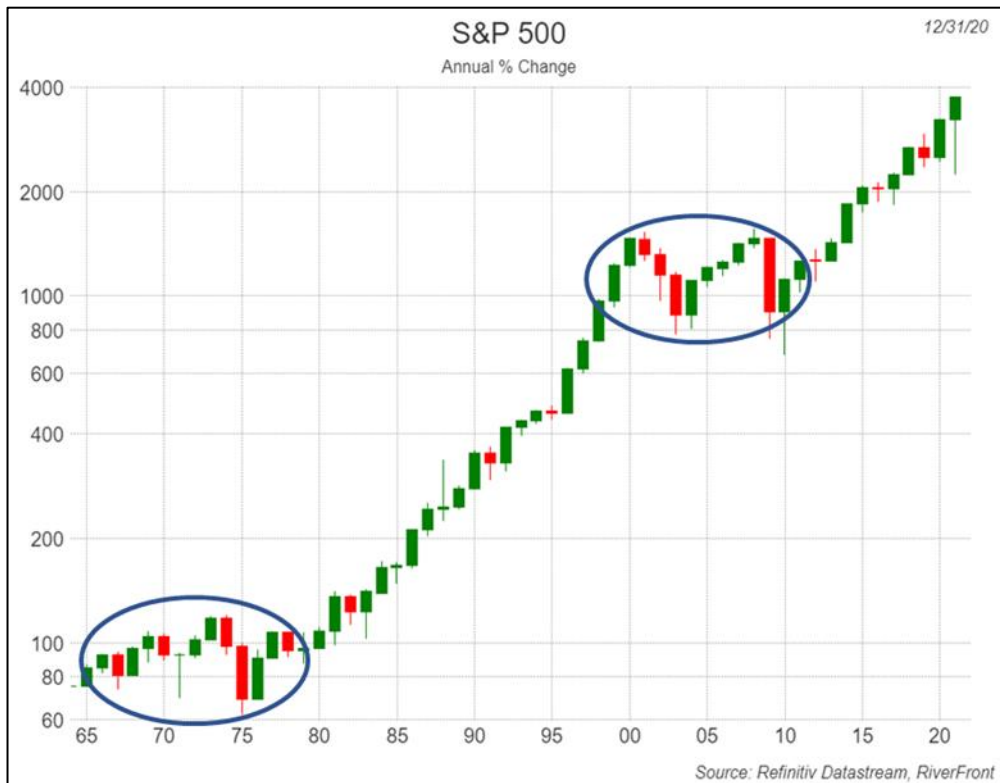
6. **More stocks mean more volatility:** Even as bond yields have fallen, US stocks have continued, on a trend basis, to deliver returns of 6.4% over inflation. However, returns in 3, 5, and even 10-year timeframes can be significantly different from the trend, both better and worse. This can be due to the business and profit cycle, or extreme valuations at the beginning of the period. We believe an investor in the sustain phase who understands their personal tolerance for drawdowns in value due to market volatility is better able to set and achieve realistic goals.

Understanding and managing the role that luck can play.

For a sustain phase investor, there is an element, sometimes significant, of good or bad fortune. Since the last 10 years before retirement has such a big influence on the portfolio's value, someone retiring in say 1990 would have had a very different experience, both before and after, from the person retiring in 2003 or 2008. This can be seen in our chart below. One way to manage this element of randomness is to rebalance portfolios, following an exceptionally good or bad year. This is best practice for most institutional pension plans and is discussed further at the end of this piece. We believe another good

practice is to move toward the mix you believe is appropriate for your retirement years in the last few years of the sustain phase.

US stocks since 1964: The trend is up...but there can be prolonged sideways timeframes.



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To give you a sense of the journey of a stock investor, the chart above shows annual price returns for the S&P 500 index of large US stocks from the beginning of 1964 to the end of 2019. While the price gains have been considerable –roughly 40-fold since 1964 – each red bar represents a declining year. The ovals show prolonged periods (10–15 years) where the index essentially went sideways, was very volatile, and had multiple down years. Some of the drawdowns in these timeframes were considerable with the index losing roughly half its value 3 times: 1973–1974, 2001–2003 and 2008. While it might be tempting to look at the overall returns to decide an appropriate allocation, we think it is just as important to consider the journey. Given enough time, stocks have historically been a rewarding investment, but those in the sustain phase have differing time horizons. Thus, the amount allocated to stocks throughout the sustain journey is an important part of the equation and one we think about when designing our portfolios.

The Building blocks of a 21st Century Retirement Plan: Sustain Phase

More Risk Assets: When constructing a plan for the sustain phase, we suggest using enough 'risk assets' such as stocks and higher yielding bonds to offer the opportunity of providing the required returns. Riskier assets require more careful selection and closer scrutiny. For example, when incorporating stocks (domestic and overseas) and high-yield bonds, we think it is important to understand the specific risks of each investment, which may not be obvious upon cursory review. We believe this is a decision that should be actively managed and monitored.

Diversification: Regarding stocks, we suggest a mix of those that pay dividends and those that don't. In the sustain phase we tend to prefer companies with the greatest potential to grow dividends, rather than those with the highest starting yield, as we believe growth of income is more important prior to the distribute phase. We also want to invest for growth from capital appreciation. Companies in faster-growing sectors often reinvest their excess cash flow in their own businesses to fund

expansion. In the high growth phase of their evolution, it may not make sense to pay dividends. We want to include these stocks as we think they can play an important role in growing the value of the portfolio. Since interest rates are so low, we believe the primary role of the bond portion during the sustain phase is to reduce volatility during market drawdowns. Selecting the right mix of bond maturities is an active decision in our view, and one that RiverFront considers especially carefully in our more conservative portfolios.

Risk mitigation: Given the higher stakes in the sustain phase -- a larger portfolio and less time -- dealing with the price swings of risky assets involves risks that go beyond price volatility. In our experience, investors plan in 5 and 10-year time horizons, but sometimes succumb to fear and greed by reacting to current headlines and making significant changes. In our view, selling after a significant market correction is one of the most damaging things an investor can do since it means abandoning a well-thought-out plan, made in a calm environment. We call this **Emotional Risk**. We believe a critical part of the retirement planning process is to assess and periodically review risk tolerance to build a plan that allows the retiree to weather market volatility. Thus, in the sustain phase, we believe the optimal portfolio is not necessarily the portfolio that might produce the maximum returns, but the one that allows investors to complete the journey. This involves a realistic understanding of the potential longer-term tradeoff between returns and safety.

Rebalancing: A process for systematic rebalancing back to an agreed portfolio mix is a way to 'buy low and sell high'. For example: following an especially good time for stock returns relative to bond returns, a portfolio will see its stock weighting increase. In this incidence, the rebalancing involves selling stocks after strong performance. Equally, when stocks decline enough to alter the desired mix, bonds can be sold to add to stocks and bring them up to the desired balance. This is not a timing decision, but one where the parameters for rebalancing are agreed during the planning process. In a well-funded plan, this can also be used raise cash for increased discretionary spending.

How RiverFront can help

The Sustain journey is a bridge between the [Accumulate Phase](#) of investing for capital appreciation and the [Distribute Phase](#) of managing cashflow in retirement. At RiverFront, we believe investors will need to maintain a larger allocation to stocks in the [Sustain Phase](#) than in the past due to low interest rates and our portfolio solutions reflect this belief. This will likely involve bigger swings in quarterly portfolio values. **We think our focus on portfolio construction, risk management, transparency, and consistent communication are critical elements in giving financial advisors and their clients the peace of mind to stick with the agreed plan.**

Important Disclosure Information

The comments above refer generally to financial markets and not RiverFront portfolios or any related performance. Opinions expressed are current as of the date shown and are subject to change. Past performance is not indicative of future results and diversification does not ensure a profit or protect against loss. All investments carry some level of risk, including loss of principal. An investment cannot be made directly in an index.

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

When referring to being "overweight" or "underweight" relative to a market or asset class, RiverFront is referring to our current portfolios' weightings compared to the composite benchmarks for each portfolio. Asset class weighting discussion refers to our Advantage portfolios. For more information on our other portfolios, please visit www.riverfrontig.com or contact your Financial Advisor.

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.

High-yield securities (including junk bonds) are subject to greater risk of loss of principal and interest, including default risk, than higher-rated securities.

Index Definitions:

STRATEGIC VIEW

Bloomberg Barclays US Aggregate Bond Index measures the performance of the US investment grade bond market. The index invests in a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States – including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than one year.

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.

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