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EMPLOYEE BENEFIT CONSULTANTS | RETIREMENT PLAN ADMINISTRATORS | REGISTERED INVESTMENT ADVISORS

QUARTERLY INSIGHTS

Third Quarter - 2017

As in past newsletters, a brief summary of market performance during the third quarter follows. The quarter provided good news for investors by tacking on additional gains to the year-to-date performance.

It was the 8th consecutive quarterly gain for the S&P 500 which finished up 4.5%. The S&P 400 MidCap Index gained 3.2% while small cap-stocks rallied in September to close up almost 6% for the quarter. Information technology was the top performing sector in the S&P 500 in the third quarter with an increase of 8.3%.

In the previous quarter's newsletter, distributions were discussed. As a follow-up, we thought it would be best to focus the balance of this newsletter on some observations John Bogle makes about investing during retirement years.

John Bogle, the founder and chief executive of the Vanguard Group for many years, made some statements concerning retirement investing that should be of interest to investors. He said, "The rule of thumb has always been that as individuals get older they should allocate more to bonds, but that may not be the best route to retirement – and not just because of falling interest rates. They may be overlooking the other big source of fixed income, which is Social Security."

You and your employer have shared the cost of funding your Social Security retirement income. Let's assume that at age 65, the "normal" retirement age, you begin receiving a monthly benefit of $1,250 or $15,000 a year. The average retiree will live twenty years in retirement. The benefit will increase to keep up with inflation – a 2% increase each year raises the benefit at the twentieth year to $21,852. How much money has to be in the fund to pay your benefit over your lifetime? Assuming 5% interest on the fund, the sum needed is $144,230. This is a fixed income asset.

A recent study advises that the average retiree who participates in a 401(k) plan has just a shade under $150,000 in his/her account at retirement age. This means that adding together the value of Social Security and 401(k) assets, the employee has almost $300,000 of retirement assets with almost 1/2 or 50% of assets in fixed income.

"Social Security is the greatest fixed income you'll ever get" Bogle said. "With that in mind, it would benefit retirees (or those nearing retirement) to pay more attention to dividend paying stocks in a retirement account."

"Stocks, even dividend-paying stocks, are going to be more volatile than bonds, but as long as there isn't another serious crash, the swings shouldn't bother investors," he said. "We're all so transfixed with the movements of the stock market, but that has nothing to do with your retirement."

"It doesn't matter what the stock market is worth as long as the income continues from dividends," he said. "In the long run, focus on the dividend stream, and focus on the fact that Social Security continues."

With a dividend paying stock, the total return comes from two sources: the quarterly dividend payments and any appreciation in the market value of the stock. Remember - dividends are your share of the company's profits, and if profits increase, the board is likely to increase the dividend which as a result tends to increase the market value of your stock.

When reaching retirement age, an investor has many important decisions to make about their retirement investments. The advisors at BenefitWorks would be happy to discuss your options with you. Please give us a call at (717) 273-8441 to set up an appointment.

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