CASTLE ROCK WEALTH MANAGEMENT

Registered Investment Advisor Firm

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Guide to Retirement

I recently met with a middle-aged individual who had a lot of questions about retirement. I thought the questions were good and others could use the information, or pass it on to some who could.

Q: When do I need to start investing for my retirement?
A: When you are in your 20's, retirement is the last thing on your mind. However, starting to invest for retirement as soon as you finish school and begin earning income is a very smart move and when you retire, you will be rewarded. The reason is compounding, when your interest keeps earning interest, year after year.

The sooner you start the larger the effect. For example, suppose you start setting aside $1,000 a year (about $19 a week) when you are 25. You put it in a retirement account earning 7% a year. Even if you stop investing completely when you turn 35 – you will have invested for only 10 years – your investment will have grown to $113,000 by the time you turn 65 and are ready to retire.

As a contrast, say you start saving at age 35 until you reach 65. Having saved a total of $30,000 until you are age 65, it will have grown to only $101,000. You will have invested three times as much, but will end up with less. This is the effect of waiting to get started. The earlier you start, the more benefit from compounding, so start as soon as possible.

Q: How much do I need to invest for retirement?
A: That depends on when you start, what you decide to invest in and when you plan to retire. At a minimum, you should invest the maximum possible in any tax-advantaged retirement plan that you are eligible for. If you are getting a late start, you may need to invest additional money into regular (taxable) investment accounts. There are online retirement planner calculators to assist, but financial planners can provide more insight to the planning process.

Q: Where should I put my retirement money?
A: When you invest for retirement, you typically have three main options:

1. You can put the money into an employer's retirement plan, like 401(k) or 403(b) plans. They grow tax-free until you withdraw it in retirement. Another advantage is many employers match the employee's contribution. You escape taxes either on money put in or the money you withdraw, depending on whether you choose a traditional or ROTH option.
2. You can put the money into your own tax-advantaged retirement accounts, such as an Individual Retirement Account (IRA). IRAs offer similar tax breaks like 401(k)s, though the eligibility rules differ.
3. You can put the money into a regular investment account that doesn't have tax advantages.

The first two options are better, but there are limits on how much you can put into them each year. If you've put all the money you are allowed into tax-favored plans and you want to save more, you'll have to use a regular (taxable) investment account.

Q: What should I invest in?
A: There are three main kinds of investments, or "asset classes": stocks, bonds and cash. Your retirement account should contain a mix of all three.

You can invest in stocks and bond in two ways: buying them individually or buying them using mutual funds. A mutual fund is simply a collection of stocks, or bonds or cash equivalents – or a mix of the three.

Some people also invest in "hard assets" like real estate or precious metals but sometimes they are riskier to invest in.

Q: What is the right mix?
A: The key is having the right mix of stocks, bonds and cash. The mix of these three assets classes is known as "asset allocation". This mix is based on your time-line, risk tolerance and goals. A financial advisor can make this step easier.

Q: Should my asset allocation change as I age?
A: Absolutely. That's because different investment mixes are riskier than others, and your tolerance for risk decreases as you age.

Stocks – are shares of ownership in a corporation – provides the most return for long-term growth. But they're volatile, so they can lose you a lot of money in the short-term. When you're young, the long-term growth potential of stocks outweighs the risks. When you are older, you should scale back on the percentage of stocks in your portfolio over time.

Bonds – are basically interest-bearing loans that you provide a company, but less volatility. You should increase the percentage of your holdings in bonds over time.

Cash – or "cash equivalents" such as money market funds – are the least risky of all. But they also have the lowest returns. You might not need too much cash in your retirement account until you are approaching retirement age or in retirement.

Q: What is the best asset allocation for my age?
A: The old rule of thumb used to be that you subtract your age from 100 – and that's the percentage of your portfolio should be in stocks. For example, if you are 30, you should have 70% in stocks. If you're 70, you should keep 30% of your portfolio in stocks. However, with Americans living longer, the recommendation of the rule is to subtract your age from 115. That's because you'll need your money to last longer, you'll need the extra growth that stocks provide.

Again, risk tolerance is a very important part of the equation. A financial planner can help set up your allocation and discuss when to change the allocation.

Q: How much should I save if I want to retire early?
A: You need a large retirement account if you plan to retire early and maintain your standard of living. You'll likely need 10 to 16 times your salary when you retire. A 45-year-old making $120,000 who plans to retire at age 60 will need at least $700,000 already set aside and continue to save. Your asset allocation, pensions and your plans for Social Security will also need be part of the equation, even taking on a part-time job will alter your needs.

Still, your target is a big number, and to reach it you'll have to save diligently, invest aggressively and keep taxes and expenses from eroding your returns.

Q: How often should I check on my retirement investments?
A: Once a year is OK. That's when you should review your asset allocation to make sure it still makes sense for your age, and rebalance your account by selling assets that have grown so the allocation is out of whack. Reinvest the money in order to bring your asset allocation back to where you want it

The benefit of rebalancing is that it forces you to "buy low and sell high". A financial planner can help with rebalancing.

If you need help understanding the retirement planning process or any other financial questions, contact me at (707) 648-2024.

Q&A

Q: Are there alternatives from teleworking from the same house or apartment?
A: A unique way is several small, tourist-reliant countries are welcoming foreign worker who are interested in taking an extended stay in unfamiliar territory**.** Examples include Barbados, Bermuda, Estonia and Georgia. Barbados is charging $2,000 for its visa; Bermuda, $263. Long term visitors must have their own health insurance and meet minimum income requirements. Estonia plans to allow Americans to participate in its "Digital Nomad Visa" program once the EU lifts the ban on US travelers. Georgia is already welcoming Americans.

STAY THE COURSE

FED Watch

The FED did not meet in August, but Fed chair Jerome Powell gave a speech at Jackson Hole, Wyoming and had a lot to say about the changes they are making at the FED.

Powell unveiled the long-awaited new policy on inflation. The biggest change is to target an average of 2%, which would allow inflation to rise above 2% without the FED taking action right away. This policy will be reviewed every 5 years. In 2018 the FED raised rates 4 times to keep the target at 2% which caused a stock market sell-off.

The FED had the following notes:
-Robust job market can be sustained without causing inflation.
-Downward risk to employment and inflation have increased.
-Fed average inflation will largely be flexible.
-They will maintain the current range until confident of recovery.
-Rates near zero through 2022.
-The path of the economy will depend significantly on the course of the virus.
-Keep rates near-zero until central bank is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals.
-The slowdown induced sharp declines in activity.
-The economy to run above trend in 2021 and 2022.
-The economy will need support from Congress.

Currently, there is very little chance of a rate increase for the rest of the year.

Next meeting:
September 15th and 16th.

Castle Rock Wealth Management

Castle Rock Wealth Management is a Hybrid Advisory firm servicing the needs of clients across the United States.

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If you have questions or would like further information on this month’s topics or any other financial or investment related subjects, please contact me by phone or through my email address at:
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