

Beware of Mutual Fund
Risks in Retirement



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Although mutual funds can be **practical and effective investment tools** during your growth and accumulation years of financial planning (in your 30s and 40s, primarily), once you get within 10 or so years of retirement age, the inherent risks of mutual funds **can become counterproductive to your goals**. These risks include:

Lack of Transparency:

Stock mutual funds **only disclose their holdings quarterly**, leaving you in the dark about your investments most of the time. When you do find out, it **may not accurately reflect** your current portfolio.

Hidden Fees:

Mutual funds often **carry both management fees and hidden costs**. You may even pay double fees, one to the fund manager and another to your advisor for placing your money in the fund.

Reverse Dollar-Cost Averaging:

Retirees relying on mutual funds for income risk having to **sell more shares during market downturns**. This “reverse dollar-cost averaging” could **erode your nest egg faster** than planned.

A Bigger Problem:

Mutual funds are **typically growth-focused**, not income-oriented, which isn’t ideal for those near retirement. These funds are often compared to the **S&P 500**, a benchmark with low dividends, leading to a growth-centric approach.

Taxes:

Mutual funds **can create tax issues**, such as **capital gains tax** on stocks sold within the fund, even if you didn’t benefit from the profit. This can **lead to unexpected tax burdens** for investors.

What About Bond Mutual Funds?

Although many growth-based financial advisors offer bond mutual funds as a **more conservative option** for investors in or nearing retirement, **beware!**



Bond Funds

Bond funds **carry risks and costs** like stock mutual funds. They are often sold by growth-oriented advisors who may not offer individual bonds. Bond funds **don’t guarantee a fixed interest rate or return of principal** at maturity, leaving you exposed to fluctuations.

Both guarantees assume that there have been no defaults, but with that assumption, an investor knows exactly what they will earn on the individual bond if he or she holds it to maturity.

Individual Funds

Investing in individual bonds offers a contract with the borrower, guaranteeing a **fixed interest rate and the return of face value** upon maturity. This provides **greater stability and predictability** compared to bond funds.

Summary

Mutual funds can be effective in your 30s and 40s, but **they carry risks that may hurt your financial goals** as you approach 50 and transition to the income stage. At that point, an **income-first, growth-second strategy** makes sense. **Contact us today to get started!**



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