

The Case For

*Fixed Income*



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# The Case For Fixed Income

*Most people agree that the practical use of renewable energy is essential for our future well-being. The same can be said for money, investing, and retirement.*

Only decades ago, people were expected to retire and only live for a few years, during which time they could simply spend down their savings. However, as life expectancies continue to increase, many people can expect to enjoy 30 years or more in retirement.

That's why it's become imperative for anyone over 50 to establish their own renewable streams of income to cover the cost of enjoying more time in retirement. You might think this means you need a bigger lump sum of money to retire. But in my experience, the more sensible approach is to try to maximize the amount of interest and dividends that a lump sum can help generate.

## — A More Certain Future

*By placing a significant part of their portfolio in fixed-income securities, investors in or nearing retirement can establish a renewable source of income they can count on, while also helping to preserve the value of their original investment.*

Investing in income-generating instruments can be like lending your money to the largest U.S. companies that pay you regularly scheduled interest. In the case of individual bonds, at the end of the loan term, they send you the last interest payment along with the return of your original principal. This is, of course, assuming there are no defaults.

Investors who use bonds and bond-like instruments and, for those with higher risk tolerance, stock dividend strategies, find that more consistent income helps bring a sense of peace because it is a renewable resource. With this, many find that they get more enjoyment from their retirement because they are more comfortable doing things like making large purchases, helping their kids financially, and going on vacations.



## — Investing by Contract

When you invest in an individual bond, you have a contract with the borrower. Naturally, that contract is only as good as the solvency of the borrower, but, assuming there is no default, it gives you two important guarantees:

1. You are guaranteed to get a fixed amount of interest regularly for the life of the bond.
2. When the bond matures, you are guaranteed that the borrower will repay the par value.

The market value of individual bonds will fluctuate, but bondholders can take solace in knowing their income won't change, and they'll still receive their par value back at maturity. Stocks and stock mutual funds can't provide these assurances, and neither can bond mutual funds. Many are surprised to find that the definition of a bond mutual fund is "the stock of a company that owns bonds". Plus, most people don't realize bond mutual funds also have fees and tax implications that can be reduced by investing in a portfolio of individual bonds and bond-like instruments.

Other types of fixed-income instruments also allow you to enjoy the benefits of investing by contract, including preferred stock, bank CDs, and annuities. Although Real Estate Investment Trusts (REITs) and Business Development Companies (BDCs) do not have a par value and aren't contractual investments per se, when you invest in them you own common stock of a company that owns contracts within their portfolio. While REITs and BDCs can be riskier approaches, they can also offer an opportunity for investors to earn even higher yields.



## How an Income Specialist Helps Make Your Money a Renewable Resource

*Perhaps the most important thing to understand about investing in fixed income is that it's not generally a strategy for do-it-yourselfers. Even most financial advisors don't really have the right qualifications for it.*

That's why most have business models geared toward growth-based strategies, which are simpler. All of this is especially true in today's market environment, where ongoing active management is an important part of successful fixed-income investing. The reality is, income investing takes a true Income Specialist, meaning someone who possesses the following five qualifications:

### 1. They invest in individual bonds, not bond mutual funds.

Many financial advisors today got into the business in the 1980s and 90s, amid the fastest-growing stock market in U.S. history. Thus, their area of knowledge became the stock market, not the bond market. Frankly, when they do fixed income, it's merely an afterthought, and most will simply use bond mutual funds, which, once again, often carry risks, fees, and tax implications that can be reduced by investing in a portfolio of individual bonds and bond-like instruments. That's why a true Income Specialist will invest their clients' money in individual bonds and bond-like instruments and avoid bond funds.

### 2. They look beyond the ratings.

We learned during the Financial Crisis of 2007–2009 that many of the mortgage bonds that were about to default had ratings attached to them that were far too generous. A true Income Specialist knows that he needs to look beyond these ratings and research the actual financials and management of the issuers themselves.

### 3. They don't simply buy at regular market prices.

Most advisors will purchase bonds and bond-like instruments at current market prices, which means if the market happens to be up, their clients are probably overpaying. That's why a true Income Specialist uses limit orders when buying bonds on their clients' behalf. That way if the prices of those securities happen to be up that day, an Income Specialist can help ensure their clients don't overpay.

### 4. They go direct.

To buy individual bonds and bond-like instruments, every broker or advisor must have a clearing house such as Charles Schwab or Fidelity. When you're

buying stocks and stock mutual funds, the commissions and/or trading fees are required to be totally transparent. The underlying issue with bonds and bond-like instruments is that the clearing houses don't have to disclose to anyone how much extra they're tacking on to their prices. True Income Specialists know this and invest in technology and research to find out who is buying and selling various bonds or bond-like instruments at any given time. This knowledge allows him to go directly to the buyers or sellers and negotiate the best price, almost on a wholesale basis, for his clients.

### 5. They actively manage accounts.

In the rare case that an advisor passes the first four tests, it's almost inevitable they will fail the final test, which is whether they are actively managing these bonds and bond-like instruments. Active management of individual bonds and bond-like instruments allows true Income Specialists to continually identify and act upon opportunities to try to maximize returns for their clients, to increase income first, and to provide opportunities for portfolio growth second.

## Take Action!

So, how can you get started making your retirement income a renewable resource? Simple: Contact us! We specialize in the universe of income-based financial strategies designed to help protect your principal and generate more reliable income through interest and dividends. This is income you can spend or, if you don't need it, reinvest to grow your portfolio organically, or "the old-fashioned way".



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