TR=I+G

The Formula for a More Successful Retirement

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TR=I+G Guide

There are many misconceptions about investing. One is that the terms ‘growth’ and ‘return’ are synonymous. They are not. Total return is a sum of two things: income plus growth, as illustrated in the formula: TR=I+G.

To break it down further, growth comes in the form of capital appreciation, while income is generated through interest and dividends.

For most of your working life, not knowing about this formula is okay. When you’re in your 30s and 40s, it doesn’t matter much if you think growth and return are one and the same. At that age, you’re still in the growth and accumulation stages of life.

You are totally focused on the “G” part of the formula, so it makes sense that you’re investing in things like growth stocks and mutual funds. Of course, you’re also striving to achieve your growth at a good rate of return, and you’re aware that growth can sometimes turn into an ‘L’ or loss when the market suffers a correction.

You know the risks of investing for growth, but you’re willing to take those risks because, when you’re younger, you still have plenty of time to recoup your financial losses before you retire.

However, that all changes after age 50 or so. By that time, you’re starting to transition from the growth and accumulation stage of life to the next stage. This is the income stage, the stage when you need to start thinking more about trying to protect your savings, and about how you’re going to turn it into a more reliable source of retirement income. At this stage of life, it is important to understand the formula, TR=I+G, how it works, and how to make it work for you. This process starts by understanding why it makes sense to now shift your investment strategy from one focused on growth to one focused on income; In other words, to shift your focus from the “G” to the “I”. Why does this shift make sense for most people?

Most people have income-based retirement goals. Their goals don’t involve making a major lump sum purchase or leaving a huge inheritance behind. Their goals are simpler. They want to maintain their standard of living, enjoy their favorite pastimes, travel, and spend more time with friends and family.

Are those the kinds of goals you might envision paying for by selling shares of your principal? Of course not. They’re the kinds of goals you’d want to be able to pay for through your renewable resource income stream.

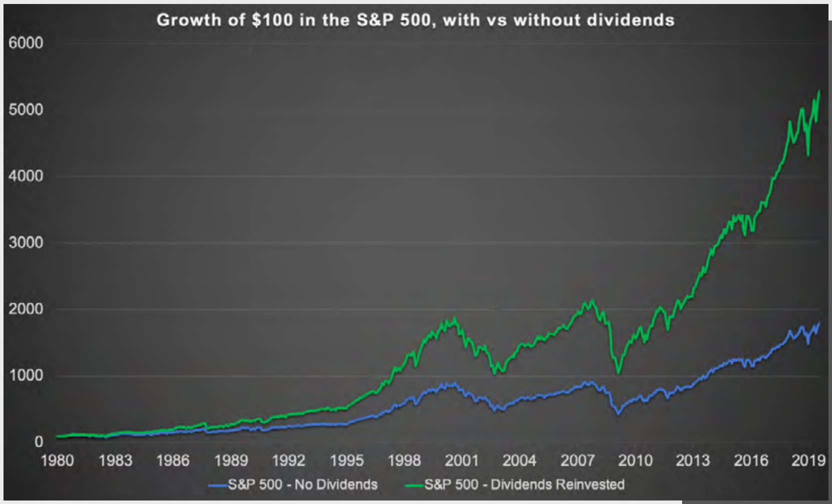
More Secure Retirement Income

Shifting Focus with Actively Managed Fixed-Income Strategies

That being the case, it's important to help ensure you have a financial strategy that makes income your number one priority. That's exactly what happens when you shift your investment focus from the "G" to the "I", which, ideally, you should do 5 to 10 years before retirement. An advisor who specializes in retirement income can help you make the shift with an actively managed fixed-income portfolio customized to your individual needs and goals.

Actively managed fixed-income strategies are those designed to generate more reliable interest or dividend return at competitive rates — regardless of market conditions. They include the underlying investments you are already familiar with. But they are purchased and managed in an 'I' focused way rather than a 'G' focused way.

FOCUSING ON YIELD IS PARAMOUNT IN THE FIXED INCOME MARKET BUT WHY IN THE EQUITY MARKETS



The Power of Steady Dividend Payments Can't Be Ignored

Although some might think a 2-3% dividend is not much to get excited about, remember that unlike interest payments, dividends from equities tend to grow over time, as the part of a company's earnings not paid out as a current dividend is often reinvested to make future dividends bigger.

For example,

$100,000

invested in the S&P 500 Index in 1980:

Without dividends reinvested, would have grown to $1,790,000, or **17.9 times** its value by 2019.

With dividends reinvested, would have grown to **52.85 times** its value to $5,285,290 by 2019.

Source: Quantofasia – July 25, 2019

How They Help Mitigate Risk

In the bond market, all else being equal, bonds that pay higher interest have a shorter duration and therefore less volatility. The same is true in the equity markets. Effectively, the higher the dividend, the shorter the duration, and less volatility.

Conclusion

A financial strategy focused toward the 'I' first and the 'G' second can help protect you from the risks of market volatility and portfolio spend down while helping to generate the reliable income you'll need to enjoy the retirement you deserve! It also seeks to allow you to continue growing your portfolio with less risk through strategic reinvestment, all of which is why understanding TR=I+G is so important and gives you the right formula for greater retirement success!

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920 Cassatt Road, 200 Berwyn Park, Suite 115, Berwyn, PA 19312
phone: (610) 935-7645 | fax: (610) 935-7640 | email: don@sfgmail.net
www.spectrumfinancialgroupinc.com | www.ellisinvestmentpartners.com