10 SIGNS YOU'RE WORKING WITH

A True Retirement Income Specialist

- Have you asked your advisor to be more conservative and they didn't argue with you?
- Has your advisor taken the time to inform you about all the options available to fund your retirement?
- Has your advisor always placed your interests over theirs?
- Does your advisor have the specialized knowledge required to help you establish renewable streams of retirement income?

If you answered "Yes" to all four questions, then you might be working with a true Retirement Income Specialist. Look inside to find out for sure.

CHECK ALL THAT APPLY.

You've noticed that your current financial advisor:

- **Listens to Your Concerns:** You asked your advisor to be more conservative in your approach to investing for retirement and they didn't fight you on it.

- **Always Places Your Interests Ahead of Theirs:** Your advisor always places your interests over theirs, which means you might be working with a financial advisor who is a fiduciary.

- **Never Pushes Prepackaged Products:** Instead of relying exclusively on bond mutual funds to satisfy your fixed income needs, your advisor takes the time to create a customized portfolio of individual income-generating investments to fit your needs.

- **Prefers Individual Bonds Over Bond Mutual Funds:** When you buy individual bonds, you're guaranteed a fixed rate of interest and you are also guaranteed to get the face value of that bond back at maturity — assuming no defaults. Neither of these guarantees apply to bond mutual funds.

- **Does Not Worry About Assets Under Management:** Your advisor seems less interested in how much of your money you are willing to allow them to manage and is more concerned about informing you about all the options available to help meet your long-term financial goals.

- **Avoids Stock Mutual Funds:** Your advisor doesn't take the easy way out and rely on mutual funds. Instead they take the time to research individual holdings.

- **Doesn't Use Tired Old Wall Street Clichés:** Your advisor has not told you things like "the only way to invest for retirement is in the stock market," or "it's not about timing the market, it's about time in the market", or "trust me, this time it will be different".

- **Understands the Dangers of "Engineering" Income through the Withdrawal Method:** Your advisor would never recommend that you liquidate shares of your investments to generate income for retirement, because they know it could lead to the cannibalization of your retirement savings.

- **Won't Double Dip You in Mutual Fund Fees:** Your financial advisor would never add on additional fees or commissions for simply placing your money into a few different mutual funds.

- **Avoids the Hidden Fees Inherent in Variable Annuities:** Your advisor knows that variable annuities are an easy way to maintain much of the risk of the stock market in one of the most expensive ways possible.

01
Financial Advisor Listens to Your Concerns

If you've asked your financial advisor to move your assets into more conservative investment vehicles, such as bonds and bond-like instruments, and they didn't fight you about it, then you might be working with a true retirement Income Specialist.

Income Specialists know that as you approach retirement, there's a simple, yet very important switch you need to make in how you plan and save for retirement. The switch we're talking about is shifting your focus from investing for growth, or capital appreciation, to investing for income. Failure to make this switch is often the reason why people fall short of reaching their long-term financial goals.

Unfortunately, since many of the advisors serving those in the Baby Boomer demographic first got into the industry during the 1980s and 90s, in what was the fastest growing stock market in U.S. history, many became stock market specialists focused on chasing growth. Since their clients were participating in the market through mutual funds, many of these advisors also became overly dependent on mutual funds. Few know how to invest for income the right way, through interest and dividends.

Advisors today would prefer to keep your money invested in a mutual fund, where they can sit back and let the fund manager do all the research and heavy lifting, while the advisor collects a fee or commission for simply placing your money into the fund. In other words, the advisor might be more concerned about setting up streams of income for themselves, and not for you. That brings us to item #2 on our list.

02
Advisor Always Places Your Interests Ahead of Theirs

If you never have to wonder whether your advisor is putting their interests over yours, you might be working with an Income Specialist who is a fiduciary.

Certified financial planners and registered investment advisors take a pledge to put their clients' interests ahead of their own. This is known as acting as a fiduciary. Traditional stockbrokers aren't held to the same standard, even if they've given themselves the title of financial advisor.

A fiduciary is a person who holds a legal relationship of trust with one or more parties. Typically, a fiduciary prudently takes care of money or other assets for another person.

In February 2017, President Trump signed an executive order directing the Department of Labor to review and potentially rescind the fiduciary rule that requires financial advisors to act in the best interests of their clients. This rule basically required financial advisors and stock brokers to put the interest of their clients above their own when working with retirement accounts – much like lawyers and doctors do.

On June 14, 2018 barrons.com announced that the Department of Labor's Fiduciary Rule is "Officially Dead," marking the end of the rule which was crafted by the Obama Administration.[1]

Instead, the Securities and Exchange Commission has proposed its "Best Interest Rule" that could end up replacing the fiduciary rule for brokers and financial advisors. The Wall Street Journal reported:

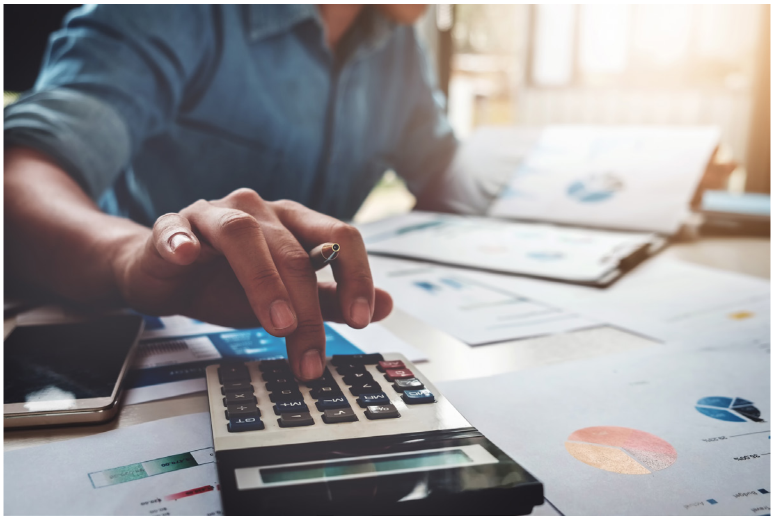
The SEC's plan to require brokers to act in the best interest of clients is less restrictive than the "fiduciary rule" affecting retirement accounts...

The SEC's rule would not ban any single conflict of interest, such as sales contests that brokers conduct to juice sales of particular products but would generally require brokers to disclose conflicts of interest and try to blunt their impact.[2]

So, as of now, if you are working with a financial advisor who is a registered broker, he or she is only obligated to recommend investments that are "suitable" for you. So, if they have a choice between two similar mutual funds, but one pays a higher commission, they could recommend the one that pays them a higher commission — even if the other fund might be better for your portfolio over the long term.

The good news is that Independent Advisor Representatives (IARs) who are part of Registered Investment Advisory (RIA) firms are still required to act as fiduciaries. So, if you are working with a true Income Specialist, you can rest assured knowing your interests will always come first, because a true Income Specialist is a financial advisor who is also a fiduciary.

When you work with an Income Specialist, you'll never have to wonder if the reason your advisor finds an investment "suitable" for you is because their firm is running a contest that offers a free trip to Hawaii to the advisor who sells the most of that product that week — which brings us to the next item on our list.



03
Advisor Never Pushes Prepackaged Products

If, instead of relying on prepackaged investments like mutual funds, your advisor takes the time to create a customized portfolio of individual securities to meet your needs, you might be working with a true retirement Income Specialist.

Here it's important to understand the different ways stockbrokers, financial advisors, and Investment Advisor Representatives (IAR), who are part of Registered Investment Advisory (RIA) firms, are paid. IARs are compensated on a fee-only basis. A big benefit to hiring an Investment Advisor Representative who is part of an RIA is that they have no financial incentive to recommend a "prepackaged" product. They recommend what they feel is in your best interest.[3]

On the other hand, many brokers and advisors are compensated on a commission-only basis. This means that they make money by selling "prefabricated" financial services products, like stock mutual funds or bond mutual funds. Another type of compensation structure is known as commission and fees. Commission and fee-based advisors might receive a fee for punching your information into their computer to generate a financial plan for you and then will collect a commission when they sell you that prepackaged investment product.

You can avoid wondering why your advisor is recommending certain products by working with an Investment Advisor Representative (IAR) who is part of a Registered Investment Advisory (RIA) firm.

04
Advisor Prefers Individual Bonds Over Bond Mutual Funds

If your advisor avoids bond mutual funds because he or she knows they don't offer the two guarantees that individual bonds offer, assuming there are no defaults, then you might be working with a true retirement Income Specialist.

Since many advisors who serve those in the Baby Boomer demographic got into the business during the 1980s and 90s in what was the best stock market in U.S. history, they became stock market specialists. Frankly, if they do fixed income, it's usually an afterthought. Most will just take the easy way out and invest client money in bond mutual funds.

What many don't realize is that bond mutual funds carry risks and tax implications that can be reduced by investing in a portfolio of individual bonds, or other bond-like instruments.

When an investor buys an individual bond, they receive two important guarantees. They're guaranteed a fixed rate of interest for the life of the bond, and when the bond matures, they're guaranteed to get the face value back – assuming there have been no defaults. Both guarantees that come with individual bonds are "off the table" with bond mutual funds.

This is why a true Income Specialist will favor individual bonds to satisfy their clients' fixed income needs.

05
Advisor Does Not Worry About Assets Under Management (AUM)

If, instead of focusing on how much of your assets they can manage for you, your advisor is more concerned about informing you of all the income-generating options available to help meet your long-term financial goals, you might be working with a true retirement Income Specialist.

For investors, AUM can be an important consideration when it comes to the fees they are charged. Prepackaged investment products can charge management fees that are calculated as a fixed percentage of AUM. Financial advisors can also charge their clients fees that are based on total AUM. This can help to explain why some financial advisors seem to be chomping at the bit to get as much of your assets as they can under their control.

06
Advisor Avoids Stock Mutual Funds, AKA "The Disease of Ease"

If, instead of taking the easy way out and placing a significant portion of your portfolio in mutual funds, your advisor takes the time to create a customized portfolio of individual holdings best suited for your individual needs, then you might be working with a true retirement Income Specialist.

Instead of taking the time to research individual securities, some advisors will recommend a mutual fund to give you instant diversification. Unfortunately, the simplicity and convenience that mutual funds can provide advisors comes with additional costs and risks to investors.

We already discussed the fact that when an investor buys an individual bond, they receive two important guarantees: a fixed rate of interest for the life of the bond, and they're guaranteed to get the bond's par value back at maturity, assuming no defaults. With bond mutual funds, neither of these guarantees exist.

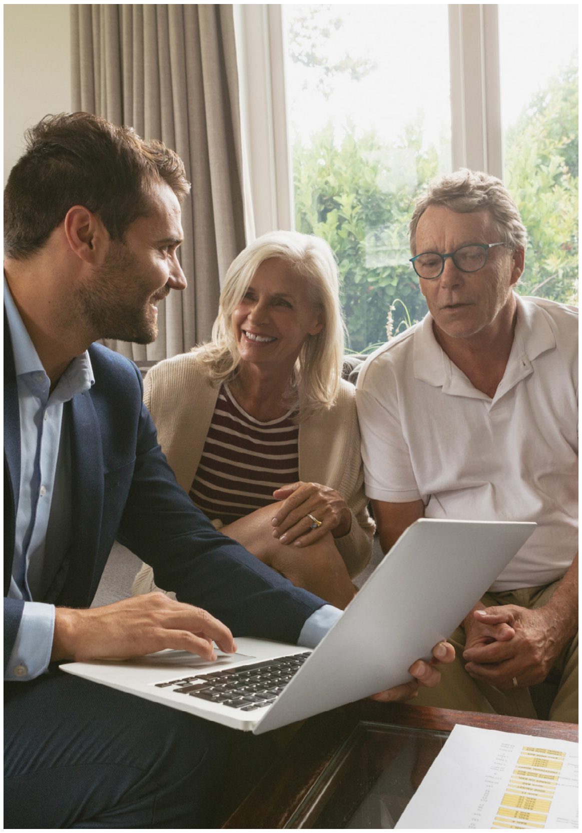
With stock mutual funds, one of the biggest risks is market volatility. Let's say that the market is down when you need to withdraw funds to cover some expenses. If you were invested in a stock mutual fund, you could be forced to liquidate more shares of your fund to generate the money you need. To learn more about why this could lead to a big problem, see #8 on this list.

Another major problem with relying on mutual funds is the high costs associated with them. The fee structure of most mutual funds can be very complex, but in the end these fees can end up eating away at the gains the fund manages to earn. See item #9 on our list to learn about how investing in mutual funds could lead to double dipping in fees.

07
Advisor Doesn't Use Tired Old Wall Street Clichés

If your advisor has never said "the only way to invest for retirement is in the stock market," or "it's not about timing the market, it's about time in the market," then you might be working with a true retirement Income Specialist.

A true Income Specialist knows that as you get within 10 years of retirement, it makes sense to start reducing your exposure to stock market risk. The remaining stocks you do hold on to really should be higher dividend-paying stocks that can help to generate reliable streams of income for retirement.



08

Advisor Understands the Dangers of "Engineering" Income through the Withdrawal Method

If your advisor has never recommended that you liquidate shares of your investments to generate income for retirement, then you might be working with a true retirement Income Specialist.

Income Specialists are aware of the dangers of having to liquidate shares of your investments to "engineer" the income you'll need in retirement. They know it could lead to the cannibalization of your retirement savings.

Many investors are familiar with the term dollar-cost averaging. The idea is to consistently invest the same dollar amount over time, so that when the market is down, you can purchase more shares of an investment. Over time, this can help to reduce the average purchase price per share, so you can buy low and sell high — which is a cornerstone principle of smart investing.

This strategy works well when you're in the contribution stage of retirement investing. The problem arises when you are no longer saving into your retirement fund and you need to withdraw funds from your retirement savings to cover expenses, like IRS-mandated Required Minimum Distributions (RMDs).

If you take a look back through 200 years of stock market history, we see that the stock market works in cycles. Each full cycle takes about 35 years, containing both long-term secular bear and bull market cycles. So, if you end up living 30 years or longer into retirement, you'll probably experience a bear market.

During those bear market years, you'll either have to spend less, or you might have to delve into the principal balance of your retirement savings, which can be quite a slippery slope. It's actually even worse than just spending principal, because in the years the market is down, you'd be forced to liquidate a greater number of shares to engineer the income you need to pay the bills.

This is known as reverse dollar-cost averaging and is one of the biggest mistakes a retiree can make, because it could lead to you outliving your retirement savings. A true retirement Income Specialist knows this. That's why they will work with you to invest your hard-earned savings in a manner that can generate ongoing and renewable streams of interest and dividends you can count on well into retirement.

09

Won't Double Dip You in Mutual Fund Fees

If your current financial advisor has never added on additional fees or commissions for simply placing your money into a few mutual funds, then you might be working with a true retirement Income Specialist.

All mutual funds have embedded management and administrative fees, plus other types of charges like 12b-1 fees, but that's not it. Sometimes you run the risk of being double dipped in fees. By this, we mean that you are also being charged a fee or commission by your advisor as well. That's right. Although the fund manager is the one conducting all the research, and selecting and managing the investments in that fund, many advisors will tack on an additional fee for placing your money in that fund.

This is similar to taking your car to a mechanic who charges you a fee for telling you what is wrong with your car and then having to pay another fee to a different mechanic who actually fixes your car. Most of us wouldn't do that, yet many of us are willing to pay multiple fees on the funds we invest in.

In essence, a broker could charge you twice the normal commission, while actually doing little work managing your investment. It's a great deal for the broker, but not so good for you. This is why a true Income Specialist will avoid mutual funds and will do the research to create an actively managed portfolio of individual securities for their clients.

10
Avoids the Hidden Fees Inherent in Variable Annuities

If your advisor knows that variable annuities can leave you exposed to much of the risk of the stock market, in one of the most expensive ways possible, then you might be working with a true retirement Income Specialist.

An article that appeared on forbes.com called "9 Reasons You Need to Avoid Variable Annuities" describes why many financial advisors and personal finance "gurus" despise variable annuities. In addition to offering limited investment options, a big reason many investors will avoid variable annuities is their high fees, which are anywhere from 2% to 4% per year.[4]

Variable annuities also typically lack liquidity and can tie up your money for long periods of time. So, if an emergency comes up and you need your money, you will be hit with surrender penalties.

Here's what Suze Orman, a past guest on our founder's show, The Income Generation, had to say about variable annuities, "I hate variable annuities with a passion…especially variable annuities that are used in retirement accounts…I think variable annuities were created…for one reason only…to make the financial advisor selling you those variable annuities money."[4]

There are some rare occasions when a variable annuity might make sense, such as a doctor who wants to protect his or her assets from malpractice suits. There are a small amount of other situations where variable annuities could make sense, but they are few and far between. Usually variable annuities tend to favor the bank account of the advisor or broker selling them. That is why a true retirement Income Specialist will stay away from variable annuities.

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THE RETIREMENT INCOME STORE®

The Retirement Income Store is made up of a national network of Income Specialists, with a common goal of helping pre-retirees and retirees reduce their exposure to stock market risk so they can use their retirement savings to establish ongoing streams of income for retirement. Our Income Specialists are not just fiduciaries; they understand both pre-retiree and retiree investment needs. They provide guidance and take comfort in knowing that our income-based strategies better protect clients from market turmoil.

SOUND INCOME STRATEGIES

Sound Income Strategies is a Fort Lauderdale-based Registered Investment Advisory (RIA) firm that differs from most other RIAs due to our fundamental experience in the "universe" of income-generating savings and investment strategies. Our network of Income Specialists specializes in income-generating strategies that help our customers build reliable and dependable retirement plans through the active management of individual bonds, preferred stocks, and other bond-like instruments.

DAVID J. SCRANTON

David J. Scranton is a money manager, Amazon bestselling author, national TV host of The Income Generation, founder of Sound Income Strategies, LLC, The Retirement Income Store, and Advisors' Academy. For over three decades, David has made it his mission to educate those at or near retirement about a more conservative investment strategy – Investing for Income.