WHY INVESTING IN MUTUAL FUNDS

COULD JEOPARDIZE YOUR PLANS FOR RETIREMENT

Find out why:

- Many of today's advisors have become stock market specialists favoring growth instead of income
- Your advisor's reliance on mutual funds could jeopardize your financial future
- Investing in stock mutual funds could lead to one of the biggest financial mistakes a retiree could make
- Why bond funds are not the solution to your fixed income needs

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Why Investing in Mutual Funds Could Jeopardize Your Plans for Retirement

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Unfortunately, since many advisors who serve clients in the Baby Boomer demographic entered the business during the 1980s and 90s, in what was the best stock market in US history, they became stock market specialists favoring growth instead of income. Many of them also became focused on mutual funds.

Mutual funds, in general, are a murky pool of investments that really only publish their holdings once a quarter. That means that in the middle of the quarter, you really don't know what stocks your money is invested in.

Sometimes, fund managers will do something known as "window dressing". Let's say that during the quarter, a particular stock the fund owns drops in value significantly and receives bad press. The fund manager may not want to sell it because its price is down. However, they might go ahead and sell that stock just before the end of the quarter, so they don't have to disclose that this stock is in their portfolio, and then buy it back at the beginning of the following quarter. This is called "window dressing", and it's one of the problems that can result due to the lack of transparency in this murky pool of investments.

Another problem with stock mutual funds is that they are typically geared towards growth and not income. This could be a big problem if you are retired or nearing retirement and the growth you are counting on turns into a loss, or a series of losses. The reason most stock funds are geared toward growth is because they are all judged against the performance of the stock market, typically the S&P 500 Index, which doesn't have a particularly high dividend. So, fund managers are all trying to beat the S&P 500, or at least trying not underperform it.

If these fund managers invest in high dividend-paying stocks, which is advisable for those who are retired or nearing retirement, in some years their fund will outperform the S&P, and in other years it will underperform it.

Fund managers know that investors have a short-term memory. So even if their fund experiences a couple of good years in a row and then has a year where their fund underperforms the S&P 500, investors could leave the fund. This is why fund managers are always trying to avoid underperforming the S&P 500 by focusing more on growth and less on income.

All mutual funds have embedded management fees and other types of fees, like 12b-1 or administrative fees, but that's not it. Sometimes you run the risk of being double-dipped in fees.

In these instances, 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.

Tax Time Bomb

Another major drawback of investing in mutual funds is that there can be unfavorable tax implications. Let's say you invested in a mutual fund today, and at the end of the year shares of the fund are worth the same. However, the mutual fund manager decided to sell a stock that the fund had invested in years ago.

This stock had appreciated quite a bit and had huge capital gains built in. Well, guess what? You are going to have to pay your share of taxes on those capital gains, even though you didn't make a dime of profit in the mutual fund. So, when you invest your money in mutual funds you end up having zero tax control.

These are just a few reasons why we say that mutual funds are the "disease of ease" that's putting Americans' hard-earned savings at risk. The ease that these funds provide advisors often comes at a cost to the individual investor.

In fact, one of the biggest financial mistakes a retiree can make can happen as a result of investing in stock mutual funds.

If you are counting on creating income from stock mutual funds, whether it's to enjoy a comfortable retirement or to cover things like IRS-mandated RMDs, and the stock market happens to be down at the time, it could force you to liquidate more shares of that fund in order to get the money you need. Each month the market is down, you would have to sell more shares.

We call this engineering income through the withdrawal method, and this one simple mistake could end up putting you in jeopardy of cannibalizing your savings. In the years the stock market happens to be down, you will have to sell more shares of your mutual fund to get the money you need.

Another way that a financial advisor's reliance on mutual funds could lead to problems for their clients is when they invest your money in bond mutual funds. The problem with bond mutual funds is that they carry risks and costs that can often be reduced by investing in individual bonds. 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 it gives you two important guarantees:

1. You are guaranteed to get a fixed amount of interest on a regular basis for the life of the bond
2. When the bond matures, you are guaranteed that the borrower will repay the par value—both guarantees are assuming there have been no defaults

When you buy a bond mutual, fund neither of the two guarantees exist. If you would like to learn more about this, be sure to read our financial report: The Case for Fixed Income.

interest payments you have already collected during the first year, you would be the one who makes more money because you invested sooner. Your neighbor would actually have to earn 6.25% to make up for lost time.

Financial Advisors Who Specialize in Investing for Income Can Help to Ensure Their Clients' Smooth Transition into Retirement

The Retirement Income Store works with a wide range of clients nationwide and specializes in helping those who are in or near retirement. Our Income Specialists are experienced in investing with methods that can help to maximize opportunities for income and growth, while helping to minimize risk.

If you were born in 1970 or earlier, our Income Specialists can help to get you started on the path to a more reliable retirement outcome than most traditional stock market-based plans can offer.

When you have your call with an Income Specialist in your area, they can help you determine the extent to which investing for income can work for you. If you have any questions while reading the material in your Retirement Income Kit, please write them down, so you can remember to ask your Income Specialist about them during your complimentary call.

For additional information, feel free to call us on our main line at (888) 888-4176, or visit our website: TheRetirementIncomeStore.com.

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