10 tips to help investors refocus on retirement

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Refocus on retirement: 10 tips to help investors in the current environment

The current COVID-19 crisis and its consequential economic and market impact represent the first serious challenge to the new generation of investors in retirement who have embarked on drawdown. Incorrect investment decision taken now could mean retirees leading poorer and less fulfilling lives as they move through their retirement years. However, if investors refocus on their retirement objectives and maintain a long-term approach, it should be possible to navigate the current difficulties without substantial long-term damage.

Capital Group has been helping investors with their retirement assets for many decades, managing some US$448 billion of defined contribution assets[1] globally. With an average investment experience of 28 years[1], our portfolio managers have typically experienced several previous downturns including in many cases the Global Financial Crisis of 2008. Supported by intensive bottom-up proprietary investment research, and an equally deep understanding of the needs of retirees, we are well positioned to offer some useful guidance through these troubling times.

[1] As at 31 December 2019. Source: Capital Group

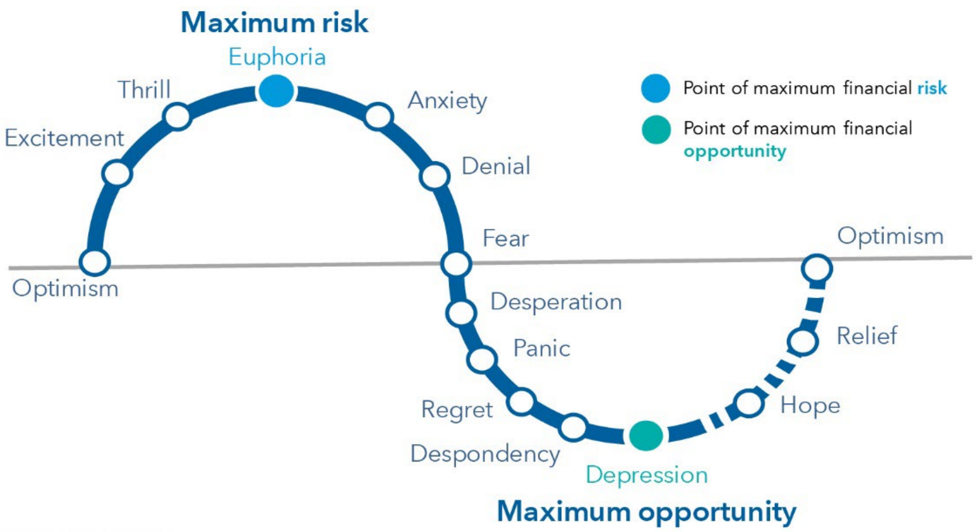
One of the most important considerations for investing in retirement is that individuals are different, each with unique financial needs, different sources and amounts of retirement income and completely personal ambitions for their future in retirement. Any list of potential actions to help refocus investors on retirement needs to bear this in mind. Nevertheless, the following ideas may be worth considering in the light of investors' own circumstances:

10 tips to help investors "refocus on retirement"

1. **Keep a long-term perspective:** For all investors, keep your long-term investment objectives at the forefront of your mind and align your actions with them.
2. **Consider the cost implications of portfolio adjustments:** Making dramatic changes to your investment stance in the current environment is likely to be costly; instead, you might consider doing things gradually or waiting for more stability. Market liquidity can be poor in the current environment, which makes transactions potentially more expensive. It is also easy to become overinfluenced by market sentiment, which makes decision-making with long-term consequences particularly difficult at times like this.

Cycle of investor emotions

Sticking to a long-term plan could help investors make better decisions in times of volatility



For illustrative purposes only.

3. **Diversify investments:** Diversification is an old principle, but recent market volatility underlines its importance. However confident you feel in picking the best performing areas, it is invariably better to have a spread of investment exposure across asset classes that are suitable for your objectives. This is particularly true at times when shifting strategy can result in crystallization of losses.
4. **Review income generation options:** Once the present COVID-19 crisis has subsided and market volatility has normalised, consider taking the opportunity to sit down with your adviser and review your portfolio. Bear in mind that future income levels expected from the portfolio may have altered; for example, bond yields may have changed – in either direction depending on credit rating - whilst future dividends from equities may be reduced, at least temporarily, even if historical equity yields have risen.

5. **Consider changes to drawdown amounts:** Investors already drawing down from their retirement pot could consider suspending or reducing withdrawals while markets are depressed. If you have other sources of income in retirement such as a defined benefit plan, you might be better placed to do this. Review your spending plans for this year; if a holiday or other large event outlays won't be going ahead in the near term because of COVID-19, you may have more headroom to adjust your drawdown than you realised. Remember that taking money from an already depressed investment reduces the potential for recovery in your portfolio.

6. **Check the long-term sustainability of your withdrawal rate:** Review your "normal" drawdown rate - is it realistic? History suggests that a withdrawal rate over 5% may be unsustainable in the long term and could lead to you running out of money[2]. If your financial needs mean you simply cannot reduce the withdrawal rate, you might want to consider alternatives. One possibility could be to look at an annuity, which could increase your immediate income albeit at the cost of relinquishing your capital.

7. **Review how you are taking your income:** If you are taking natural income in drawdown, is your portfolio skewed towards sectors vulnerable to this downturn – e.g. energy? If so, you may want to think about a longer-term shift to a more diversified portfolio with less reliance on a limited number of sectors. This might reduce the income you could obtain from the natural yield; a potential alternative would be to supplement natural income with capital gains over time. You may want to consider whether now is the best time to make such an adjustment as withdrawing capital at this point in the market cycle could negatively impact the overall total return. Over the longer term, however, a flexible approach to the sources and level of your income, using both natural income and capital gains and developed in conjunction with your adviser, may potentially offer the best means of enjoying a growing and sustainable income. You may also consider different taxation consequences of taking capital gains as opposed to dividend income.

8. **Don't overlook the cost of holding cash:** If, like many drawdown investors, you have a large amount of cash, you might consider gradually feeding a proportion of it into the market; ideally the asset mix should be consistent with your long-term objectives. However, if you are still concerned about the short-term direction of markets, you could put early tranches into slightly more conservative assets than you normally would. Over time, you could do better than if your money simply remains in cash.

9. **Maintain your investment discipline:** If you are not a retiree but still working and investing for retirement, you may opt to keep doing so – dollar-cost averaging over long periods is likely to be beneficial. Given time, markets have always recovered in the past and have the potential to do so after this

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The information provided is not intended to be comprehensive or to provide advice

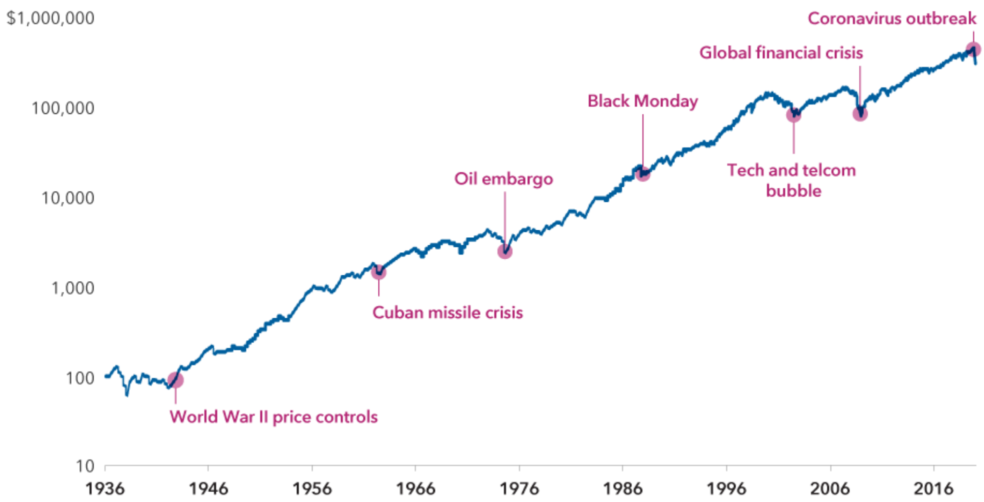
[2] Based on a hypothetical US$500,000 initial investment and withdrawal amounts adjusted for inflation. Portfolio: 50% stocks, 40% bonds, 10% cash. Source: Bloomberg, Capital Group. Data as at 30 June 2019.
Stocks: MSCI World Index (net divs) from 31 Dec 1977 to 31 Dec 1987; MSCI ACWI (gross divs) from 31 Dec 1987 to 31 Dec 2000; MSCI ACWI (net divs) thereafter. Bonds: ICE BofAML US Treasury & Agency Index from 31 Dec 1972 to 31 Dec 1977; FTSE World Bond Index from 31 Dec 1977 to 31 Dec 1984; FTSE World Government Bond Index from 31 Dec 1984 to 31 Jan 1990; Bloomberg Barclays Global Aggregate Index thereafter. Cash: FTSE 3-Month Treasury Bill Index.

crisis too. When markets are down, your monthly investment contribution will buy more shares or bonds, so you might not want to suspend your payments unless you really have to. Changing your contributions in response to short-term volatility runs the risk of missing out on long-term growth potential.

10. **Look for growth assets with lower volatility:** Equity exposure is important in achieving long-term growth of income, through the mechanism of growing dividends, but it also exposes investors to higher volatility. It is sensible to consider mitigating this through more defensive equity investments as you approach and enter retirement.

Equity markets have overcome past crises to generate long-term growth

Growth of a hypothetical $100 investment in the S&P 500 Index (with dividends reinvested)



Past results are not a guarantee of future results. Investors cannot invest directly in an index.

Sources: RIMES, Standard & Poor's. As at 23 March 2020. Chart shown on a logarithmic scale. The Standard & Poor's 500 Composite Total Return Index is a market capitalisation-weighted index based on the results of approximately 500 widely held common stocks and assumes the reinvestment of all dividends.

Risk factors you should consider before investing:

- **This material is not intended to provide investment advice or be considered a personal recommendation.**

- **The value of investments and income from them can go down as well as up and you may lose some or all of your initial investment.**
- **Past results are not a guide to future results.**
- **If the currency in which you invest strengthens against the currency in which the underlying investments of the fund are made, the value of your investment will decrease.**
- **Depending on the strategy, risks may be associated with investing in fixed income, emerging markets and/or high-yield securities; emerging markets are volatile and may suffer from liquidity problems.**

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