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## Who Needs Fixed Income?

For decades, the financial services industry has been pushing the idea that stocks are the way for savvy individual investors to make serious money. As the bull markets of the mid-1980s and late 1990s roared, it became an article of faith that only the timid would resort to buying bonds. Now, with the bear market of 2008-2009 still fresh in our memories, the financial services industry has swung fully to the other direction, pushing the supposed reliability of annuities as the new salvation product.

In both scenarios, a well-constructed bond portfolio gets short shrift. But the fact is that a fixed-income strategy can have immense power in any kind of investing environment. There's no doubt that in the short term, stocks can give you much more punch than bonds can. Bonds have never had the kind of year that stocks had in 2009, when the S&P 500 returned 26 percent. A bond portfolio also avoids the dips that stocks are subject to, and over the long term, that makes a huge difference.

Barclays Capital has tracked the U.S. corporate bond market over the past couple of decades and compared it to the return from equities. For the 10 years that ended in 2008, bonds actually came out ahead, returning an annual average of 2.3 percent while stocks lost an average of 2.7 percent per year. That includes the crash of '08, of course, but even if you extend the time frame further, stocks don't come out strongly in front: Over the 20-year period from 1988 to 2008, stocks inch ahead, 5.6 percent to 4.9 percent.

For the risk that stocks involve, that's a poor tradeoff for many people, especially given the aging of the American population. The demographics forecast a generation that will be seeking less-risky investments. In 1970, there were about 20 million Americans aged 65 and older. Today, there are roughly 40 million, and by 2040, there will be more than 80 million Americans of retirement age. That's an awful lot of people who will need a reliable source of income to keep them in a comfortable lifestyle after their careers have come to an end.

That combination of a need for a steady retirement income and a desire to reduce the risk of equity investing has helped fuel the popularity of annuities. In a sense, annuities have taken the place of the old defined-benefit pension plans, which have dropped precipitously since the advent of the 401(k). The number of Fortune 100 companies offering defined-benefit plans fell from 89 percent in 1985 to just 28 percent in 2007. Annuities have a similar construction: At their most basic level, you deposit money into one over the course of many years, then the annuity provides you with regular payments for the remainder of your life. There are variations on this theme, but for the most part, once you've bought an annuity, you're at the whims of the person managing it.

A fixed-income portfolio can meet those needs as well, while affording much more flexibility. A bond portfolio can be tweaked and rebalanced, changing along with your needs and with the larger changes in the economic environment. You can withdraw less or more from the account as needed. Unlike with an annuity, you retain complete control.

That's not the only option for retirement planning. For younger investors, a portfolio with more dividend-paying stocks can be another way to generate income without locking yourself into a single strategy. The idea is the same as with a fixed-income portfolio: The stocks throw off regular income via their dividends, with the potential to also provide steady returns over time. For retirees, whose immediate need for income is stronger than their desire for long-term growth, that's a very desirable balance. And with the American population heading into retirement in swiftly increasing numbers, we expect to see these types of instruments only gain in popularity.

Best of all is a combination of these tactics, working together to provide you with diversification, income, and the promise of a golden retirement. Including a bond strategy and dividend-paying stocks in your overall portfolio may make your investment planning more complicated, but it is likely to pay dividends – literally – for years to come.

The point is, you don't have to decide between the potentially lofty returns from equities on the one hand and the reliability of an annuity on the other. There are avenues to pursue that can give you flexibility, the potential for solid returns, and a steady stream of income as well. While the financial press seeks out the next hot product, you can benefit from turning to the boring old reliables. In retirement planning, slow and steady really does win the race.



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