KEEP YOUR FOOTING IN SLIPPERY TIMES

"Slip Slidin' Away," the Paul Simon song from 1977, might reflect how many people are feeling about their income with the interest they are earning on their investments, or how many view their retirement.

I'm reminded from daily conversations with retirees that they want income but have trouble finding it. They're looking for higher yields so they can stretch their fixed income to meet their monthly expenses. What most of retirees crave and need but can't find are higher interest rates.

There have been countless things that have affected our economy to cause this low-interest-rate environment. Most recently, on June 23, 2016, voters in Great Britain decided to leave the European Union. It was called "Brexit." It was basically a nonissue for the United States, but panic set in after the vote to leave the EU. It temporally wiped out approximately $2 trillion from the world markets when it happened. The markets have recovered. The pound hit a 31-year low that morning. Looking at global markets in mid-July, the German 10-year bond auction generated it's first-ever negative-yield bond issuance. Not only are we talking about low interest rates, now we're talking buying an investment that costs you money.

In the United States, we are on the plus side of interest rates, but not by much. When you take inflation into account, the real interest-rate return is negative. Let's look at the rates as of the week of July 11. We had 90-day T-bills at 0.28 percent; 2-year treasury notes at 0.61 percent; 10-year treasuries at 1.39 percent and 30-year treasuries paying a walloping 2.13 percent. Let's face it: Are you really going to invest your money for 30 years in this low-yielding investment? The national average for 1-year CDs was nothing great at 0.55 percent. Now don't get me wrong, you can do a little bit better if you take the time to shop interest rates. As of the end of May, inflation was projected to be 1 percent. When I talk about the real rate of return, you have to take inflation into account. As an example, if you purchased a 2-year treasury paying 0.61 percent and inflation is at 1 percent, your real rate of return is -0.39 percent.

This environment is driving normally risk-averse investors to take more risk than they are comfortable with. As I write this, the markets are at all-time highs. In order to get more income, some investors are seeking higher yields (income) by investing in dividend paying stocks. Despite historically high stock market values, the S&P500 had a dividend yield of 2.14% as of July 31, 2016 (source: us.spindices.com). Some investors may find this yield attractive since they are also benefitting from capital appreciation. The problem is that while the markets are rising, these conservative people don't keep their eyes on the downside. When the markets go down, people might panic and sell their stocks at a loss, compounding their problem. When the markets correct – and they will – these individuals will feel real pain when they look at the value of their investments. If you have been reaching for the higher yields and the markets go down, remember it's only a loss if you sell the investments when they're down.

Many risk-averse (conservative) investors have done well by keeping their investments true to their risk tolerance. They have purchased short-term bonds. "Short term" simply means that the bonds they are purchasing will mature in the near future, possibly one to three years. Another thing that might cause pain is moving from short-term to longer-term bonds. They will generally get investors a higher dividend yield, but they might have to pay more to purchase them. Many do not look at the cost when they purchase a bond or bond related investment since they are only focused on dividend yield.

Retirees are not the only ones affected by the low interest rates. If you're starting to look toward retirement, you have to be looking at the risk associated with your investments.

When we complete a financial plan or design an investment portfolio for individuals (and couples), it is based on their goals (i.e. When do they want to retire?) as well as their risk tolerance. We certainly want to get the highest investment return possible, but will color inside the lines and stay true to how much risk they are comfortable taking.

We recently met with Bob, who said he has set his retirement date, July 1, 2017. Bob has always had an appetite for risk and his portfolio through our office is 70 percent stocks. Normally, I would want to dial down his risk, but he told me during our review that he felt his portfolio was too conservative. He wanted to move his bond (safer) position from 30 to 15 percent. He is looking at what bonds are paying and said we have higher yields with the stock portion. As we went back and forth, he let me know that he had built up his cash position to close to $1 million. With this type of cushion, I had no problem moving more of his portfolio with us to stocks.

I also spoke recently with another client, Donald, who loves stocks and hates bonds. Donald is in his 80s and has very little in the way of bonds (safety) in his portfolio. Donald is different than Bob in that he does not have a huge cash (emergency) cushion. Although the markets have been very volatile, Donald is never one to panic. What helps Donald get through this is his retirement income (pension and Social Security). He understands risk and has never panicked when markets correct.

Where many individuals get into trouble is when they stretch for higher returns but panic when markets go down. They simply don't understand the risk associated with their investments. This is very similar to the citizens of England who voted to leave the EU. The next day, many woke up to falling global markets and their economy was in turmoil. They didn't understand the initial risk of their vote.

Remember to look at the quality of the bonds or bond related investments that you buy. Many investors will purchase lower- grade bonds to get a higher yield. These lower-rated bonds also have been called junk bonds. The spread, or the difference, between what junk bonds pay versus treasuries was slightly more than 4 percent in mid-July. Is it worth the risk? Depends who you are and how comfortable you are with the risk. High-yield bonds have been attractive to many investors recently, but when the markets go down these bonds react more like a stock. In 2008, many of the high-yield bond investments were down 20 percent or more.

As painful as it is to continue to live in a low-interest-rate environment, remember at least our interest rates are positive. Over the years, many people have been able to retire and have their investments work hard for them. Today you may have to work a little longer and save more to make sure that your retirement is how you envision it. The question that we get most often is: How much money will I need to retire? There is no easy answer. It will depend on the lifestyle you wish to live.

Think of what you already have saved for your retirement. If you have $1 million in investments and you're earning 2 percent, then you would receive $20,000 income without touching your principal. If you have a well-diversified portfolio and you are earning 5 percent, you may be able to take out $50,000 annually.

Don't panic. Stay true to your risk comfort zone. This way you will have a SWAN (sleep well at night) portfolio.

Remember, we will not live in a low-interest rate environment forever. Eventually the Federal Reserve will raise interest rates, as painful as it may be.

Maybe income isn't the only thing slip sliding away – have you looked at the calendar? I can tell you one thing: I'm going to slip slide my way down to the beach to enjoy another day of this endless summer.

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