## Your Portfolio:

# Are You Willing to Break the Rules? If So, Good.

In the face of rising inflation, the Federal Reserve announced an interest rate increase: a half percentage point. It's the largest rate hike in 20 years. Market reaction to the move begs investor questions about following some long-held "rules." **It's time to understand the current risks to your portfolio.** **When was the last time you revisited and revised some rules which may no longer serve you well?**

## The 60/40 Rule

It's been this way for decades: a 60% stocks and 40% bonds portfolio asset allocation was considered a prudent way to invest. However, academic research supporting these ratios no longer applies. The U.S. bond market recently suffered its worst quarter in more than 40 years, dealing a big blow to the 60/40 model. U.S. stock funds collected around $81 billion in net asset flows this year through late April; meanwhile, bond and money market funds lost more than a combined $240 billion.[1]

While investors may think they no longer place 40% of their investments in fixed income, many balanced portfolios still follow this rule. **As inflation and interest rates surge, it's time to consider other ways to mitigate risk.** Available options depend on your current and future needs, one size does *not* fit all. At Bahl & Gaynor, investment and financial planning teams stand ready to provide customized advice and solutions.

## The 4% Rule

Since 1994, new retirees have been advised to spend just 4% of their nest egg in the first year, adjusting annually depending on inflation. Even the creator of this rule of thumb now says it needs to be revised… *downward.* Financial planner Bill Begnan admits, "There's no precedent for today's conditions." What worked then to keep retirees from running out of money over the next 30 years may not work today. **What *will* work for you depends on asset allocation, lifestyle, and years until retirement.** Once again, we believe a customized plan, revisited annually, makes the most sense.

## The Max Out Your 401K Rule

How old are you? Does your employer match your contribution? Can you live comfortably on what's left in your paycheck? These are important questions employees need to ask themselves before maxing out these tax advantaged contributions. It may seem like a no-brainer for employees who can afford the $20,500 yearly limit. **BUT would you like to retire before age 59.5? Does your company offer a ROTH option?** There may be other opportunities for your retirement funds which an independent investment professional can help you find.

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## The Retire at 65 Rule

You can begin collecting Social Security checks at age 62. It will be a smaller check than if you wait until age 66 or 67, what the Social Security Administration considers full retirement age (depending on your date of birth). More than 3 million Americans retired early during the COVID-19 crisis.

"So, in the *current* economic environment can you retire early? Maybe. **As we face rising prices on everything from groceries and gas to health care, quality investments are ever more important.**

**Let's consider breaking some rules together.**

**At Bahl & Gaynor, our goal is to choose companies which offer earnings power, earnings quality, and financial strength. Further, we believe in a strong dividend policy and the value in growing those dividends over time.** *(Note: Dividends have made up nearly 60% of the total return on average each decade for the S&P 500 since 1930.)*

*"The young man knows the rules, but the old man knows the exceptions."*

– Oliver Wendell Holmes, Sr.

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[1] *https://www.wsj.com/articles/stocks-and-bonds-are-falling-in-lockstep-at-pace-unseen-in-decades-11651551170?mod=Searchresults_pos4&page=1*