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THE ROAD TO RETIREMENT

OUR MONTHLY GUIDE TO EVERY MILEPOST, JUNCTION, AND LANDMARK ON YOUR ROAD TO RETIREMENT.

THIS ISSUE

What's On Our Minds
Pg. 1

What's Around the Bend:
Dream Destinations vs Dead Ends
Pg. 2

What's Over the Next Hill:
Setting Your Withdrawal Strategy
Pg. 4

What's On the Horizon:
Choosing Your Toys
Pg. 6

Watching the Weather:
Market Conditions on the Road to Retirement
Pg. 7

WHAT'S ON OUR MINDS THIS MONTH

Have you ever gone on a trip where it took you a lot of effort – and a lot of miles – to get to your destination? Maybe you were trying to make the finals of a sporting event. Maybe you were flying halfway across the world via multiple layovers and connecting flights. Maybe you were driving for hours and hours to get to that national park you always wanted to see.

But when you finally reached your journey's end, you realized you spent so much time thinking about *how* to get there, you didn't plan what to do when you arrived. You thought, *What do you mean I still need tickets to get in*? Or: *Nobody told me it would be this rainy; I didn't pack a poncho*. Or maybe, *so what is there to eat around here anyway?*

In other words, you got there, looked around, and asked yourself: *Now what?*

As a financial advisor, I've seen many investors ask this question after reaching the destination they've planned for more than any other: Retirement. So, over the next few issues of *The Road to Retirement*, we're exploring the question of "Now what?" We're looking at the decisions and opportunities that help ensure a smooth transition and a high quality of life in the immediate aftermath of retirement. Let's dive in!

WHAT'S AROUND THE BEND: DREAM DESTINATIONS VS DEAD ENDS

Let's start this issue by continuing with the idea of destinations. Because one of the most common goals that almost every retiree has is to travel more.

Retirement will certainly bring you more time to travel, while a good retirement plan can help you secure the *means*. One thing it will not necessarily do, however, is make travel easier.

Let's face it: As fun as travel can be, it can be taxing on the body, stressful on the mind, and hard on even the fattest of wallets. Most retirees dream of jetting off to the four corners of the world or taking endless road trips in an RV...only to find that such a lifestyle can be more exhausting and expensive than they expected. As a result, many retirees end up traveling much less than they expected. Others begin retirement with the intention to travel, but no clear idea of where to go first. Some retirees realize they no longer have the health to do much at their dream destination. And some use so much energy and savings on their first trip that they find they have nothing left after that.

For these reasons, it's important that you begin deciding *now* which places you most want to see in retirement. I recommend going about it like this:

1. Create your initial list of ideas. Scour travel magazines, read guidebooks, and scroll through your favorite adventurer's social media posts. Write down everything that looks or sounds appealing. Have your spouse or partner do the same.

2. Next, winnow your list down. Research things like cost, travel time, weather, and potential activities for each destination. Then, decide what you really want to see versus what sounds like it *might* be fun. What sights and experiences does your *soul* need in order to feel fulfilled?

QUOTES WE'VE BEEN THINKING ABOUT:

"Wealth consists not in having great possessions, but in having few wants."

— EPICTETUS

Write those down and try to keep the list on the shorter side. (This doesn't mean you can't see other places in retirement! It just means that these destinations come first.)

3. Prioritize your final list. Have you always wanted to visit your elderly relatives in South America? That should probably happen as soon as possible. Have you dreamed of hiking down to the bottom of the Grand Canyon? It's probably best if that took place earlier in retirement, so you can visit less physically demanding locations as you age.

4. Determine the final requirements for each destination and be sure to factor those requirements into your overall retirement plan. Your savings and investments should be structured specifically to help you meet those requirements.

The point of all this is to make your goal of *travel in retirement* a reality by being as specific as possible rather than vague and nebulous. You may actually get to see all of the world you most want to see without causing undue wear and tear on your body or your bottom line.

And, best of all, it's the most enjoyable part of planning for retirement!

WHAT'S OVER THE NEXT HILL: SETTING YOUR WITHDRAWAL STRATEGY

Travel is expensive – and nobody wants to dip into their savings to do it more than they absolutely have to.

That's why every retiree should have a strategy for *when* they will withdraw money from their accounts, *which* accounts they will draw from first, and *how much* they should withdraw every month, quarter, and year. There are many potential strategies to choose from, and a near-infinite number of ways to customize each strategy for you. Over the next few editions of this newsletter, we'll break down a few of the more common. This month, let's look at:

4% Strategy. With this, "back-of-the-napkin" approach, you take out 4% of your portfolio in your first year of retirement. Then, every year afterward, you increase the amount you withdraw to be consistent with inflation. This helps ensure you continue drawing enough to maintain your lifestyle as prices go up. (Except in very rare circumstances, prices will always go up over time, even if the inflation rate isn't particularly high.)

Now, your needed withdrawal rate may *not* be 4% in that first year. It could be 3%, or 5%, or whatever. The point is that you establish a "just enough" baseline early on that you gradually add to year over year to keep up with inflation.

Every strategy comes with both benefits and downsides, and this one is no exception. The downside is that the 4%-plus-inflation strategy can sometimes be a little too rigid depending on what's going on in the markets. For example, in a bear market, you may want to dial back on your spending so you don't drain your investments too quickly.

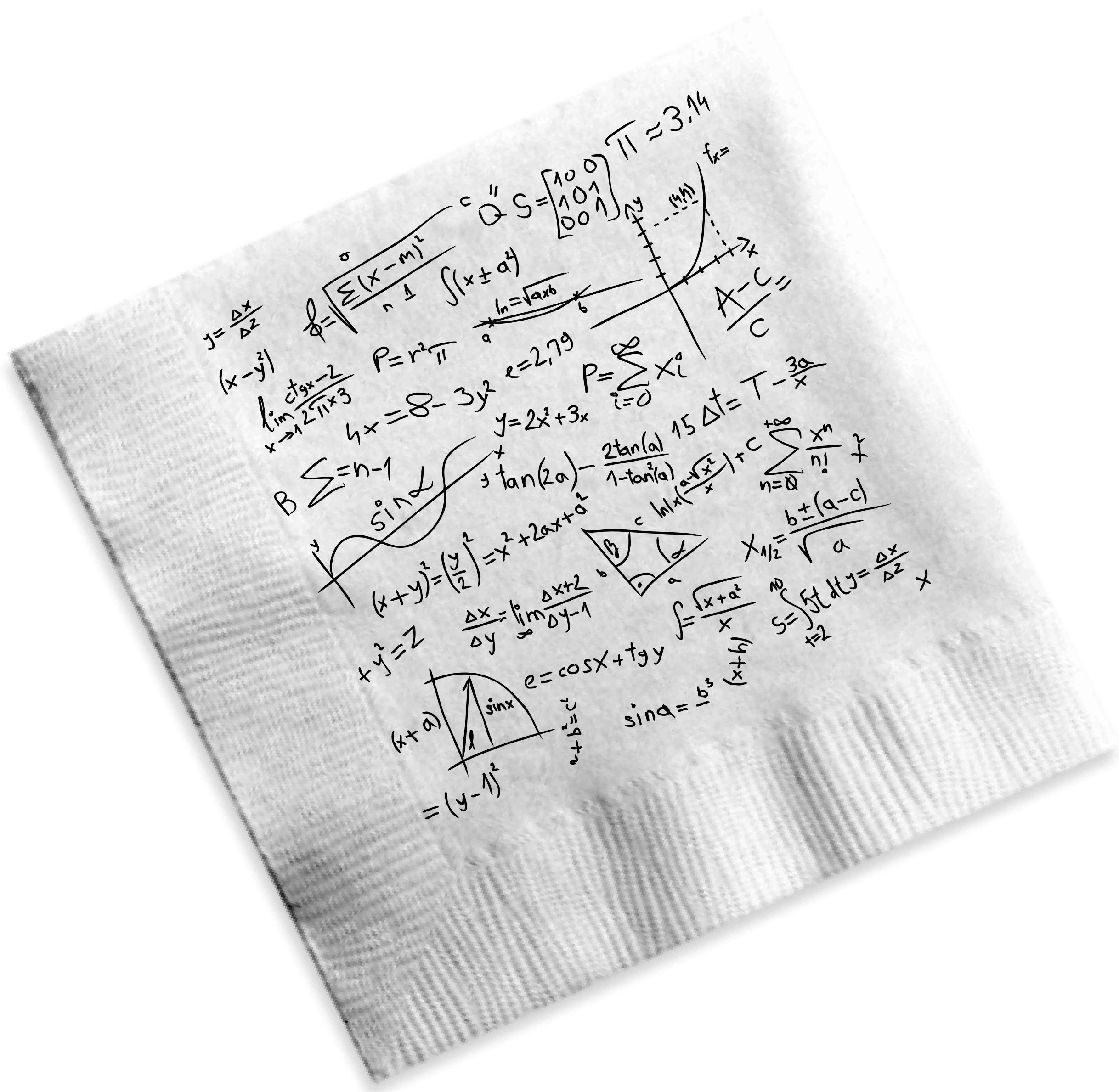
FUN FINANCIAL FACT

Sometimes, money can be music to your ears – literally! Did you know that an English £5 note can be used to play vinyl records? It's true! All you need is a contact microphone and a small amplifier. Because the corner of these five pound notes are particularly durable and sharp, it can function like a needle on a record player. (This unique capability is due to the banknote being printed on polymer.) Although the sound isn't of the highest quality, it's still an impressive attribute!

SOURCE: BRITAIN'S NEW FIVE-POUND NOTE CAN PLAY VINYL RECORDS

In a long-term bull market, on the other hand, you may find yourself *underspending*. That means leaving goals and dreams on the shelf that you should be enjoying.

However, if you expect both your spending and your expenses to remain fairly consistent year to year, then some variation on the 4% strategy may work well for you. As always, it’s important that whatever strategy you choose be consistent with your overall investment plan. There is no such thing as a strategy that suits everyone — It will always require at least some customization!



WHAT'S ON THE HORIZON: CHOOSING YOUR TOYS

For adults like us, “toys” don’t mean dolls, action figures, or miniature race cars. Typically, they mean the latest electronic gadgets, a new sound system, a boat... even a *real* race car.

Many people treat the early days of retirement as a shopping spree. All those toys they felt they couldn’t afford or couldn’t justify are now theirs for the taking. As a result, one of the first things many new retirees do is buy that antique hot rod, vintage guitar, vacation home in Key West, or even a shiny new boat.

On the surface, there’s nothing wrong with this! Retirement should be spent doing the things you enjoy *with* the things you enjoy. But buyer’s remorse doesn’t end when work does. Sometimes, these mammoth purchases can come with a lot of unintended headaches. It’s one thing to take a boat out onto the water...but what if you only have a chance to do so twice a year? How will you store it those other 363 days? What if you find you don’t actually like all the hassle of maintaining your new RV, or feel particularly comfortable driving it on narrow mountain roads? What if that guitar is actually painful, because arthritis is setting in? What if Key West turns out to be a lot more expensive than you thought?

The point of saying this isn’t to discourage you from buying any of these toys. The point is that you should start determining now what toys you *truly* want...because you *know* they’ll get used.

Which means I have a little more homework for you. But guess what? This homework is fun!

Rather than waiting for retirement to buy these new toys, take time over the next few months or years to *rent* them instead. Rent an RV for your next trip. Take it out for a week to see if you truly enjoy driving it. Go rent that guitar. Do you find yourself dying to play it every evening...or does it really just sit in the closet? Go rent a vacation property for a few days in Key West. Can you see yourself living there most of the year, or does the humidity quickly get old? You get the idea.

Think of the toys that sound most appealing in retirement. Give them a go now. By doing so, you’ll cut down on impulse buys and buyer’s remorse in retirement... saving your hard-earned money for the things you really want most.

WATCHING THE WEATHER: MARKET CONDITIONS ON THE ROAD TO RETIREMENT (JUNE-JULY)

You've heard the saying that the markets can be a rollercoaster ride? That old axiom was certainly proven in July. The month began with a long, fairly sustained climb, thanks to enthusiasm about declining inflation. The Consumer Price Index fell to 3% in June, meaning prices were up only 3% compared to the same period last year. And the Personal Consumption Expenditures index — which also measures consumer prices, but in a broader way — fell to 2.5% in June compared to a year earlier. Seeing this data prompted renewed speculation that the Federal Reserve would cut interest rates sometime in the summer…and the markets rose accordingly.

About halfway through the month, though, something unexpected happened: A worldwide IT outage. Financial services got interrupted, broadcast stations went offline, and planes were grounded as computer experts struggled to figure out what was going on.

The reason ended up being fairly mundane: A single faulty update from a single cybersecurity company caused havoc for computers running Microsoft Windows. Still, the IT crash was enough to inject volatility into the markets. That volatility continued throughout the rest of the month, before the markets recovered somewhat at the very end, thanks to hints from the Fed that a rate cut really may be on the cards in the near future.

HERE'S WHAT WE'RE KEEPING AN EYE ON IN AUGUST & BEYOND

July's rollercoaster – up, then down, then up – shows why investors should not overreact to the weekly gyrations of the markets. Those gyrations may continue in the short term, though, as investors continue to wait with bated breath for a drop in interest rates. Another month of good inflation data – or signs of a continued slowdown in the labor market – may make such a market drop more likely.

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