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**Retiree Income Portfolios Hit Rough Patch: Why It's Happening And What To Do**

**Summary**

* Three retiree portfolios facing different predicaments.
* Which retiree portfolios are impacted by rotational asset flow shifts?
* Macro events & policy changes: What should Retirees do?

Many retirees are scratching their heads as the equity markets continue hitting new highs given the traditional income portfolio for retirees have been comparably lackluster. Yet every time you turn on the TV, the media is talking about how the market is soaring (once again) to new highs.

Why aren't retirees participating and what should retirees do, if anything?

**Three Retirement Portfolios Facing Different Predicaments**:

First, a retiree portfolio can take many forms from 1) mostly just bonds, or 2) balanced dividend stocks/ETFs together with bonds, or 3) diverse income asset classes. For those retirees unfortunate to have been largely allocated to only bonds, this allocation has taken the biggest hit over the past several weeks. While many advisors have recommended that retirees diversify their sources of required income with portfolio growth components to offset the risk of inflation and rising rates, many retirees still hold 100% bonds.

Unfortunately holders of a mix of different bond categories like Treasuries, Municipals and/or Corporates are suffering with their portfolio barely treading water year-to-date: SPDR Barclays Municipal Bond ([TFI](http://seekingalpha.com/symbol/TFI)) -1.09, iShares Core U.S. Aggregate Bond ETF (NYSEARCA:[AGG](http://seekingalpha.com/symbol/AGG)) +1.45% and iShares U.S. Treasury Bond ETF (NYSEARCA:[GOVT](http://seekingalpha.com/symbol/GOVT)) +0.10%. Thus, it is important to identify what is working with retirees given a high concentration portfolio of bonds clearly isn't anymore.

Second, for those retiree portfolios holding a more balanced allocation of both high dividend stocks or dividend ETFs together with bonds have certainly fared better than those holding just bonds, but the amount of superior relative returns depends on what type of equity dividend stocks your portfolio is exposed. For example, traditional sources of high dividends for retirees have been stable industry/sectors such as Consumer Staples and Healthcare, but these sectors aren't participating in the current bull market.

Indeed, while the S&P 500 (NYSEARCA:[SPY](http://seekingalpha.com/symbol/SPY)) is currently up over +12.5% year-to-date, in contrast individual stock dividend favorites for stability have been exposed to lackluster sector weakness such as in Consumer Staples Sector (NYSEARCA:[XLP](http://seekingalpha.com/symbol/XLP)) which is up by only +4.63% and the Health Care Sector (NYSEARCA:[XLV](http://seekingalpha.com/symbol/XLV)) which is down -2.6%. Here, retirees would fare better with broader index of high dividend ETFs, such as the largest player being Vanguard Dividend Appreciation Index Fund ETF Shares (NYSEARCA:[VIG](http://seekingalpha.com/symbol/VIG)), which is up around +12.5%.

With a more balanced portfolio a retiree would essentially be flat on the bonds, but with a dividend equity ETF they would largely mirror the S&P 500 for that allocation weighting. The combined allocation should at least be showing mid-single digit positive traction for that type of allocation this year. However, for many retirees with higher weightings to typically safer dividend stock plays like Consumer Staples and Healthcare, then their portfolios are probably rather more muted for returns versus a diversified dividend ETF for the equity component.

Third, those retirees holding a diverse source of retiree income - including bonds, preferred stock, REITS and MLPs - are likely experiencing portfolio growth, but underperforming the more traditional balanced portfolio of a high dividend ETF combined with diverse bonds. For example, portfolios holding other asset classes such as iShares U.S. Preferred Stock ETF (NYSEARCA:[PFF](http://seekingalpha.com/symbol/PFF)), Alerian MLP ETF (NYSEARCA:[AMLP](http://seekingalpha.com/symbol/AMLP)) and Vanguard REIT Index Fund ETF Shares (NYSEARCA:[VNQ](http://seekingalpha.com/symbol/VNQ)), which have returned -0.08%, +10.8% and +5.5%, respectfully, year-to-date would have outperformed the retiree 100% bond portfolio, but underperformed the balanced portfolio of bonds and dividend ETFs.

The takeaway is that any of the three scenarios would engender a return that would certainly not be as robust as the S&P 500 and this is why retirees might be feeling frustration as the media hypes all the equity index new highs. Also, some retirees might also be questioning if their stable stocks are the right choice, since certain equity sectors such as Healthcare and Consumer Staples have been lackluster compared to the S&P 500. Should they chase returns, following the money sector rotation? Let's look under the hood of the S&P 500.

**Which Retiree Portfolios are Impacted by Rotational Asset Movements**?

The S&P 500 currently has clear sector winners, losers and benchwarmers. Also, there has been a rotation of money flows from certain sectors to areas that investors perceive will benefit from higher interest rates and the Trump administration investment plan. For example, equity sector beneficiaries from Trump's proposed $1 trillion investment in infrastructure have been Energy, Basic Materials and Industrials, which are marked by a +28.9% move of Energy Select Sector SPDR Fund (NYSEARCA:[XLE](http://seekingalpha.com/symbol/XLE)), +18.1% increase by Materials Select Sector SPDR® Fund (NYSEARCA:[XLB](http://seekingalpha.com/symbol/XLB)) and +20.8 lift in the Industrial Select Sector SPDR® Fund (NYSEARCA:[XLI](http://seekingalpha.com/symbol/XLI)) year-to-date. There will also be sectors that benefit from the expected rising rates such as Financials, with the Financial Select Sector SPDR (NYSEARCA:[XLF](http://seekingalpha.com/symbol/XLF)) up +23.2% for the year.

The relative performance losers have been the traditional safer stable dividend stocks in which we highlighted, such as Healthcare and Consumer Staples. Everything in-between have largely been benchwarmers riding the overall ETF equity index inflow. Another important considerations is that past underperformers like small cap value ETFs (NYSEARCA:[RZV](http://seekingalpha.com/symbol/RZV)) have had a big resurgence this year with their move up over +35% whereas large cap growth (NYSEARCA:[JKE](http://seekingalpha.com/symbol/JKE)) ETFs have underperformed with a mere +2.7% year-to-date; this could also be hurting retirees since their portfolios tend to have a bias toward large caps.

**Macro Events & Policy Changes: What Should Retirees Do?**

Given the macro events and several investment considerations, should the retiree make portfolio adjustments given prospective economic, Fed policies and income needs? The answer is not linear for all three portfolio scenarios. For instance, if a retiree is holding bond-only portfolio for safety and guaranteed income needs, then that portfolio may not be so safe anymore given inflation has been rising and Fed rates are increasing, both which place two loss scenarios on bonds: 1) inflation reduces purchasing power of the income from bonds and 2) higher rates typically has an adverse impact on bond prices given prevailing bond yields would often be higher than when you purchased those bonds (but if you locked in good yields on individual bonds and hold to maturity that isn't too far out, you should be fine). Thus, the outlook of holding principally an investment grade bond portfolio is not bright.

However, having diverse bonds with an average maturity that is not too far out on the yield curve together with a dividend ETF should not require any material tactical adjustments and certainly should not follow the hot money trends; though, you may want to have even shorter maturities with the prospects of rising rates.

For those retirees holding higher equity weightings to Consumer Staples and Healthcare for the long-run then these retiree still may benefit from a rebound down the road; particularly, if Trump doesn't get the $1 trillion dollars for his infrastructure bonanza.

With regard to retirees that hold a portfolio of diverse income sources, those investors may want to lighten up on REITs given rising rates, but the long-term retiree investor holding preferred equities and MLPs with reasonable allocations to both should not worry about making material changes.

The takeaway is if you are holding any of these three retiree portfolios then you are not fully participating in the hyperbola and media hype blitz of go-go times associated with the skyrocketing stock market. Insofar as this may be tough medicine to take in the short-term, as long as a retiree's holding period is over 5 years and your income needs are being served with some level growth component in your portfolio, then the market will likely normalize and recalibrate back toward the traditional safe harbor yielding equity plays down the road. After all, with about 85 million baby boomers continuing their shift into retirement then there should be strong secular support of money flows toward equity dividend income investments which should bode well for the long-term prospects of many high dividend stocks that have been staples for retiree portfolios.