

Retirement Investments Through a Different Lens

A Strategic View of Equity Income and Fixed Income Products

As investors approach retirement, they tend to look at life through a different lens. This leads them to reconsider their priorities, such as which new activities and lifestyle directions to explore, where to live, and how to leave a legacy for future generations. It's important for soon-to-be retirees – and their financial advisors – to apply a different lens to investments, too. Long-held approaches to investing must be re-examined as one nears retirement, to ensure there will be sufficient income to cover both routine and unexpected expenses, while at the same time offsetting inflation over a period that hopefully will last many years.

One of the biggest investing mistakes that retirees and advisors often make is to assume that they should shift retirement assets largely toward fixed income products. In addition, such investors often take too narrow a view of the types of fixed income products in their portfolios.

This narrow viewpoint and lack of diversification are the consequences of looking at investing through a traditional – and, quite frankly, outmoded – lens. While the US is currently experiencing a period of modest inflation, experience shows that as of Q3 2018, quarterly year-over-year consumer price inflation (CPI) has averaged 2.2%, 2.6%, and 3.5% over the last 20, 30 and 40 years, respectively. Unless a retiree has built a diversified and balanced allocation including a range of equity income and fixed income investments, there is a high risk that inflation will significantly outpace the income-generating capacity of the portfolio over time.

The Role of Equity Income

At Crossmark Global Investments, we believe that allocating part of one's portfolio to an equity income strategy is a prudent approach to meeting financial needs in retirement. Such strategies can be managed with the objective to deliver stable dividend income in retirement, along with the potential upside of capital appreciation that is not generally available with fixed income investments. An equity income strategy may provide an acceptable yield and may offer some protection against inflation.

An example of the equity income approach is Crossmark's Global Equity Income managed account strategy, which utilizes dividend-paying domestic and international stocks. The strategy seeks current income along with growth of capital. The strategy pursues its investment objective through investment in U.S. and non-U.S. dividend-paying stocks that have demonstrated above-median yield and a positive trend in dividend payouts and favorable earnings growth. The strategy invests primarily in common stocks of companies that represent a broad spectrum of the global economy and a range of market capitalizations, including large-cap, mid-cap and small-cap. This strategy is also available through a mutual fund, Crossmark's Steward Global Equity Income Fund (ticker: SGISX). The principal risk associated with this strategy and with an investment in the Fund is the risk that portfolio securities will fluctuate in value and that your investment may lose value, including the possible loss of the principal amount invested.

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However, for retirees who are considering an equity income allocation, and their advisors, it is important to understand the types of stocks utilized by some managers. For example, many equity income managers make significant investments in utilities, REITs and MLPs, which may tend to perform more like fixed income investments over time. In contrast, our managers believe it is critical to invest in a diverse base of stocks with exposure across a range of economic sectors and geographic regions, as such diversification may tend to enhance the stability of income over time.

Rethinking Fixed Income

In addition to incorporating an appropriate allocation to equity income, retirees and their advisors also should take a broader view of the types of fixed income investments in a portfolio. For example, many investors are tax-averse and thus tend to have too high a concentration in municipal bonds and other government instruments, which reduce their tax bite but may not provide an optimal

return. An argument for considering taxable fixed income investments is that yields tend to be higher, and there is a wider range of options, such as preferred stock.

Crossmark also offers a separately managed account strategy, CIP (Current Income Portfolio), which seeks to optimize a diversified fixed income strategy while seeking higher levels of income through investment-grade securities. The CIP strategy seeks to create a diversified fixed income portfolio that can incorporate corporate instruments (including bonds and preferred stock), along with government agency and Treasury securities. The objective is to provide an attractive yield, some tax advantages and stability, along with the flexibility to adjust allocations to various sectors as market and economic conditions warrant.

Investors in a diversified fixed income portfolio need to consider their risk tolerance. In the current market, for example, there has been a proliferation of bonds rated BB, a situation that harkens back to the days prior to the 2008 financial crisis. At Crossmark, we continue to believe that a focus on investment-grade securities is the right approach for a retiree's portfolio. Even in municipal instruments, we believe it is prudent to hold instruments rated A or better, and to concentrate on revenue bonds supported by essential services (water, power, transportation) that tend to be less volatile than other segments. The principal risk associated with the CIP investment strategy is interest rate risk—the risk that individual securities held in your account may lose value if interest rates rise.

Conclusion

In summary, viewing retirement investing through a traditional lens may lead the investor to under-weight equities in their portfolio, and to be under-diversified in the fixed income area. While the rationale for seeking a stable yield is indisputable, a failure to consider a broader range of income-generating investments may leave today's retirees with insufficient income to meet tomorrow's challenges.

About Crossmark's 30 Year History

Crossmark Global Investments is an innovative investment management firm. We provide a full suite of investment management solutions to institutional investors, financial advisors and the clients they serve. We have a multi-decade legacy of specializing in values-based investment strategies for clients. Founded in 1987, the firm is headquartered in Houston, Texas.

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