FROM PAIN TO PAYOUT

How to create the conditions for a smoother ride in retirement with a potentially stronger finish.

Are some of your older, retired clients market watchers?

You know the ones.

Up at 7 am eastern to check the close in London, back at noon for a look at New York and before bed, a complete review of all the closing numbers.

And what happens if there's a sell-off? Or worse, a prolonged downturn?

Hand-wringing may just be the beginning. Some market watchers experience real bouts of anxiety and start losing sleep. I completely understand why. Many are relying on rising markets and the resulting rise in capital appreciation to sustain them and their retirement income streams through retirement. The big worry – as evidenced in 2008-2009 – is that many of their mutual fund shares may be sold in down or falling markets automatically through Systematic Withdrawal Plans or emotionally through fear. The resulting erosion of principal can become a serious issue due to longevity risk – the danger that clients will run out of money before they die. Hence the market watching.

If you have market watchers as clients, it may be time to take a different approach. Not just for their sake, but for yours. And while no approach is perfect, I've found the "fixed-payout approach" to be the best option if you want to try to create the conditions for a smoother ride in retirement with a potentially stronger finish.

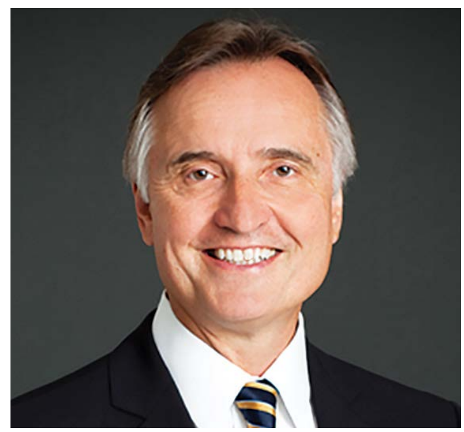
This is how it works.

I put some or all of a client's retirement savings into a range of fixed monthly payout mutual funds so they can live off the regular income flow without touching the principal. Instead of selling the asset to create the cash flow your client needs, you're collecting the income from the assets to satisfy income needs. Think of yourself as a landlord with a variety of apartment buildings in different cities. Instead of selling the buildings to fund your retirement years, you're simply living off the rent you collect. Other benefits include:

Consistency
Although mutual fund income payouts are not guaranteed, they can be incredibly consistent, and investment managers do try to establish a sustainable "number of cents per unit" distribution.

Sustainability
Because the distribution may include return on capital and is not based on the market value of the underlying investments, it may be more sustainable over the long term, which not only mitigates longevity risk but also helps many clients create monetary legacies for their heirs and/or charities.

Cost-effective
The management fee charged by the fund forms part of the NAV or unit value so the cash flow generated from distributions is not reduced by the fee as is the case with most private investment counsel arrangements.



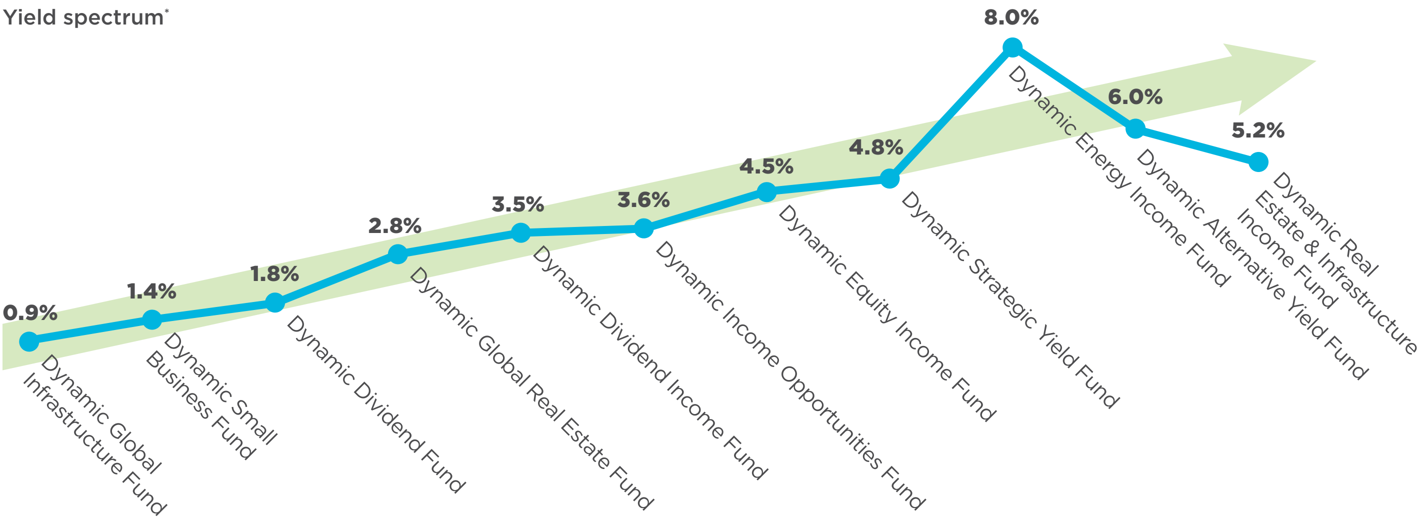
Daryl Diamond B Ed., CFP®, CLU, ChFC
Diamond Retirement Planning Ltd.

Low stress
This approach virtually eliminates the need to follow the day-to-day price movements in stock and bond markets, which may significantly lower stress levels.

Under the hood

Fixed-payout mechanics
The key to making the fixed-pay approach work are income and/ or balanced funds, which pay a set distribution of a number of cents, per unit, per month. In the following example, we are investing in a fund with a unit value (NAV) of $10.00. Investing

Yield spectrum*



Source: Dynamic Funds, as at December 31, 2014

$500,000 would purchase 50,000 units. The payout for this example is 4.5 cents, per unit, per month. That will generate $2,250 per month, which is $27,000 per year. On $500,000, that is an equivalent yield equal to 5.4%.

Capital to Invest	$500,000
Unit value of fund (NAV)	10.00
Units purchased	50,000
Cents/unit/month	4.5
Monthly income	$2,250.00 ($27,000/year)
Effective yield	5.4%

Considerations

1. Target distributions are based primarily on the estimation of anticipated "inflows" from underlying investments.
2. The distribution is a combination of investment income such as interest, dividends, realized capital gain, etc. and some return of capital.
3. Cash flow is based on "cents per unit," and on the number of units you own not on the market value of the assets. The number of units does not change.
4. Fund fee calculated into the unit value (NAV) so cash flow is not reduced by fee.
5. There is also an anticipation of an increase in asset value, over time.

Yield spectrum

As you know, the number of cents, per unit, per month from each fund will depend on the type of investments held within it and the anticipated cash flow that will be generated. The chart above shows an example of a "yield spectrum" based on various funds and the type of assets they hold.

Investment considerations

While each of these offerings is well diversified, we have traditionally employed more than one selection when putting together portfolios for clients. This allows us to target a specific yield depending upon each client's cash flow needs. It is also important to note that higher does not necessarily mean better when it comes to yield. This is *not* like shopping for guaranteed investment certificates. There are direct relationships between assets held, the income generated and account value. Further, every existing and potential client situation needs to be closely examined to assess the fit for this or any other strategy. But if you do decide to embrace this new approach and want to know whether it's working, simply ask your market watchers how the Dow did today.

Hopefully, they don't know.

Daryl is an advisor, author and educator on the subject of using your assets to realize the greatest amount of security and satisfaction during the retirement years. His Winnipeg-based practice, Diamond Retirement Planning Ltd., is dedicated to this service as well as the specialized investment strategies, health-risk management issues and wealth transfers. Of his 37 years in the financial services industry, the last 25 have been dedicated to the area of retirement income planning. He has published three retirement income guides: The Structure of Retirement Income, Buying Time *and his latest book, the best-selling* Your Retirement Income Blueprint.

*Targeted monthly distribution rates are based on the net asset value per security of a fund as at the fund's previous year-end. These distributions are not guaranteed and may change at any time at the discretion of the Manager.

A fund's distribution rate should not be confused with its performance, rate of return or yield. If distributions paid by a fund are greater than the performance of that fund, the difference will be deducted from the original invested amount, and paid as a return of capital. An investor's adjusted cost base will be reduced by the amount of any return of capital and their original investment will shrink. A return of capital is not taxable, but generally will reduce the adjusted cost base of units for tax purposes. If the adjusted cost base falls below zero, investors may have to pay capital gains tax on the amount below zero.

Daryl's CE-accredited courses featuring fixed-payout case studies will be available this fall at Dynamic's Education Zone. To access Daryl's courses on creating retirement income, go to **advisor.dynamic.ca**