Ameriprise Financial

Principles of a sound retirement portfolio

***Confident Retirement®* approach**

Sound investment strategies begin with reputable, objective research and due diligence. Led by top strategists and analysts from the Ameriprise Investment Research Group (IRG), Ameriprise Financial is taking a fresh approach to retirement portfolio construction.

For most investors, constructing a sound retirement portfolio that delivers income for as many as 30 years requires new thinking. There are three principles investors should consider when building a retirement portfolio strategy – downside protection, income generation and capital growth/inflation protection. Implementing these three principles requires careful analysis of each investment in the portfolio and making smart trade-offs.

1. Downside protection

Market risk

The danger that the portfolio will decline in value due to market fluctuations, is one of the main dangers facing investors in retirement. A poorly constructed portfolio can take on too much market risk and can materially decline in value during a downturn, permanently reducing a retiree's income stream. This problem can be exacerbated if the investor pulls out of the market at the bottom – an all too common reaction for investors during market declines.

To protect against market risk

Risk management should be front and center during the portfolio construction process. The days of reaching for yield or chasing "hot" returns is over. Investors beginning retirement need to view their portfolio through a new lens. The portfolio construction process needs to begin by understanding how much the portfolio can decline in value during a market downturn before the retirement life style is forced to change. Those with a bigger cushion can tolerate more market risk. The portfolio should be well diversified so one or two factors are not driving returns. When evaluating investment options, the mantra should be risk management first, return second.

2. Income generation

Creating a retirement paycheck requires income

During the accumulation phase of an investor's life, the focus is generally on capital growth. The goal during accumulation is to make the nest egg as big as possible. As one enters retirement the focus shifts to creating a retirement paycheck that will last a life time. One step in this process is to tilt the portfolio to income producing assets. The portfolio should not become "income exclusive" but rather "income leaning."

Transitioning to Income is all about choices

Doctors typically tell patients, "better health is all about better choices. Eat a salad instead of pizza for lunch. Take the stairs instead of the escalator." For investors the same holds true for income. When choosing between investment options, if two options sound equally appealing, choose the one with the better income potential. This does not mean radically altering your investments or focusing only on investments with the highest yields. With interest rates at historic lows, chasing yield is a precarious endeavor. Instead focus on good investments with attractive risk/return characteristics and offering reasonable yields.

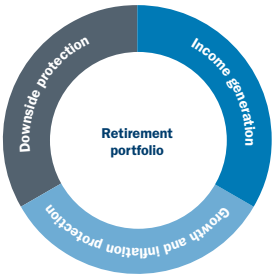
3. Growth and inflation protection

Will you outlive your portfolio?

Life expectancy is at an all-time high. Today's retirees face a very good problem – they are expected to live longer than ever before. With longer life, comes a longer period of income needs and stretches the portfolio further into the future. Also, inflation is the silent killer of portfolio purchasing power. Taken together, longer life expectancy and inflation means investors need a portion of their portfolio in assets that grow over time and hedge against unexpected inflation.

It's not all about downside protection and income – growth matters

It's far too common for retirees to underestimate how long they will live or how inflation can erode purchasing power over a span of 20 to 30 years. This means the retirement portfolio cannot solely focus on income producing assets or hold excessive levels of cash. A retirement portfolio should have a portion allocated to growth and inflation hedging assets. These can be more volatile parts of the portfolio, so their allocation needs to be carefully thought out. A well-constructed retirement portfolio needs growth and inflation hedging assets to live long-term. Give the portfolio the nutrients it needs to stay strong, but don't overdo it.



Balancing these three principles is the key to a sound retirement portfolio

A successful retirement journey begins with careful planning. When building a retirement portfolio, we recommend keeping your goals in mind and wisely asking what each investment brings to the table. It is difficult to predict how the market will twist and turn in the years ahead. The stakes are greater in retirement than during the working years, and the costs of poor planning can be life changing. A well-balanced retirement portfolio is built to navigate a variety of environments. This can lead to smoother sailing than a portfolio focused on just one or two of these elements.

For more than 120 years, Ameriprise has been helping people build wealth for the future and manage their investments in retirement. For those approaching or in retirement, the *Confident Retirement*® approach is a process of actionable steps that helps you make smart choices to generate income from and safeguard your accumulated wealth. Talk to an Ameriprise financial advisor today.

The *Confident Retirement*® approach is not a guarantee of future financial results.

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