

BUILDING BLOCKS FOR RETIREMENT

Investment Strategy

Facts of Investing Life

Some things will never change: The sun will always rise in the east, country singers will always sing about broken hearts, and it will always rain after you've washed your car.

On a more serious note, there are also certainties in the world of finance and investing. Two are particularly important for plan participants: (1) The prices of stocks and bonds will rise on some



days and fall on others and (2) inflation will always be around. Understanding these two realities and knowing what — and what not — to do in response can help you better manage your plan investments.

Rising and Falling

The values of stocks, bonds, and other investments can rise or fall on any given day. But the different asset types don't always move in the same direction. Stocks and bonds, for example, often react differently to developments in the market or economy. That's why diversifying your portfolio by selecting different types of investments is a smart strategy.*

Although past performance never guarantees an investment's future results, in the past, bond returns have often been good during periods when stock returns were not so good — and vice versa. The chart illustrates how investing in both asset classes can help an investor lessen the impact of market risk.

Steady Erosion

On to inflation. Even though inflation rates have been low during recent years, inflation can still “rob” your savings. For example, over a 30-year period, a relatively low average annual inflation rate of 3% will reduce the purchasing power of a \$200,000 retirement savings account to \$82,397.

That's why it's so important to account for inflation as you plan for your retirement. Even when inflation is low, it will increase the amount of income you'll need once you retire. If you want to maintain your standard of living throughout your retirement years, being able to absorb the impact of inflation is important. To combat the effects of inflation, you want your retirement plan investments to earn a rate of return that's greater than the annual inflation rate. That doesn't necessarily ensure that you'll meet your retirement income needs, but you'll at

least keep pace with inflation. Investing a portion of your account in stocks, which have the greatest potential to earn inflation-beating returns, also increases the potential for your portfolio to meet your needs.

* Diversification does not ensure a profit or protect against loss in a declining market.

Bonds Versus Stocks: Performance Variations									
Year	2004	2005	2006	2007	2008	2009	2010	2011	2012
Bonds	4.34%	2.43%	4.33%	6.97%	5.25%	5.93%	6.54%	7.84%	4.22%
Stocks	10.86%	4.93%	15.78%	5.49%	-36.99%	26.45%	15.06%	2.11%	13.41%

Stocks measured by the S&P 500 Stock Index, an index of the stocks of 500 major corporations. Bonds measured by the Barclays Capital U.S. Aggregate Bond Index, an index of U.S. government, corporate, and mortgage-backed securities with maturities up to 30 years. Both indexes are unmanaged and carry no expenses. You can't invest directly in an index. These returns are for illustrative purposes only and don't reflect the returns of any specific investment or the returns stocks and bonds may earn in the future. Past performance doesn't guarantee future returns. Your investment returns will be different.

Source: NPI

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