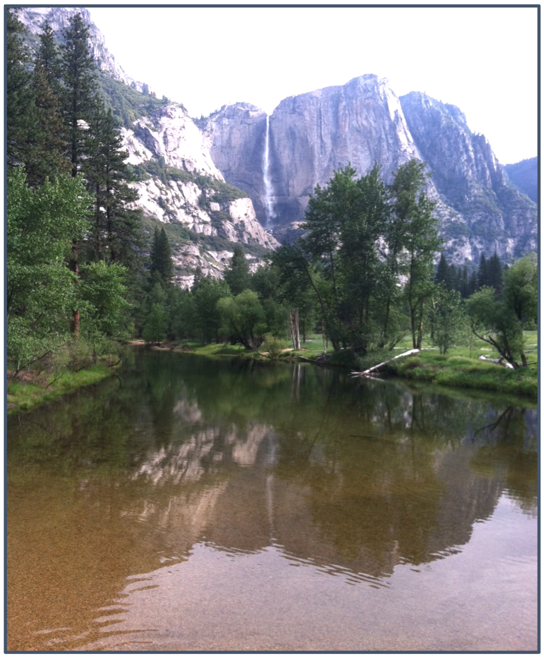

AN INNOVATIVE STRATEGY FOR CREATING RETIREMENT INCOME

WHAT'S INSIDE

Creating adequate retirement income retirees and those near retirement can't outlive has been especially difficult in our low interest rate environment. Alternatives offering reasonable returns have become popular, but many lack liquidity that can be so important as we age. I believe my CHIM strategy may offer a solution to the challenge of creating income during retirement while at the same time allowing you to maintain control of your assets.

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An Innovative Strategy for Creating Retirement Income

A High Yield Conservative Portfolio for Retirees

Goal

To provide an income stream utilizing a conservative highly liquid high yield portfolio

Generating adequate income during retirement is a concern for almost everyone. Whether you have a pension, passive income from real estate or other income-producing investments most people will ultimately seek advice on how to best generate income from their portfolio.

Those of you who have diversified your income stream will certainly have additional options for generating retirement income than those who have saved exclusively into a 401(K) or other workplace retirement plan. Regardless, all of us will, at some point, reach a place where we are no longer generating earned income and we must have a plan for paying our bills, hopefully for decades.

Before I get too far along I think it's important for you to consider whether you're going to implement a plan on your own (manage your own money) or seek the advice of a professional advisor. Determining your intentions is important as this should also be part of your thought process when deciding on the *types* of investments to make. For those that prefer to do-it-themselves, you will want to consider the time and effort involved with various strategies. It might make more sense to choose a strategy that can be put on auto-pilot to some degree, even if that choice provides lower income, lower returns or zero liquidity. For those with only fixed income from pension and Social Security, your needs may be better met with a qualified tax professional rather than a money manager. Those with fewer assets may find hiring a financial professional on an hourly basis is sufficient and saves money. For those individuals with more than $500,000 you may want to consider hiring and developing a relationship with a professional advisor.

Thoughts on why you might chose to work with an advisor?

- Thinking through what you'll do in the event of a downturn or of a change to your circumstances might also help determine if you'd want to work with an advisor. In my opinion, an advisors' true value is provided when their clients have concerns, when things go wrong. Just a few mistakes could set you back for decades and could drastically alter the retirement income for the rest of your life. Your advisor can bring options and experiences that truly add value.

- If one spouse does most of the money management, and the other takes a passive back seat: What happens if your money managing spouse gets bored, gets sick, develops diminished mental capacity or dies? Developing a long-term relationship with a financial professional will give you an automatic continuation plan.

- How much time and energy do you want to commit to managing your money? Will that time encroach on other activities or will money management be your top priority?

- Do you have the tools and the knowledge to build a suitable portfolio? The trick is to set the portfolio up correctly in the first place with income generation in mind and then maintain that portfolio so that distributions (dividends, realized capital gains and interest) are in line with your goals and expectations.

What's at stake?

<u>Long term financial independence.</u>

A properly constructed retirement income plan should help ensure your ability to generate a consistent income that you cannot outlive.

There are a host of factors to consider when working to develop a retirement income plan. You should include data incorporating some or all of the following depending on your situation: your monthly family budget, financial commitments to children or parents, extraordinary financial needs, assets, liabilities, taxation of income stream, rates of return, inflation, investment risk, medical needs, longevity, and maybe charitable wishes and inheritances. These factors can and should be planned for in the context of your overall retirement income plan and your goals must be articulated and should form the basis for your retirement income plan.

Once you have a clear picture of your financial goals, the challenge is to design a financial income generation plan that provides the necessary income you cannot outlive, considers future challenges, meets your short and long term goals, is flexible AND has a high probability of success.

Strategies

There are multiple strategies and financial products available today that can help you in your pursuit of retirement income. There are guaranteed products (annuities) and non-guaranteed options. There are options with great liquidity (investment portfolios) and those without. There are alternative investments and there is real estate. This is by no means an exhaustive list, but I hope it demonstrates there are options for investors. Which options are best is dependent upon the goals of the individual investor. Not all solutions are appropriate for every investor and no solutions are inherently bad. So when someone asks me "*what's the best investment during retirement?* I have to answer "*it depends*".

Historically, company pensions and social security made up the bulk of American's retirement income. These provided lifetime income that was quite stable and almost guaranteed. That all began to change in 1978 when legislation was passed to limit the access executives had to the perks of cash-deferred plans. Then in 1980 the first 401(k) was established but these plans weren't widely available until after 1984. 1984 marked the beginning of a transfer of responsibility for your retirement away from the employer and onto the employee. This is a HUGE and important shift. It's impact cannot be understated. Gone are the days of employer pensions which are today mostly found in government organizations, public educational institutions, and law enforcement. Today, a much higher percentage of retirees have had to save and invest their own funds for retirement. And now, really the first time, a wave of retirees has reached a point when those investments need to be converted into an income stream. Leaving retirees blazing the income trail without the security of a work place pension or the experience of others to guide them.

The correct investment strategy is unique to each family. In the following pages I will introduce you to *one* strategy. It may or may not be the *"right"* strategy for you. It could be part of a broader strategy or mix of strategies that best suit your individual needs. Or as I call it my Conservative High Income Model (CHIM) may be totally inappropriate for your specific needs. I believe this strategy offers an opportunity to generate retirement income in a unique and efficient manner and is worth consideration for all retirees. This strategy can be utilized in portfolios of $100,000 or more.

A popular method of devising retirement income is to find guaranteed investments that when combined with Social Security and pensions (If you're fortunate to have one) will cover your basic living requirements. For example, food, shelter, clothing, and medical expenses. Understanding the shortfall between your living *needs* and your lifestyle *wishes* points to the gap that might need to be filled using other investments and can be the beginning of a dialogue with your advisor as to how best to meet your wishes over the long term.

Portfolio Options

For the purposes of this discussion, I am not going to include pensions, social security or real estate income here but for many of you these will help make up some portion of your retirement income. That said, I am a firm believer in not only diversifying your investment portfolios but also in diversifying your income streams. Entering retirement with multiple income streams including varying levels of risk and correlation makes me feel more secure and it should for you as well. Unfortunately, today many retirees will have just two income streams, social security and a work place retirement plan (for example a 401(k), 403(b), IRA or SIMPLE plan). Not only are these two options only moderately diversified, their combination can create negative tax consequences that can further stress client's assets.

Here are some of the investments you should consider when developing a retirement income plan:

a. Fixed income investments (CD's, Bonds,)
b. Annuities (Fixed or Variable)
c. Diversified Portfolio
d. Dividend paying stocks
e. Alternative Investments (Real Estate, Oil & Gas, 2nd Deeds of trust etc.)
f. Private lending
g. And of course Social Security, Pensions or Rental Real Estate.

The focus of this paper in on our Conservative High Income Model (CHIM) designed to produce retirement income. The CHIM is not guaranteed, it is not a pension, nor is it a get rich quick program. It is a highly diversified mutual fund based portfolio with a single main objective; to generate income (dividends & capital gains). We use a client's current investment portfolio in part or whole to fund this strategy.

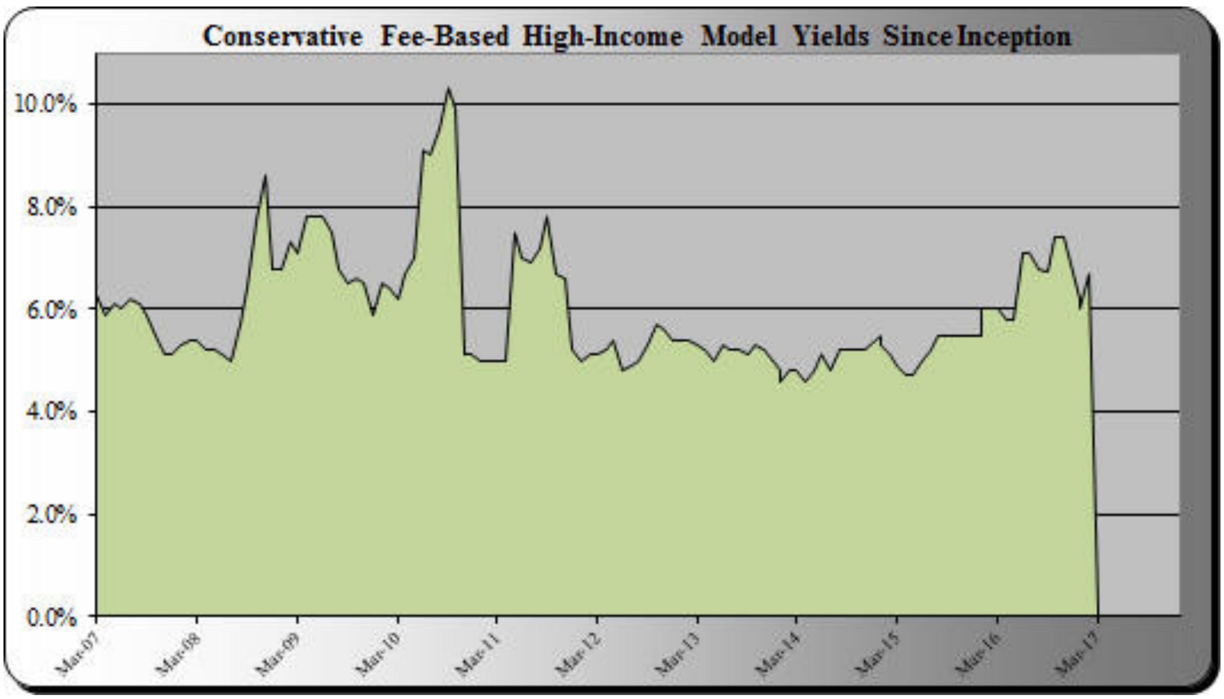
CHIM solves a host of issues found in some fixed income strategies:

- A concern over withdrawal rates and market fluctuations
- Low fixed income returns found in conservative portfolios or guaranteed investments
- The need to sell shares to provide income
- Loss of liquidity
- Expensive internal costs
- Lack of diversification
- Excessive exposure to interest rate risk

CHIM – A Unique Investment Portfolio Income Strategy

The CHIM is for investors who want to squeeze as much yield as possible out of a conservative mutual fund asset allocation.

Here's a graph of the yield generated in the CHIM strategy since inception thru may 2017. This is not reflective of total return and does not account for costs of trades or management. It simply represents the yield generated as a percentage of assets.



This above graph represents the historic yield generate by the CHIM strategy.

Now the bad news: The CHIM incorporates open-end mutual funds and ETFs, so there is nothing "guaranteed" nor "insured" about them, unlike an annuity for example. Also, because it has a high allocation to fixed income it's principle value will fluctuate more when interest rates go up. The CHIM continues to provide exposure to the bond and equities markets which can be off putting to some investors. Because CHIM provides spendable income from the dividends and interest earned, which is seldom paid on a monthly basis, planning is required to provide income during the first year of investment.

Some good news: Rising interest rates will have some effect but should be muted by the diversification of the bond funds and the exposure to multiple monetary systems (international bonds). Diversification provides some protection against interest rate risk and inflation risk for example. The model also has some exposure to equities which should act as a buffer to the bond prices and over time principle portfolio erosion. With the CHIM you're free to withdraw the yield or leave it invested to grow with the overall portfolio. There are no fixed withdrawals short of any Required Minimum Distributions found in IRA's. The CHIM model reduces many of the management requirements of other strategies. Once the CHIM is set-up, ongoing maintenance is relatively minimal. Fund changes and rebalancing is all that is required. No selling of shares, concerns with capital gains and chasing returns. Remember, the goal of the CHIM is to provide as high an income as possible while maintaining limited exposure to investments that promise high yield due to underlying risk.

The CHIM is for retired, or soon to be retired investors. Because we only sell shares for rebalancing and fund updates we are not so concerned with market news, political turmoil and other issues that have most investors running for the hills or feeling very uncomfortable.

For the purposes of this paper yield is defined as the combined distributions of an investment and is part of the total return. Some might argue, that living on the yield is no different than simply selling shares as needed from a diversified portfolio. Yes, and no. Yield is after all part of the total return. However, in a diversified portfolio investors are often less likely to sell their outperforming assets and when they do, they will trigger taxes and trading costs. In a down market, investors are loathe to sell stocks and stock funds having to choose between income today and future income.

Additionally, someone has to make decisions about what to sell and when, which complicates the entire process. And what will a retired investor do if portfolio returns continue are low 1-2%, they have to sell shares so as time goes on the investor has fewer and fewer shares and would need to increase risk in order to maintain their lifestyle which might deplete their future income and nest egg. The CHIM is designed to be simple and to remove as many moving parts as possible and to provide an income you can't outlive while you, the investor, maintains ownership of the asset.

If you're retired and need money from an investment portfolio to live on, this may help your income producing portfolio last a lot longer. This is because the more income distributions a portfolio sheds without selling shares, the fewer shares you'll need to sell to get the paycheck you need, and the fewer shares you sell, the more money you're going to have later.

Also the more conservatively a portfolio is constructed, the longer it will last, especially when markets are down.

Capital gains taxes are also kept to a minimum when you don't redeem shares for income. There's no profits to report if you don't sell and realize any gains. However, you will be realizing and spending the internal realized capital gains distributions.

What does the CHIM look like?

Currently the CHIM holds 16 mutual funds in the four major asset classes; Cash & Fixed Income, US Equities, International and Real Estate plus small exposure to Tangibles. Each of these asset classes are broken down into sub-classes and individual allocation weights are applied resulting in a highly diversified portfolio structure.

Once the portfolio is designed, mutual funds are screened for inclusion into the portfolio. Some of the criteria include: past performance, past yield, correlation to other asset classes, alpha and upside and downside capture ratios. Once the funds are chosen we have all the parts needed to complete the portfolio. The portfolio is then combined into its final form and tested to determine how it might perform. Final adjustments are made and the portfolio is implemented.

We then monitor the portfolio monthly and make any fund or allocation changes. Rebalancing is completed quarterly. More tax efficient portfolios may reduce rebalancing and fund changes, however the advantages of doing so may be offset by lower yield or lower appreciation. In general, there is less selling of shares in the CHIM when compared to redeeming shares for income. So, this strategy is generally more tax efficient than others. As with all investing there are tradeoffs.

The CHIM may not be appropriate for everyone, especially those seeking guarantees. I urge you to seek out the advice of a qualified professional to determine your income needs, risk tolerance and options. This brochure is not intended to provide tax or legal advice and urge you to consult your tax and legal professionals for additional information and guidance.

Do you want more information or are you ready to get started?

This strategy is available with a minimum investment of $100,000 and requires an annual management fee of .50%*

Contact us directly at 707-996-9664 or email request to wealth@magnumfin.com.

Please read the following disclosures.

This pamphlet is designed for informational purposes only. It is a discussion of only one method for generating income from a portfolio or bucket of cash.

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All investments carry some degree of risk. Past performance does not guarantee future results. Past performance is not an indicator nor predictive of future results.

As with any investment strategy, a review of all disclosures is an integral part of and should be read before investing.

*The management fee does not include trading costs or fund costs. Magnum Financial does not receive any compensation except for our .50% management fee.

Not FDIC insured May lose value No bank guarantee