A Tiered Investment Strategy – Video Transcript

People approaching or already in retirement face a challenge in balancing the need for income and growth from their investments. One method to consider is the tiered strategy.

Using this approach, you divide your portfolio into tiers representing different investment objectives. The number of tiers may vary depending on your specific circumstances, but let's look at a three-tiered strategy as an example.

The first tier would contain the funds you need to live on in the short term, say up to three years. For this tier, your money would be invested in cash or cash alternatives – lower-risk assets designed to preserve value but without much growth potential.

The second tier would hold investments to generate income for the medium term – say, for a period up to 10 years. Money in this tier could be invested in bonds and dividend-paying stocks that strive to provide both income and moderate returns, but also carry some risk.

The third tier would hold longer-term assets that you might not need for at least 10 years – higher-risk stocks designed to pursue the growth needed to potentially fuel the strategy for decades.

Here's how everything works together. As the assets in tier one become depleted, they can be replenished by returns generated by tier two. Over the longer term, tier three can replenish tiers one and two through rebalancing and other share sales, if needed.

The advantage of this strategy is that it divides an investment portfolio into manageable segments. However, it also requires disciplined oversight that carefully considers tax consequences and unpredictable market performance, as well as other factors.

Although a tiered strategy is typically used in retirement planning, it can be considered for any investment objective that strives to balance current income and future growth.

Talk to your financial professional to determine if a tiered strategy might be appropriate for your investment needs.

Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

All investments are subject to market fluctuation, risk, and loss of principal. When sold, investments may be worth more or less than their original cost. Investments offering the potential for higher rates of return also involve higher risk. Rates of return will vary over time, particularly for long-term investments.

Rebalancing involves selling some investments in order to buy others. Investors should keep in mind that selling investments in a taxable account could result in a tax liability.

There is no assurance that working with a financial professional will improve investment results.