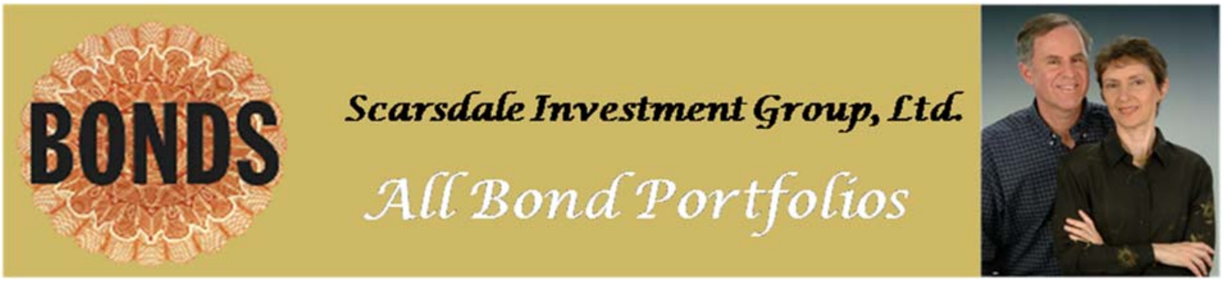

Retirement Planning with Bonds

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Bonds for your Lifetime – The Scarsdale Strategy

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair."

― **Charles Dickens, A Tale of Two Cities**

All investors are currently concerned: There is war, inflation, and volatile markets, to name only a few major problems. The value of bonds, stocks and most risk assets held by individual investors have declined significantly in value over the last nine months. While fluctuation in value is expected, the Scarsdale approach to bond investing is to create a ship filled with predictable interest payments to help you ride the waves.

The Scarsdale Strategy is Based on Cash Flow

Despite the decline in bond values, those investors who have followed the Scarsdale Strategy of Bond Investing have been able to maintain their positions with equanimity because the CASH FLOW FROM THEIR BOND PORTFOLIO HAS NOT CHANGED. Imagine that you purchased an automobile with the best safety features around. A couple of years later, there are newer models with updated features. You might consider trading in your car, or decide that the automobile you are driving is good enough. In the same way, the value of your bonds may fluctuate in value, but the cash flow remains the same.

Let us first define three important terms: Bonds, Face Value and Cash Flow

> When we speak of <u>bonds,</u> we mean only individual bonds that are not part of a group or collection of bonds. For example, state of Minnesota bonds or US Treasury bonds when purchased by themselves are individual bonds with predictable interest and a fixed maturity date. When they are held in a mutual fund of Exchange Traded Fund (ETF) or other pools of bonds, they lose their identity and uniqueness. Our definition of bonds does <u>not</u> include collections of bonds because investment pools function more like quasi-stock portfolios.
>
> <u>Face Value</u> refers to the specified number of bonds that you purchase. For example, if you purchased $5,000 of bonds, your face value is $5,000, which you will receive on the maturity date with no further transaction.
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> <u>Cash Flow</u> means the interest income paid by your individual bonds. Each bond that we buy has fixed payments that do not vary during the entire life of the bond. For some investors, it becomes a paycheck replacement.

Most investment strategies mark-to-market and are focused on the current market value of the assets in your investment portfolio. When we refer to <u>Mark-to-Market</u> it means recording the value of a security to reflect the *current market value of the bond* or security. The focus is on price fluctuations rather than its face value. For example, if you own bonds or stocks or funds in your brokerage account, your brokerage statement will show you, among other information, the <u>current value</u> of your securities as of the date of the statement.

The purpose of marking-to-market is to entice you to trade.

The Scarsdale Strategy is based on the CASH FLOW produced by your portfolio of high-quality individual bonds. Once you build the consistent and reliable semi-annual cash flow from your bond purchases, you can create a sound financial plan. For example, the brokerage statement produced by Fidelity Investments shows, on a separate page in your statement, the total monthly income that will be payable from your individual bonds each month projected forward for 12 months.

The Scarsdale Strategy is simple, direct, inexpensive and tax-effective:

You buy the highest quality INDIVIDUAL bonds: You would buy tax-exempt municipal bonds in your taxable account. You would buy taxable bonds such as Treasury bonds, US government agency bonds, taxable muni bonds, and very select corporate bonds in your retirement account. All bonds must have fixed coupons.

You ladder the maturities of your bonds in a way that supports your specific financial and life situation. You never trade your individual bonds. You hold them until they are called or come due. Thus, you will never lose any of the face value of the bonds that you buy. This is classic buy and hold. It reduces your fees, taxes and bad timing.

When you do your financial plan, you might consider sizing your lifestyle to fit within your cash flow from all your sources of income: bond portfolio, earned income, pensions, social security, real estate, etc.

If you are basing your financial plan on the ups and downs of the financial markets, you are in the realm of uncertainty with the possibility of the failure of your financial plan. We firmly believe that hope is not a strategy, particularly when the wheel turns to the worst of times.

We have employed the Scarsdale Strategy solely and consistently for the last 30 years and found that it works in the best of times and the worst of times.

<u>Deliverables of the Scarsdale Strategy</u>

The result of the bond portfolio created with the Scarsdale Strategy portfolio is as follows:

You will have a predictable cash flow each year for many years.

Note: We invested in a new issue for ourselves and clients and received a 4.5% tax-free return on an Ohio Mortgage bond rated Aaa by Moody's on 5/20/22.

- You will have little or no Federal income taxes on the portfolio. The pre-tax equivalent return of high-income families may approach 7%. Check with your tax advisor on what your pre-tax equivalent return might be.

- You will have **<u>no</u>** yearly fees or expenses on your bond portfolio.
- You will have no need to go in or out of assets classes, rebalance or hedge. You will not incur additional taxes resulting from rebalancing.
- You will not have to follow any markets. You will be free to go live your life within your means without worry.

<u>Conclusion</u>

Although many investors may have been reluctant to use the Scarsdale Strategy in the last few years because of the very low yields, much higher yields are now available even on the highest quality individual bonds.

In the current investment environment, the higher yields and cash flow currently available on high-quality bonds and the large uncertainties currently for risk assets may encourage you to consider the Scarsdale Strategy.