TSG

INVEST MAGAZINE

Retirement Mistakes Investors Need To Avoid

Plus,

January 2024 Financial News Highlights

01/24

Welcome to

TSG INVEST MAGAZINE!

Our team curates this monthly publication with one goal in mind: to help you become an informed investor.

We've designed it to keep you engaged and informed about the latest in disruptive innovation, while also providing key insights into the Economy, Markets, Venture Capital, and Real Estate.

So, stay tuned for next month's magazine as you continue your journey toward financial success. We're excited to have you on board!

Cheers to your wealth!

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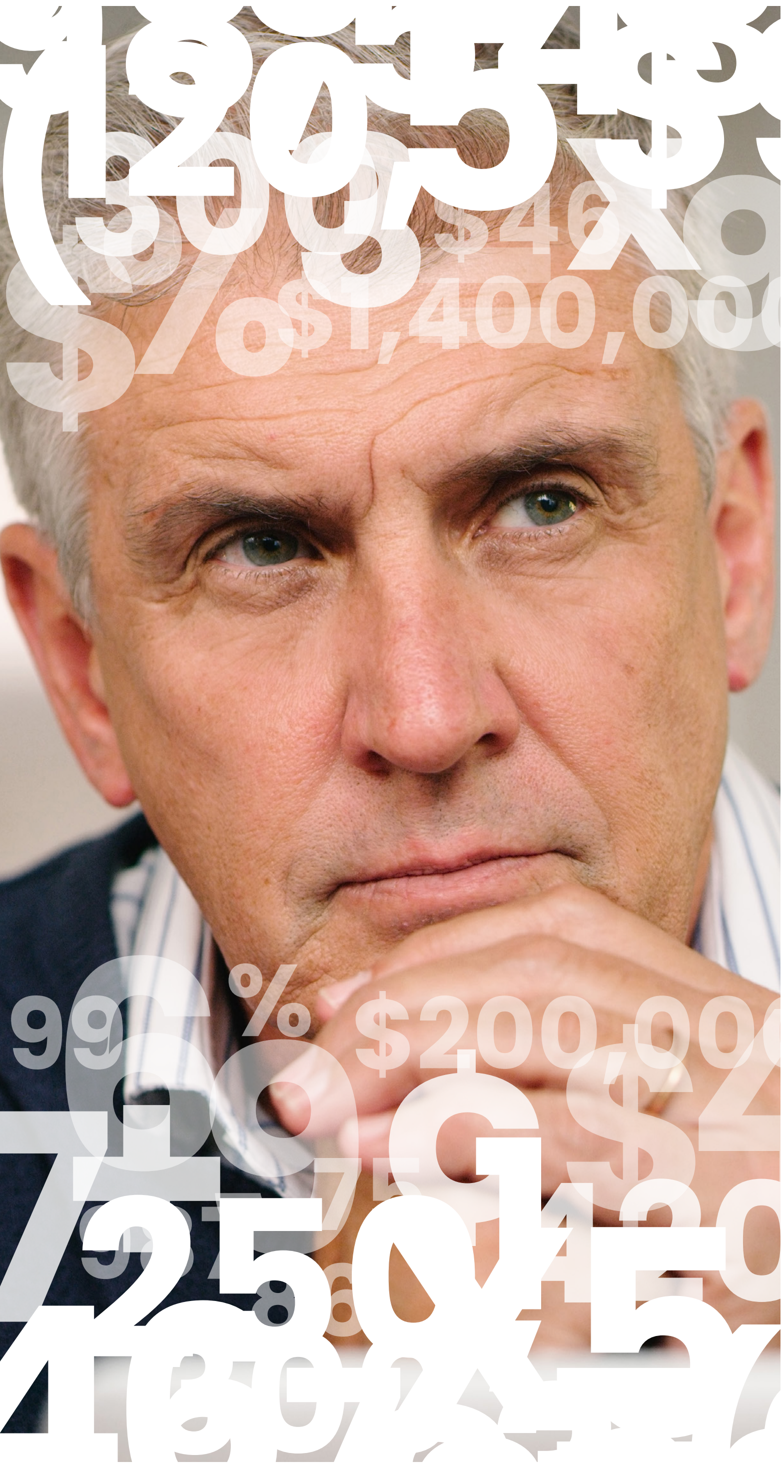

Steering clear of financial pitfalls is crucial for the road to retirement, especially if you're an accredited investor or you boast a high net worth. You've worked diligently to build your nest egg, but the terrain ahead is fraught with hidden traps that can threaten to unravel your hard-earned gains.

As such, having a retirement plan is almost as important as the air you breathe. It's what's going to sustain your lifestyle when you're no longer receiving your monthly paychecks. But more often than not, retirement catches many by surprise, with little to no savings.

The most recent figures from the Federal Reserve indicate that about 28 percent of all non-retirees didn't have retirement savings as of 2022, which is a ticking time bomb if you ask us. From financial to health implications, the list of all the things that can go wrong without a retirement plan is long. And it's not just about having retirement savings, it's also about avoiding common mistakes many retirees make.

In this essential guide, we're spotlighting the cardinal retirement mistakes you absolutely must dodge to ensure your golden years shine with the luster of well-planned prosperity. This is the wisdom your future self will thank you for.

Top 5 Mistakes to Avoid

Sure, saving is important, but just stashing away savings in an account without a strategic plan from the beginning is a recipe for disaster. The stakes are even higher, the risks more profound, and the oversights more costly when you're trying to build and protect a legacy. That said, here are retirement mistakes you should avoid.

1 Failing to Account for Inflation

In 2011, the inflation rate in the U.S. was 3.2 percent. Eleven years later, this rate was a whopping eight percent in 2022. This means that the purchasing power of Americans decreased considerably since 2011 against rising price levels of goods — the same amount of money in 2011 became worth less in 2022.

For instance, say you had $1,000 in 2011 when the inflation rate was 3.2 percent. After accounting for inflation, the purchasing power of $1,000 in 2011 would be reduced to $968 (approximately).

Fast forward to $1000 in 2022, if we apply the eight percent inflation rate, your purchasing power would be significantly less, at $920.

Inflation, if not accounted for, can have devastating effects on your retirement savings by eroding the value of your money. Professionals in finance considered 2022 in particular as probably one of the worst years to retire due to the high rate of inflation.

To illustrate, take a look at these figures from the 2022 NATIXIS Global Retirement Index:

- Between 2012 and 2021, it cost an average of $42 to fill up for a 15-gallon tank vs $75 in 2022.
- In 2017 the average food bill for a week in a two-adult household was $141.40 vs $167.53 in 2022.

With a fixed income from a retirement plan, inflation can dramatically affect your life's quality.

2 Thinking You Won't Live Past a Certain Age

If you constantly tell yourself, "I can't possibly live beyond age 100," think again. The oldest person currently living in the U.S. is 116, despite the average life expectancy in America being around 77. You could be among the lucky people who live past this average, and the longer you live, the more money you need to survive. With advancements in healthcare and lifestyle improvements, life expectancy is now higher, and failing to account for an extended retirement period can lead to financial challenges.

Not convinced? Understandable. However, consider factors beyond those you might typically think contribute to your life expectancy, such as genetics, diet, and exercise. High income, clean physical environments, and even certain state policies are associated with longer lifespans. Thus, if you make more than average, live in a place with few environmental risk factors, and reside in a state with an expanded social safety net, data suggests you're likely to live past average, maybe long past average.

What's more, as you age, some expenses, such as healthcare costs, increase considerably. Age often brings with it a heightened susceptibility to various health issues. From routine medical check-ups to specialized treatments, the financial burden of healthcare tends to intensify in the later stages of life. Couple this with an extended life span, and you'll deplete your retirement savings in a blink.

Living past your expected lifespan can also strain your pension plan. The longer you live, the more you'll draw from your plan, which may be over and beyond what's expected. This can have several ripple effects, but one of the biggest possibilities is a reduction in benefits. Pension plans have specific assumptions about life expectancy and withdrawal rates, so when you outlive these expectations, it can create financial challenges.

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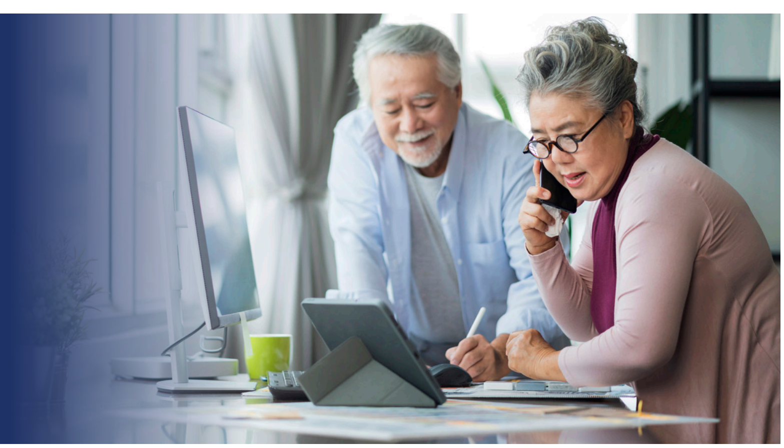
So, look at your savings and ask yourself how long will your retirement money last.

Having an Unrealistic Investment Income Expectation

Investing for retirement is like planting the seeds of financial security, where your savings grow to become your future source of income. However, a common mistake you might end up making is thinking that your investment income will consistently meet or exceed certain levels, leading to miscalculations in expected returns. Beyond the glossy promises, it's essential to recognize that market conditions fluctuate and government policies and global events will affect interest rates.

Today, the average annual interest rate for a 401(K) is between five to eight percent. However, during the global financial crisis (2007-2008) interest rates fell to historic lows. And even though now in the post-pandemic economy central banks have raised interest rates, the short-term effects may include increased market volatility. These fluctuations can impact the performance of your investments, and assuming a steady, high rate of return may lead to overestimating your future income.

Suppose you are planning for retirement and have accumulated a savings of $500,000. You anticipate an average annual interest rate of eight percent. With this optimistic assumption, you project your investment income over 20 years.



Using the formula for compound interest:

Future Value =P× (1+r) ^n
Where:
- P is the principal amount (initial savings),
- r is the annual interest rate (as a decimal),
- n is the number of compounding periods (years).

In this case:

P = $500,000
r = 0.08
n = 20 years

Future Value = $500,000 x (1 + 0.08) ^ 20
≈ $2,158,500

This calculation assumes a consistent eight percent return every year for 20 years. However, market conditions fluctuate and inflation plays a huge role. Consider a more realistic scenario with some market volatility and inflation.

Assuming an average annual inflation rate of three percent, we need to adjust the future value of retirement savings to account for the decreasing purchasing power of money over time.

Let's modify the calculation:

Adjusted Future Value = Future Valuation/(1+Inflation Rate) ^20

Where:

- Future Value is the previously calculated future value without considering inflation ($2,158,500).
- Inflation Rate is the annual inflation rate (as a decimal), in this case, 0.03.
- The exponent of 20 represents the 20-year period.

Adjusted Future Value = $2,158,500 / (1+0.03) ^20
≈ $1,195,109

This example underscores the importance of not overestimating investment income and being realistic about potential fluctuations in the market. It's prudent to consider various scenarios and adjust your retirement plan accordingly to ensure financial security in the face of uncertainties.

So, what is a good retirement income? There isn't a one-size-fits-all answer to this question. A good rule of thumb is to aim for a retirement income that allows you to maintain your desired lifestyle without depleting your savings too quickly. This involves a realistic assessment of your spending habits, potential healthcare costs, and other expenses you anticipate during retirement.

4 Investing Too Conservatively

While the desire for financial stability during retirement is understandable, investing too conservatively can be a significant mistake. Opting for overly safe retirement investments, such as low-risk bonds, or keeping a large portion of your portfolio in cash may seem like a prudent strategy to avoid market volatility. However, it comes with its own set of risks, particularly in the context of a long-term retirement plan.

Conservative investments often come with lower potential returns, which might not keep pace with inflation or provide the necessary growth to meet your retirement goals. Over time, you may find that your savings struggle to keep up with rising costs of living.

An example of a conservative investment is purchasing government bonds or Treasury securities. These instruments are often considered low- or no-risk because they are government-backed, providing a relatively stable and secure source of income.

For instance, say you decided to allocate a portion of your retirement portfolio to Treasury bonds and invest $100,000 in a 10-year Treasury bond with an annual interest rate of two percent.

After one year:

- Investment Income = $100,000 x 2% = $2,000
- Total Portfolio Value = $100,000 + $2,000 = $102,000

After five years:

- Investment Income = $100,000 x 2% x 5 = $10,000
- Total Portfolio Value = $100,000 + $10,000 = $110,000

After ten years (maturity of the bond):

- Investment Income = $100,000 x 2% x 10 = $20,000
- Total Portfolio Value = $100,000 + $20,000 = $120,000

While this example demonstrates stability and the return of the initial investment with interest, it also highlights the relatively modest returns associated with conservative investments. The two percent annual interest rate may not outpace inflation, potentially leading to a reduction in the purchasing power of the investment over time.

Assuming an average annual inflation rate of three percent, here's what the portfolio will look like:

- After one year = $102,000 / (1 + 0.03) ≈ $98,543.69
- After five years = $110,000 / (1 + 0.03)^5 ≈ $92,095.57
- After ten years (maturity of the bond) = $120,000 / (1 + 0.03)^10 ≈ $86,913.40

So, while the siren song of conservatism in investing can have its appeal, especially as you near retirement, it's crucial to balance caution with the need for growth. As you sculpt your investment strategy, remember that calculated risks often lead to worthwhile rewards. Ensuring that your investment approach is as dynamic as the markets themselves can help safeguard your financial future against the erosion of purchasing power and ensure a more robust retirement.

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Chasing Unrealistic Returns on Retirement Investment

On the other side of the coin, you may pursue a more aggressive investment strategy that prioritizes high returns. However, it's crucial to respect the inherent relationship between risk and return. Pursuing unrealistically high returns often involves taking on more risk, which may not be suitable for you if you have a low risk tolerance, especially in retirement when capital preservation becomes more critical.

This ties back to what we've mentioned in the preceding sections — market fluctuations. For instance, if you set overly optimistic expectations without considering market ups and downs, your portfolios will underperform. Moreover, relying on a single investment strategy or asset class to achieve unrealistic returns is extremely risky because it increases vulnerability to market fluctuations and reduces the ability to weather economic downturns. Diversification is key for managing investment risk and managing return expectations because even if one sector underperforms, other performing sectors can absorb the financial shock.

Conclusion

Your retirement legacy isn't just about setting aside money in your 401(K) and forgetting about it until you're ready to retire. It's about actively managing and adjusting it to ensure that once the time comes to start using it, you can do so comfortably without worrying too much if it will outlive you.

Therefore, look at your plan and ask yourself if your retirement years will be a time of fulfillment and enjoyment. Decide what you can do now to make sure that happens. Better yet, seek professional guidance to create the best investment plan for retiring. By avoiding common mistakes and optimizing your strategy, you're ensuring that your golden years really will be golden.

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January 2024 Financial News Highlights

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The Stock Market: Gainers and Losers

Treasury Yields Soar in Anticipation of Major Economic Data

U.S. Treasury yields have increased, with the 10-year Treasury yield at 4.174% and the 2-year yield at 4.38%. Investors are anticipating significant economic data, which will influence the Federal Reserve's decision on interest rate cuts. Global central banks are also considering policy changes. Treasury auctions for different bonds are in progress, including 17-week Treasury bills, 5-year notes, and 2-year floating-rate notes. These developments have heightened focus on interest rates and their impact on the economy and markets.

Former Fed Officials Under Scrutiny for Trading Scandal

A watchdog review examined the trading activities of former Federal Reserve officials Robert Kaplan and Eric Rosengren, finding conflicts of interest without alleging illegality. The report raised concerns about their impartiality due to their trading actions while involved in critical policy decisions during the early days of the COVID-19 pandemic. Although it did not conclude that Kaplan violated laws, it faulted him for insufficient disclosure. Rosengren was criticized for not disclosing multiple trades and creating an appearance of conflict. The Fed has since revamped its trading rules, aiming to enhance public confidence in its integrity and prevent future conflicts.

Alibaba Co-Founders Boost Confidence with $200 Million Stock Purchase

Alibaba shares rose significantly as co-founders Jack Ma and Joe Tsai purchased approximately $200 million worth of company stock in the recent quarter. This move, though relatively small compared to Alibaba's market value, indicates their confidence in the company's future. Despite a nearly 38% drop in the past year, the co-founders' increased shareholdings are viewed positively by investors and may boost sentiment around Alibaba.

Magnificent Seven Tech Giants Lead Stock Market Surge

The Magnificent Seven tech giants, including Google's Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla, have once again lifted the stock market. They've delivered a 5.3% return as of Jan 24, outperforming the S&P 500 by more than three percentage points. Investors are directing roughly $4 billion into tech funds. These giants, comprising 28% of the S&P 500, outshine smaller stocks due to their strong fundamentals, profitable performance, and the promise of AI growth. Wall Street foresees a 7.8% return for this group in the next year, indicating optimism for their future.

Alphabet

amazon

Microsoft

NVIDIA

TESLA

Meta

Earnings Drive S&P 500 to Fresh All-Time High

Stocks notched a third straight record high as earnings season heated up. United Airlines Holdings rose 5.3%, while 3M tumbled by 11%. Major U.S. firms generally saw share price gains, with the S&P 500 up 0.3% and the Nasdaq Composite rising 0.4%. However, the Dow Jones Industrial Average slipped 0.3%. Despite an uneven start to 2024, all three indices are in positive territory for the year. While optimism surrounds the economy and potential Fed rate cuts, some investors fear that most of the good news is already priced in. Earnings reports will be closely scrutinized.

U.S. Economy: Jobs, Trade, Inflation, and More

Consumer Confidence Defies Recession Predictions, Fueling Economic Growth

The U.S. economy defied recession fears in 2023, growing by 3.1% in the fourth quarter thanks to resilient consumer spending. The labor market remained strong, driving consumer confidence and robust spending, contrary to earlier predictions of a downturn. With lower inflation, the Federal Reserve is likely to consider interest rate cuts. However, the pace of growth is expected to slow in 2024 as consumer spending moderates. Signs of stress, like rising credit card debt and delinquency rates, suggest caution. Still, a soft landing scenario remains possible with future potential rate cuts by the Fed.

Weekly Jobless Claims Hit Lowest Level Since 2022, Defying Expectations

Weekly jobless claims fell unexpectedly to 187,000, reaching their lowest level since September 2022, indicating ongoing labor market strength despite Federal Reserve interest rate hikes. Continuing claims also declined by 26,000 to 1.806 million. Employers are holding onto their workforce and offering higher wages in a competitive labor market. The Philadelphia Fed's manufacturing index improved but remained negative at -10.6. Housing data showed optimism, with building permits slightly exceeding estimates, while housing starts, although down 4.3%, still outperformed expectations. The Fed's Beige Book reported mostly stagnant economic activity since late November, with some cooling in the labor market and housing sector.

Understanding 2024's Unique Credit Landscape

Rising credit card and auto loan delinquencies have raised concerns, but there's also optimism about consumer health. The increase in net-charge offs in 2024 might be tied to unique credit growth during the post-pandemic period. As the economy reopened, lenders offered more credit, causing unusual late-payment and loss rates. Ally Financial reported that its 2022 vintage (which are seasoned mortgage-backed securities) showed elevated losses. However, this situation may be as much about lenders as consumers. It's possible that 2024 will represent a credit low point that's relatively short-lived, with consumer spending remaining robust.

Fed President Bostic Anticipates Rate Cuts in Q3 Amidst Inflation Progress

Atlanta Fed President Raphael Bostic expects rate cuts to start in Q3 of 2024, moving up his projection due to progress in inflation and economic activity. However, he emphasizes that the timing of cuts will depend on convincing evidence. Bostic also highlights factors like geopolitical conflicts and the budget battle in Washington that could alter the situation. He advises caution and flexibility in monetary policy and will closely monitor economic growth, inflation data, and job market indicators.

Driving Electric: 24 New EV Models to Hit US Roads This Year

Carmakers like Ford, GM, and Volkswagen recently slowed down EV production, but the U.S. market will still see a surge in new electric models. This year, at least 24 all-new electric vehicles are expected, increasing the market variety by nearly 50%. These include affordable options under $50,000, appealing to a broader range of buyers. Despite challenges like high battery costs and interest rates, EV sales are growing faster than the overall car market. High prices and charging infrastructure concerns remain obstacles, but increasing production could lower costs and boost EV adoption. Leading companies like Tesla show that producing EVs at scale can make them more affordable, a key factor in driving widespread adoption.

Venture Capital Roundup: Funding, AI Startups, Mergers, and Valuations

Private Fund Secondary Market Bounced Back in 2023

In 2023, the secondary market for private fund stakes rebounded, reaching around $112 billion, a 4% increase from the previous year, but still below the 2021 record of $132 billion. The latter half of 2023 witnessed a surge in activity, with deal volume soaring by 60% compared to the first half. Factors such as interest rate clarity and improved market sentiment drove up pricing, bolstered by increased capital availability. Secondary buyers now have $145 billion in equity capital, with an estimated total available capital of $255 billion.

Aramco's Billion-Dollar Expansion into Venture Capital

Saudi Arabian Oil Co., known as Aramco, plans to significantly increase the funding of its global venture capital arm, Aramco Ventures. Aramco will add $4 billion to the fund, raising its total investment to $7 billion. This boost in funding, to be distributed over the next four years, aims to develop new technologies and diversify Aramco's operations by collaborating with innovative startups. Including Wa'ed Ventures, Aramco's total venture capital allocation reaches $7.5 billion, focusing on both global and Saudi Arabian startups.

Southeast Asia's Digital Economy Attracts $474 Million Investment from Asia Partners

Asia Partners Fund Management, a Southeast Asia-focused growth-equity investor, successfully raised $474 million for its second fund, signaling strong interest in the region. Based in Singapore, the company believes that Southeast Asia is entering a "golden age of entrepreneurship and innovation," despite challenges in the IPO and venture capital markets. Asia Partners now manages $1 billion in assets and targets investments in the range of $20 million to $100 million in the fast-growing digital economy of Southeast Asia. Despite market challenges, the region's favorable demographics and growing wealth present significant opportunities for investors.

Venture Capitalists Bet on Biotech's Revival

Recent acquisitions of small drugmakers are giving biotechnology venture capitalists hope for industry stabilization following two years of declining investment. "The bright star is M&A," said Dr. Robert Mittendorff, a general partner and head of healthcare for venture investor B Capital. While challenges remain, such as uncertainty and access to capital, innovation and interest from pharmaceutical acquirers are providing optimism for 2024. It's an opportune time for early-stage investing, with the potential for new obesity treatments and a recovery in the biotech industry.

Carta Stumbles: Silicon Valley's Startup Hub Considers Scouting for Competitor Solutions

Startups are exploring alternatives to Carta's services after the company's closure of its secondary trading division due to data access concerns. Competitors offering cap-table and secondary trading software are witnessing increased interest from potential clients. Concerns arose when Carta was accused of using confidential investor data to sell shares externally without consent. While Carta remains a dominant player in cap-table management, some clients are considering switching to competitors due to trust issues. The impact of this incident on Carta's standing remains uncertain, but its cap-table division remains strong.

Real Estate: Market Trends, Acquisitions, and Luxury Listings

Frederic J. Brown | AFP | Getty Images

Mortgage Applications Rise Despite Slight Rate Increase

Mortgage rates saw a slight uptick in the second week of January, but it didn't deter homebuyers. Applications to purchase homes increased by 8%, yet remained 18% lower than a year ago when rates were lower. The average rate for 30-year fixed-rate mortgages rose to 6.78%. However, refinance applications fell by 7%, with rates still higher than last year and two years ago when refinancing was more attractive. Mortgage rates have continued to rise, now averaging 6.92%. The reason for this increase remains unclear.

Dramatic Drop in Investor Home Purchases Signals a Shift in the Market

Investor purchases of single-family homes declined by 29% in 2023 due to higher interest rates and rising home prices. Large and small businesses acquired 570,000 homes during the year, down from 802,000 in 2022. This drop in investor activity aligns with a broader decline in home sales. While some believe this may represent a sales bottom, most analysts expect institutional investor purchases to remain subdued in 2024 due to tight inventory and high prices. However, some major investors are exploring deeper commitments to rentals.

Office Landlords' Hidden Tactics for Inflating Building Values

Real estate firms are using financial tactics like offering concessions to tenants and veiled discounts to boost property values amid a struggling office sector. These maneuvers, while legal, raise concerns about inflated property valuations. Analysts suggest that side agreements, cash gifts, and no-rent periods are being used to keep annual rents and building profits high, which then affect property values. As a result, publicly available property valuations may not accurately reflect the state of the market. Complex deals are making it challenging for analysts to determine true office market conditions, leading to concerns about the accuracy of property valuations.

Commercial Real Estate Faces Soaring Loan Maturities and Default Risks

The commercial real estate market faces a record level of maturing loans, potentially leading to a surge in defaults. In 2023, $541 billion in debt backed by commercial real estate came due, with over $2.2 trillion due by the end of 2027. While extensions have delayed some repayments; higher rates, vacancies, and weakening cash

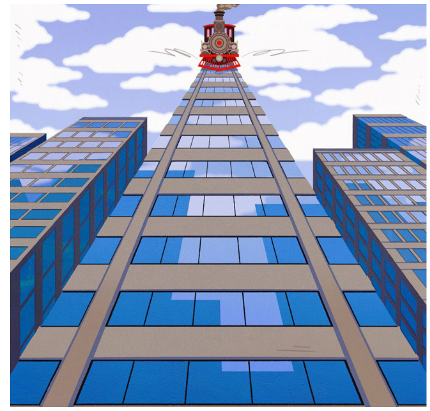

Illustration: Peter Ryan For The Wall Street Journal

flows are affecting property values. Delinquency rates for commercial mortgage loans are expected to rise, with concerns of broader financial system impact. Refinancing at higher rates remains a challenge, and borrowers may need to negotiate with existing creditors as loans mature.

Empty Offices and Shifting Trends: The New Normal in Commercial Real Estate

America's office vacancy rate has hit a 40-year high at 19.6%, driven by a legacy of overbuilding, including speculative projects in the 1980s and 1990s. The overbuilt South, particularly Texas, is hit the hardest. Firms also transitioned from private offices to open layouts, requiring less space per employee. While the pandemic accelerated this trend, it's expected to persist due to the growing popularity of remote work. San Francisco, once thriving, now has some of the emptiest offices, while Palm Beach and Fort Lauderdale have seen a reversal.

Global News: Foreign Economies, Budget Deficits and Inflation

Houthi Strikes Impact Global Trade and Supply Chains

Yemen's Houthi rebels, backed by Iran, have significantly disrupted global trade by attacking ships in the Red Sea. This has prompted military responses, including airstrikes by the US and UK. The Houthis claim to be acting in solidarity with Palestinians amid conflict with Israel. The increased risks in the Red Sea have led shipping companies to reroute, causing higher operational costs and concerns about inflation and supply chain issues. The Houthis' attacks began with targeting vessels linked to Israel but have expanded to include US and UK interests. The crisis in the Red Sea is straining transportation networks and could potentially impact energy flows and consumer prices, raising broader economic concerns.

Deflation Challenges China's Economic Growth

China is bracing for potential deflation and a prolonged economic downturn, marked by low consumer confidence and sluggish growth. Despite these challenges, the country's central bank has kept loan rates steady. The government's focus on social reform over economic stimulus suggests an acceptance of slower growth. The troubled real estate sector, crucial to China's economy, is facing a decline, with buyers delaying purchases due to falling house prices, potentially extending the market's recovery period.

Illuminated skyscrapers stand at the central business district at sunset on November 13, 2023 in Beijing, China. (Photo by Gao Zehong/VCG via Getty Images)

China Takes Bold Steps to Bolster Growth with Increased Bank Lending

China's central bank is actively working to stimulate the economy by cutting banks' reserve requirements, aiming to increase lending to businesses and households. This step, part of a cautious strategy to support growth, comes amid low confidence in the economy. However, experts believe more significant government spending and solutions to the real estate crisis are necessary for a robust recovery. The central bank's focus remains on maintaining liquidity, with fiscal policy expected to play a more prominent role in future economic efforts.

Geopolitical Fragmentation Casts Shadow on 2024 Global Economy

The majority of economists surveyed by the World Economic Forum (WEF) expect the global economy to weaken in 2024 due to geopolitical fragmentation. WEF's report highlights persistent economic uncertainty despite positive factors like easing inflation and advances in artificial intelligence. Of the economists surveyed, 56% anticipate a global economic slowdown, while 20% expect no change, and 23% predict somewhat stronger conditions. Geopolitical tensions are a key concern, with 69% of economists expecting increased geopolitical fragmentation in 2024. Inflation expectations have improved, but geopolitical factors continue to pose risks to economic stability.

Saudi Arabia's PIF Reigns as Top Global Sovereign Wealth Fund Spender

In 2023, Saudi Arabia's Public Investment Fund (PIF) led global sovereign wealth funds by spending $31.6 billion, a significant increase from $20.7 billion in 2022. PIF, with assets totaling $776 billion, actively pursued investments both domestically and internationally as part of its Vision 2030 plan for economic diversification. Other Gulf Cooperation Council (GCC) funds, such as Mubadala and Qatar Investment Authority, also ranked in the top 10 spenders. In contrast, Singapore's GIC reduced its investment activity by 37%. Emerging markets gained renewed interest from sovereign investors in 2023, with more funds expected to emerge in 2024.

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