

# Singer Wealth



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## Principal Protection

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Historically, investors have attempted to reduce risk through asset allocation and diversification. More conservative investors would increase their allocation to bonds. Mutual funds called target funds, automatically increase the portfolio's allocation to bonds as investors get older. For instance, a fund for someone who is retiring in 2030 might have 30% bonds but that would automatically increase to 50% once they reached retirement.

As we saw in 2022, holding bonds to reduce risk is an imperfect hedge. The US aggregate bond index fell as much as the stock market that year when the Fed was raising interest rates to combat inflation. If inflation increases again bonds could tank again. There are more efficient ways to reduce risk than allocating to bonds.

Defined outcome ETF's are a relatively new tool that allows investors to select their investment risk in advance. You can choose to eliminate all risk of loss in exchange for limiting your upside. As of February, the principal protected ETF, which tracks the performance of the S&P 500, allows the investor to make all the gains of the index up to a maximum of 7.77% with zero risk of loss. Each year gains are locked in, and investors get another riskless opportunity for additional gain. Historically, the S&P 500 is up about 2 out of 3 years and down the other year meaning that this strategy would have averaged over 5% per year. Additionally, all gains are tax deferred and then taxed as long-term capital gains. This has less risk than bonds and better tax treatment. If you want to take a little risk, you can choose the annual downside protection of 15%. If the index is down 18% you lose only 3%. That exchange will increase the upside potential to 16%. This would have worked out much better than the 60/40 portfolio in 2022.

Finally, if you are willing to accept the credit risk of a major bank like JP Morgan or Bank of America, you can own a three-year principal-protected note that provides 100% the gains of the stock market.

Source: First Trust

Have you heard about our Vision Quest Process? Watch the video below to learn more!

# Singer Wealth

[www.singerwealth.com](http://www.singerwealth.com)

561.998.9985



We are committed to helping you achieve your financial goals. Please feel free to contact us with any questions, comments, or a more in-depth discussion.

Sincerely,  
Keith Singer

*Singer Wealth*  
1515 S Federal Highway Suite 302  
Boca Raton, FL 33432  
(561) 998-9985  
[www.singerwealth.com](http://www.singerwealth.com)

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Singer Wealth | 1515 S Federal Hwy Suite 302 | Boca Raton, FL 33432 US

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