How to Invest
for Your
Retirement
and Sleep Well
INVESTING FOR BOOMERS
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How to Invest
for Your Retirement
and Sleep Well at Night

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Investing for Boomers provides quality online education to help you enjoy your retirement by investing wisely now.

This e-book outlines a basic investing plan to help you enjoy a better retirement.

The plan is thoroughly explained in an online course. The class covers the first two sections of this e-book: stocks and bonds.

It's a proven investing strategy in use for decades by conservative investors. You can set the whole thing up in less than an hour.

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How to Invest for Your Retirement and Sleep Well at Night

Welcome!

I'm glad you decided to read this free e-book.

This e-book is for you if

- You're age 50+
- You're not an investment professional
- You know little to nothing about the stock market
- You want to do the right thing with your retirement savings but are confused about what that is
- You want an investment plan that is easy to understand and execute

You may be worried that you haven't saved enough for retirement.

Maybe you have a nice retirement fund but worry about investing as retirement nears.

This e-book will help you gain confidence in your investment decisions and sleep better at night.

This e-book is NOT for you if

- You know everything there is to know about the stock market and investing
- You love pouring over 10-K reports and SEC filings
- You need to double your money in a hurry
- You're willing to roll the dice with your retirement fund

A Boomer Like You

My name is Ken Little, and I'm a Boomer just like you.

And, just like some of you, after a failed business and a divorce, I basically had to start over at age 50.

Luckily for me, I married a strong, supportive woman, and together we got back on our financial feet.

I’ve been writing about investing and other financial topics for a long time.

In 1998, I began writing books for beginning investors and writing online about investing in stocks.

Since then, I’ve published 15 books and posted more than 650 articles online on investing and personal finance.

I’ve taught many people how to invest — and I can teach you too!

My complete résumé is at the end of this e-book.

Four Investing Ideas

This eBook introduces you to four investing ideas that will help you reach your investment goals with less risk than trying to pick winning stocks.

When we were young, we could make investing mistakes or not invest at all and still have time left to make amends.

Once we passed age 50, we lost that margin for error.

We can’t afford investing mistakes at this stage of the game — there simply won’t be enough time to recover.

It goes without saying that these aren’t “get rich quick” schemes to double your money over night.

No “Millionaire Secrets”

If you’re behind where you want to be with your retirement fund, avoid one of the many risky “millionaire reveals secrets” scams that pop up in your email or online.

As I have said in numerous books and articles: one of the best ways to make money in the stock market is to not lose it.

Poor decisions this year can wipe out gains from previous years.

The four investing strategies outlined in this e-book are not rocket science.

They’re not new or revolutionary or cutting edge.

In fact, they’re pretty boring. But they work.

Some Say No

I can tell you right off the bat that plenty of folks out there say otherwise.

They would rather see you subscribing to their service or system. They want you selling uncovered puts or some other more sophisticated form of trading. There’s nothing wrong with some of these systems.

Some may give you better returns IF, and that’s a big if, you execute them correctly and consistently. Most require more risk than you may want to take.

Our goal is not the highest returns you can earn, which means taking an extraordinary amount of risk.

Our goal is an investment strategy that lets you sleep well at night and helps build your retirement fund with a decent return on your investments.

That strategy is one that is easy to understand and execute; otherwise, we haven’t solved the problem.

I Get It

You’re not an investment professional or market expert and don’t want to be.

The good news: you don’t have to use these strategies. These four ideas are time-proven and simple to execute.

Most people find a combination of the four makes the most sense, but don’t feel like you have to follow them.

The “Buy the Whole Stinkin’ Market” strategy works as well as most of the investing systems out there, and it’s simple and effective.

A plan you can actually follow and use is better than a more complicated strategy that you’ll have trouble sustaining.

So let’s get to it.

Introduction

Let’s face it: a looming retirement sounds great, but, to some Boomers, it’s like sailing toward a fog-shrouded rocky coast.

We know it’s there, but we can’t see it clearly enough to negotiate the rocks in the surf.

- Will I have enough money?
- What should I invest in or not invest in?
- What should I do now?
- Will the stock market sabotage my retirement fund?
- Will I outlive my retirement fund?

It may be hard to sleep with these worries in your head.

OK – time for reality check.

If you're reading this, I assume you're a Baby Boomer — age 50-plus — and you're worried about your retirement fund.

There's plenty of advice on how to build a good retirement fund online, but if I read one more article that starts off with "Begin investing early…" I'm going to puke!

Well, guess what? We don't have that option. At our age, we don't have 40 years to pour money into a retirement fund.

Many of us will be lucky to get another 15 years of productive employment.

We have to make what time we have left as an income earner count. Which means putting as much cash as you can into your retirement fund.

BTW
If you're a young person reading this: start investing now in your retirement.

The four investment strategies outlined below will help you make the most of your retirement fund investing without undue risk.

They are not exclusive of one another; you can mix it up according to your own situation.

A word about these strategies, they're easy to execute and require a minimum amount of your time.

No studying the stock markets every day or learning if a high beta is a good thing or not.

In fact, the first strategy is so simple that, once it's set up, you can forget about it with only a quick annual review and revision.

There strategies are conservative in the sense that they avoid many of the risks associated with investing in the stock market.

Does this mean they never lose money?

No, of course not. No such investing plan or scheme exists, despite what appears uninvited in your email.

Any form of investing involves some risk — or it's not investing.

What it does mean is

- Daily market volatility means nothing
- Market dips create buying opportunities
- You don't have to worry about it every day
- Your risk is much, much lower than trying to pick the next Apple

Some Caveats

Many financial advisers and stockbrokers are good, honest people working hard for their clients. Unfortunately, there are many others who do not have your best interest at heart.

If you doubt this, consider that, in 2015, the Labor Department proposed a regulation that would require a financial adviser to consider the needs of the client first, even if it meant recommending a product that paid a lower commission.

There is no law or rule that dictates that the adviser consider the client first. Well, guess what happens far too often?

If you have a good adviser, great, but understand that person's help comes with a price. There's nothing wrong with compensating someone for good advice.

Unfortunately, with the way the system works, you may be compensating someone for bad advice, such as recommending a financial product that's not right for you but pays the adviser a big commission.

Important Notice

I'm not in the business of providing individual financial advice. The strategies I outline are for your consideration and education.

In this e-book, I mention a number of stocks, bonds, mutual funds and Exchange Traded Funds (ETFs).

They're for illustration only and may or may not be right for you.

From time to time, I may own some of the securities mentioned in this e-book; most will be indirectly through a mutual fund or ETF. However, no action you take will help or hurt me financially - the market is too big for the decisions of small investors to matter.

I also mention several websites, some free and some with paid subscriptions. I'm not connected to these sites in any manner and don't get a nickel for mentioning them. All I sell is information, courses, and a few books. And, I give away more information than I sell.

OK, enough of the legal BS. Here are the strategies.

I. Buy the Whole Stinkin' Market

Not sure what to buy in the stock market?

Technology stocks?

Financial services stocks?

Health care stocks?

It can all be very confusing. Here's an idea:

Why not buy the whole market?

It can be a real challenge to make the best investment choices for your retirement.

Too aggressive, and you risk losing a big chunk of your investment capital. Too conservative, and you may not earn enough to reach your financial goals.

Investing in securities that track the whole market is one of the easiest investing strategies you can choose.

So how do you Buy the Whole Stinkin' Market?

It's easier than you think.

First, we need to define the market.

There are literally dozens of market indexes that follow a wide variety of stocks, sectors, company size and so on.

Most financial professionals consider the S&P 500 Index "the market."

However, there are other choices. Such as

- Russell 3000 (^RUATR)
  The Russell 3000 Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. stock market.
- Wilshire 5000 (^W5000FTL)
  The Wilshire 5000 Total Market Index measures performance of all U.S. equity securities with readily available price data. Despite its name, the index now covers some 3,818 stocks.

Focus on % Change

Investors typically use many indexes to monitor the whole stock market or smaller sectors. An index is a mathematical representation of how that segment changes over time. Focus on the percent change rather than the actual number. For example, if one index is at 18,900 and another is at 2,100, a 50-point change means something very different to each. index.

You'll also need the bond market covered and some foreign stocks. You can find indexes that define these areas.

Let's take a look at the stock markets.

The Stock Markets

The New York Stock Exchange and the NASDAQ list some 4,967 stocks, give or take a few because companies come and go on a regular basis.

If you must know, it breaks down like this:

- New York Stock Exchange with 1,867
- NASDAQ with 3,100

Other minor stock exchanges list a variety of other stocks, but these nearly 5,000 companies represent the "stock market" as most folks define it.

So How Do You Buy the Market?

As noted above, the S&P 500 Index is the most common definition of the stock market for comparison purposes.

The S&P 500 represents the leading companies in all major sectors of the economy.

It's the most widely used yardstick by the investing community.

You can buy several mutual funds or exchange traded funds (ETFs) that mimic the movement of the S&P 500 Index.

Here are two of the most popular:

- SPDR S&P 500 ETF, market symbol: SPY
- Vanguard 500 Index Fund Investor Shares, market symbol: VFINX

You can type the market symbol for either of these funds into any website that provides quotes and see the latest information.

How closely do these funds track the S&P 500? Take a look at this chart from Yahoo! Finance:

These three lines chart over one year:

- The S&P 500 (blue)
- SPY (red)
- VFINX (green)

If you're having trouble distinguishing between the lines, don't worry: that's the way it's supposed to look.

Where the lines show separation is explained by short-term trading activity in the SPY or the VFINX.

The investing lesson here is that, if you're OK with matching the market, an index-tracking fund is your best choice.

The expenses of both are quite low.

The Story on "Funds"

Mutual funds are pools of money collected from investors. Professional money managers invest the funds in stocks, bonds and other securities. All mutual funds allow you to buy partial shares: they are calculated to three decimal places.

Exchange Traded Funds (ETFs) are like mutual funds, except they trade like stocks: you can buy and sell them when the market is open. Normally, you can't add fractional shares. ETFs sell in lots of 100 shares.

Mutual Fund

The mutual fund VFINX lends itself to periodic investments, such as putting a fixed amount from each paycheck into the fund.

You can easily set it up as an automatic withdrawal from your bank account.

This form of investing is dollar cost averaging, and it's an efficient way to build up a retirement account over time.

You buy fewer mutual fund shares when the market is high and more shares when the market is low.

ETF

You can buy and sell the SPY ETF just like a stock, which makes it easy to get out when you need to.

SPY tracks the S&P 500 Index just as well as VFINX.

Which Is Best?

For our purposes, the nod goes to the mutual fund VFINX (or one like it).

Buying one block (100 shares) of SPY will cost you something more than $20,000, depending on market conditions.

You can open an account in VFINX for $3,000 and make subsequent deposits in any amount. Other similar funds may have a lower initial investment requirement.

The fees for the VFINX are just 0.17%, which are quite low. Avoid index mutual funds with expenses much over 0.25%.

Risks of Index-Tracking Funds

What are the risks of investing in index-tracking funds? Look at this chart:

This is a 10-year look at the previous chart. At this level, there is no distinction among the three indicators.

Notice that big dip in the chart? That's the financial crisis of 2007–2008.

The market lost almost 50% of its value in that disaster. As you can see, the market recovered those losses and went on an extended bull run.

Timing Is Everything

The problem is timing. If you were planning to retire in 2008 or shortly thereafter, you were in a world of hurt.

It took from the spring of 2007, just before the crisis, to the summer of 2013 for the markets to recover the loss. That's about six years to get back what you lost. Admittedly, this was a "once in a lifetime event" that I hope we won't see again.

People who used different investing strategies may not have done any better — and many did a lot worse.

In fact, what happens most often is investors watch the stock market slip lower and lower. At some point, they can't stand the pain and they sell.

As the market hits bottom and starts its climb out, investors jump back in, fearing they'll miss gains as the market climbs.

Market timing: a dangerous game

Market timing is a strategy of picking the best time to buy (lowest price) or sell (highest price). It's not a game for amateurs. You are better off not trying to guess when to get in or out of the market. The market always wins in the end.

By the time they realize the market is climbing — it's never a straight line up or down — they've missed most of the opportunities to profit.

They often end up paying premium prices for stocks they could have bought cheaper or simply held on to through the downs and ups.

Thus executing the buy high and sell low maneuver.

Not the formula for investing success.

Smart Move

The stock market record is clear: holding on through the bear markets is smarter than trying to cash out on the way down and buy on the way up.

The Buy the Whole Stinkin' Market strategy depends on leaving your index funds alone through the dips.

If you’re going to do index-tracking investing, be prepared for the ups and downs.

And, stick with it. Don’t panic if there is a big sell-off and sell your shares when prices are low.

You’ll actually be buying more shares when prices are low, which is a good thing. As the market recovers those shares will grow in value.

Investors who stuck with their investing program in VFINX or other tracking fund, recovered all their money, and participated in one of the truly great bull markets of modern times.

The issue for people approaching retirement is timing. They may have been planning on pulling money out of the market (their retirement fund) just when a severe downturn happens.

To avoid getting caught in a market meltdown just before you retire, begin shifting your assets out of stocks and into more stable investments such as bonds.

Think of it as easing up on the gas pedal when you’re driving and there’s a red light up ahead.

What Percent of Your Fund?

Index-tracking funds can be a significant portion of your fund when combined with bonds (index-tracking funds or individual bonds).

A rule of thumb is 100 minus your age = percent of stocks in your fund.

A proper mixture of stocks and bonds is the best combination for your retirement account.

And you can do it all with index-tracking funds.

II. Bonds, Bonds, and More Bonds

While stocks receive the most attention in building a sound retirement fund, bonds play an equally important role.

In fact, if you don't have a solid bond strategy, you might be setting yourself up for a nasty surprise if the stock market does one of it regular swan dives just when you need the money the most.

Before we go on, let me clear up some confusing ideas about bonds.

Bonds are debts — IOUs, if you will — issued by the U.S. Treasury, state and local governments and governmental agencies, and corporations.

You're the lender when you buy a bond, so you best know something about the borrower.

Bonds are a legal obligation that must be repaid. If a company files for bankruptcy, bondholders get the first crack at repayment when the remaining assets are sold.

Any remaining cash may go to the shareholders.

Types of Bonds

A variety of entities can issue bonds to raise money:

- The U.S. Treasury and its agencies: this is how we pay for government not covered by tax revenue
- State, county, or local governmental units, called municipals (or munis for short): these bonds pay for streets, sewers, and other improvements
- Corporations: corporations issue bonds as a way of borrowing money for expansion, acquisitions, and so on

Bond Terms

Issuer – the entity that issues (sells) the bond originally.

Maturity – when the bond's issuer pays a bond's owner the face value.

Face value – what you pay for a bond when it's issued and what you receive when the bond matures.

Dividend or interest rate – the annual interest the bond's issuer pays the owner.

Yield – This is a computed interest rate for bonds sold on the secondary market. It changes based on the price of the bond in the secondary market.

How to Invest in Bonds

There are three broad ways to invest in bonds:

- Own them outright
- Buy them through mutual funds or ETFs
- A combination of the above

Let's look at the advantages and disadvantages of each.

Own Them Outright

You can buy bonds two ways:

- When they're issued
- In the secondary market

Bonds are issued once and then expire at maturity. This differs from stocks that are issued once and resold time and again.

They only disappear when the company buys the shares back, is sold or merges, or the company ceases to exist.

Like stocks, once bonds are issued, they can be sold and resold.

However, at maturity, the bonds are paid off and are gone.

For example, a 10-year bond issued in 2015 may be sold and resold several times, but, in 2025, the issuer must repay the face value of the bond to the current owner.

The Secondary Market

The secondary market for previously issued bonds is robust and active.

It's also not the place for do-it-yourself investing.

If you want to buy an individual bond (other than U.S. Treasuries), you'll want the help of a broker who specializes in buying and selling bonds in the secondary market.

The broker can help you find a bond that fits your particular needs.

A note of caution:

You can trade bonds just like stocks, but don't.

The bond market is not like the stock market, which makes it even more dangerous for nonprofessionals.

You can use most online brokers, but figuring out which bonds to buy is your responsibility.

Many brokers who buy and sell bonds carry an inventory of bonds they own.

They can often find a bond that meets your requirements — size, maturity, dividend — in their inventory.

This means you can usually buy a bond(s) fairly quickly unless you want to buy a bond at issue.

One of the big problems in buying and selling bonds is the lack of price transparency. Unlike the stock market where stocks are re-priced constantly during the day, there is no such pricing mechanism for a bond available to retail buyers (non-brokers).

You'll hear a lot of noise in the news media about bonds "rising and falling" in value, especially when interest rates are changing.

If you're trading bonds — buying and selling bonds in an attempt to profit on price changes — these news reports mean something.

Investor or Trader

But, to the bond "investor," the fluctuation in bond prices and yields means nothing. The bond investor will likely hold a bond until maturity, whether the bond was bought at issue or in the secondary market. The risk is the issuer will default, which means they can't repay you the full face value of the bond.

Pick the right bonds and that risk is small.

Here's How That Works

If you buy a five-year, $10,000 bond that pays a 3% dividend each year, you'll receive $300 each year until the bond matures.

If interest rates go up, your bond is worth less (because it pays a lower interest rate), but that only matters if you want to sell the bond before maturity.

Your bond will continue to pay $300 per year until the bond matures, and then you'll receive the face value: $10,000.

So don't be confused when the media talks about the price of bonds falling (or rising). Your bond will still pay you its face value at maturity, assuming the issuer doesn't default.

Bond Ladders

You want to earn the best interest rate possible, but do you wait for rates to go up before buying bonds? What if interest rates don't go up?

One of the ways to combat this without having to guess about bond interest rate changes is to use a bond ladder.

A bond ladder is a way to structure your purchases to get the best rate available every year.

Here's How It Works

Say you have $50,000 to invest in bonds. Rather than buy one $50,000 bond, you create a bond ladder instead.

Buy five different $10,000 bonds with different maturities:

- Buy one bond that matures in one year: when it matures, buy a five-year bond
- Buy one bond that matures in two years: when it matures, buy a five-year bond
- Buy one bond that matures in three years: when it matures, buy a five-year bond
- Buy one bond that matures in four years: when it matures, buy a five-year bond
- Buy one bond that matures in five years: when it matures, buy a five-year bond

Caution

Be sure to tell your broker you want a bond that matures in five years, NOT a five-year bond. You might accidentally buy a five-year bond that's only two years from maturity. That's not what you want.

When the one-year bond matures in 12 months, buy a five-year bond.

When the two-year bond matures in 24 months, buy a five-year bond.

Repeat this process every year and you're buying a new five-year bond every year.

Every year you're getting the best rate for your five-year bonds because you're buying a new one every 12 months.

You can adjust the number of bonds, but five is pretty much the minimum.

You don’t want to go below a five-year maturity so you can get a decent rate each year. The longer the bond’s term, the higher the interest rate.

Highly rated corporate bonds work great with this strategy. For super-conservative investors, U.S. Treasury Notes are a no brainer.

Buy Bonds Through Mutual Funds or ETFs

Like stocks, you can own bonds through mutual funds or ETFs. This is a popular way to own bonds if you don’t want to fuss with individual bonds.

Except owning bonds through a fund is not the same as owning the bond outright. Here’s why.

When you own a bond outright, you can hold it until maturity and receive the face value at maturity.

Bond funds never “mature.” The fund managers buy and sell bonds based on whether money is flowing into the fund or out.

If you want to sell or redeem a bond fund, you may or may not receive what you invested. Bond mutual funds and ETFs can lose money.

If you own the bond outright, you know it will mature in a certain number years and you’ll receive the face value (what you invested if you bought at issue).

Bond funds (both mutual funds and ETFs) track bond indexes but also build portfolios that have an objective or bond type in mind.

Bond Indexes

There are dozens of bond indexes, but the main one many investors look to is Barclays Capital Aggregate Bond Index.

This Barclays index is widely regarded as representing investment grade bonds in the U.S.

If you’re looking for a bond index fund, search for one that tracks this index. However, other bond funds that are not index funds are also good possibilities.

Bond funds offer diversification, which, like stocks, is difficult to achieve for individual investors.

Both funds pay monthly dividends, but expenses may differ: remember how important low fees are to good returns.

Since bond ETFs trade like stocks, they may make sense if you have short-term objectives.

Like stock mutual funds, bond mutual funds allow you to invest incrementally over time, which is a great way to build a presence in bonds.

U.S. Treasuries

You can buy U.S. Treasuries directly from the Treasury Department. It's easy to open an account and buy Treasury issues. No broker is needed.

Go to http://www.treasurydirect.gov/ and open an account online quickly and conveniently.

U.S. Treasuries are the safest investment you can make and are the standard all other opportunities are judged by.

The "full faith and credit" of the U.S. government backs these bonds.

Because they are so safe, U.S. Treasury issues pay the lowest of all interest rates in the bond market.

U.S. Treasuries are a great "sleep at night" addition to your portfolio. This is especially important if you're retired and are more worried about losing money than making money.

Types of U.S. Treasury Issues

The U.S. Treasury issues a number of different types of debt securities. Here are the main three, according to the Treasury:

Treasury Bills: Treasury bills are short-term government securities with maturities ranging from a few days to 52

weeks. Bills are sold at a discount from their face value.

Treasury Notes: Treasury notes are government securities that are issued with maturities of 2, 3, 5, 7 and 10 years and pay interest every six months.

Treasury Bonds: Treasury bonds pay interest every six months and mature in 30 years.

Bond Ratings

How do you know if a bond is “safe” from default?

Three independent companies rate a bond issuer’s ability to repay the bond and interest. The three companies are:

- Moody’s Investors Service
- Standard & Poor’s
- Fitch Ratings

Each company has a system for assigning a score to the bond issuer.

The score tells you how likely the issuer is to default on the bond.

Bonds are rated before they are issued. A high rating means the issuer has to pay less in interest.

Lower-rated bonds must pay a higher interest rate to attract buyers. Higher risk = higher rates. Even after a bond is issued, the rating companies can change their score if conditions merit a change.

Here’s a chart of the top ratings and what they mean from the three bond rating companies:

Moody's	Fitch	Standard & Poor's	What the Ratings Mean
Aaa	AAA	AAA	Investment Grade: These bonds are judged to be of the best quality. They carry the smallest degree of risk. Interest payments are protected by an exceptionally stable margin and principal is secure.
Aa1 Aa2 Aa3	AA+ AA AA–	AA+ AA AA–	Investment Grade: The issuer's capacity to meet its financial obligation on the bond is very strong. It differs from the highest-rated obligors only to a small degree.
Aa1 Aa2 Aa4	A+ A A–	A+ A A–	These bonds are judged to be of high quality by all standards. Margins of protection may not be as large as in higher-rated securities.
Aa1 Aa2 Aa5	BBB+ BBB BBB –	BBB+ BBB BBB –	Although these bonds are somewhat more susceptible to the adverse effects of changing economic conditions, the issuer's capacity to meet its financial obligations is strong. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

All three rating agencies have lower scores they apply to questionable bond issuers.

I strongly suggest you avoid bonds that are not rated in one of the rankings listed above.

A sense of security is one of the main benefits of owning bonds.

Low-rated bonds have a higher chance of default, meaning you lose part or all of your money.

Don't go chasing a higher interest rate with a lower-rated bond: you don't need the extra risk of loss.

Conclusion

There is some debate in financial circles about how much you should have invested in bonds. Especially in low-interest environments, bonds suffer when compared with stocks.

However, when done right, a portion of bonds will help you stabilize your portfolio and provide a monthly income.

This is only a brief overview of bonds. There are many different types of bonds, some suited for Boomers and others that are not.

Extra Points

Give yourself extra points if you got the reference in the photo of a martini at the beginning of this section.

The Basic Investing Course

My basic investing course: *How to Invest for Retirement and Sleep Well at Night* covers investing in stock and bond index mutual funds.

It shows you which funds to buy and how to create a portfolio balanced between the growth stocks offer and the safety of bonds and cash. Learn More Here

The next two topics, dividend investing and non-cyclical stocks are for investors willing to do a little more work and take a little more risk.

Enrollment in these courses opens soon.

Get early-bird notice of new courses here.

III. Dividend Divas

Dividend paying stocks are one of the best ways to develop a strong portfolio over time.

Investors who pick strong companies that pay good dividends find their portfolio growing at an impressive pace.Companies share profits with shareholders through dividends.

Dividends are normally paid four times a year, and the board of directors sets the amount. For example, if the board of directors declares a $2 per share dividend, shareholders owning 100 shares receive dividend checks four times a year, each for $50. ($2 x 100 shares = $200 / 4 = $50 per quarter)

So, in addition to any increase in stock price, dividends provide an extra margin of return to investors.

Even if the stock's price drops, regular dividends help cushion the loss.

It should be noted that, while most companies pay dividends four times a year, some companies pay monthly.

For a list of companies that pay monthly dividends, go to Dividend.com.

DRIPs Are Good

Companies that pay consistent and, in some cases, increasing dividends are typically large, well-established companies.

Many of these companies offer what is called the dividend reinvestment program (DRIP). If you don't need the cash right away, DRIPs are a great way to build wealth over time.

Here's how it works. Using the example above, you can receive $200 in the form checks, like I mentioned above, or you can reinvest that dividend back into the company to buy more shares.

A DRIP takes your dividend and purchases more shares of the stock. Here's a simple example of how this works.

Using our example above, you own 100 shares of stock that is selling for $100 per share. You receive a $200 annual dividend. With a DRIP, the company buys more shares of the stock rather than send you a check.

After the DRIP, you own two more shares of stock, bringing your total up to 102 shares. If the board declares another $2 per share dividend for the next year, you'll receive $204, which can then be reinvested in company stock.

If the company maintains a consistent or increasing dividend, you'll buy more shares of stock with each passing year and earn a larger dividend payout the next year.

How effective are DRIPs?

Here's an example from Dividend.com:

If you had $2,000 invested in Pepsi in 1980, it would have been worth more than $150,000 by the end of 2004. You would have started with 80 shares, but, by reinvesting dividends, you'd now have 2,800 shares.

Unlike buying shares outright, you can own partial shares through a DRIP.

Over time, a DRIP can increase your wealth by buying extra shares of the stock with no broker commission every time a share is added to your account.

Not all companies offer a DRIP, but most brokers will reinvest your dividends for you automatically.

For good dividend-paying stocks over a long period, reinvested dividends make up most of the gains. How much more? In some cases, 75% of the gains over a long period.

Important note: you're still liable for the taxes on dividends even if you don't receive the check. However, as with all things taxes, consult a qualified expert — and that would not be me.

Your Best Strategy

In the best of all worlds, you would pick a stock that paid a consistent and growing dividend and whose stock price was rising.

Picking the "right" stock is one of the most difficult tasks facing even professional investors.

Hundreds of factors come into play.

The "Buy the Whole Stinkin' Market" strategy is so popular because it removes this problem.

However, if you want to kick up your income from dividends, you'll have to pick some stocks and not an index.

While it's true you can earn dividends with broad market index funds, your portion is much smaller compared with owning the individual stocks.

The reason is that, when you own a broad market index fund, you own stocks that pay dividends and stocks that DON'T pay dividends. Also, your interest in the fund will be a tiny percentage of the fund's total.

Real Estate for Income?

Real Estate Investment Trusts (REITs) are a special security that trades like a stock but looks more like a mutual fund.

Without going into great detail, these funds invest in real estate and pass the income to the shareholders. Many mutual funds and ETFs invest in them for their income.

I would not recommend them for most people because they take some expertise to evaluate.

Here's an example: You open an account with a broad market fund with $3,000. The current NAV or share price is $193. Your $3,000 buys 15.544 shares. ($3,000 / $193 = 15.544)

The quarterly distribution of dividends is $0.92 per share. Your dividend is $14.30 or $57.20 annually. ($0.92 x 15.544 = $14.30 - $14.30 x 4= $57.20) These are actual numbers from a fund.

For the same $3,000, you could by 100 shares of General Electric, which traded for $27.18 per share at the time of writing ($2,718 plus commission).

GE pays an annual dividend of $0.92 per share or $92 annually per 100 shares.

Of course, investing in a broad market index fund and an individual stock are two different things. So it's not exactly an apple-to-apple comparison.

However, the point is correct: if you want to drive up dividend income, individual stocks are the way to go.

But, if you don't want to mess with finding a dividend-paying stock to buy, you can always go with a fund that invests in just dividend-paying stocks.

Dividend Mutual Funds and Exchange Traded Funds (ETFs)

Dividend mutual funds and ETFs invest in dividend-paying companies and pass most of the distributions on to you.

Mutual Funds

Like all mutual funds, there are expenses involved and fees to pay. Fees for dividend mutual funds are higher than index funds, but they should not be out of sight.

An expense ratio of 1.5% or less should be your cutoff point. Some funds invest in foreign stocks, and their expenses will be on the high end of that number.

Dividend mutual funds have the advantage of offering dollar cost averaging, which is a great way to invest. They are superior to index funds because all of their holdings are paying dividends.

This is another relatively painless way to invest for dividends: just be careful of the fund's fees, which drain your return.

Also pay attention to the fund's holdings. Some funds invest heavily in real estate companies. This can work very well when real estate (mainly commercial) is active.

But having a large percentage (or most, in some cases) of the fund's assets in one industry adds an element of risk.

Dividend ETFs

Dividend ETFs are structured much like dividend mutual funds. They invest in dividend-paying stocks and other securities.

Since they trade like stocks, you can exit one quickly if needed, while it's a little more time consuming to get your money out of a mutual fund (but not much more).

Like mutual funds, ETFs often concentrate in a particular industry (utilities and REITs, for example). Some invest in foreign stocks, which adds a measure of diversification.

Your Best Strategy

If you're going to use a fund for dividend investing, I suggest you stick with a mutual fund. ETFs have their place as an investment tool, but I believe nonprofessional investors are better off with mutual funds.

The reason is the same as I stated earlier. You have a lower threshold to open an account, and you can add money on a regular basis to build wealth over time.

Watch expenses and where the fund invests (what industries, countries and so on).

IV. Non-Cyclical but Not Nonsensical

The economy moves in cycles.

Sometimes it's robust and busy with consumers spending like there's no tomorrow.

At other times, things get tight: unemployment increases, businesses become cautious, consumers nervous.

Of course, there are 50 shades of the economy that range from searing growth to frozen depression.

Some stocks respond better in booming economies, while others do well when things slow down.

This is where we get the broad definition of cyclical and non-cyclical stocks.

A cyclical stock's price correlates well with a growing economy: think non-necessity consumer goods.

While a non-cyclical stock's price outperforms when the economy is shrinking: think electricity and toilet paper.

There are many things you can put off when the economy is slow and you're watching your spending, but you won't stop eating or bathing.

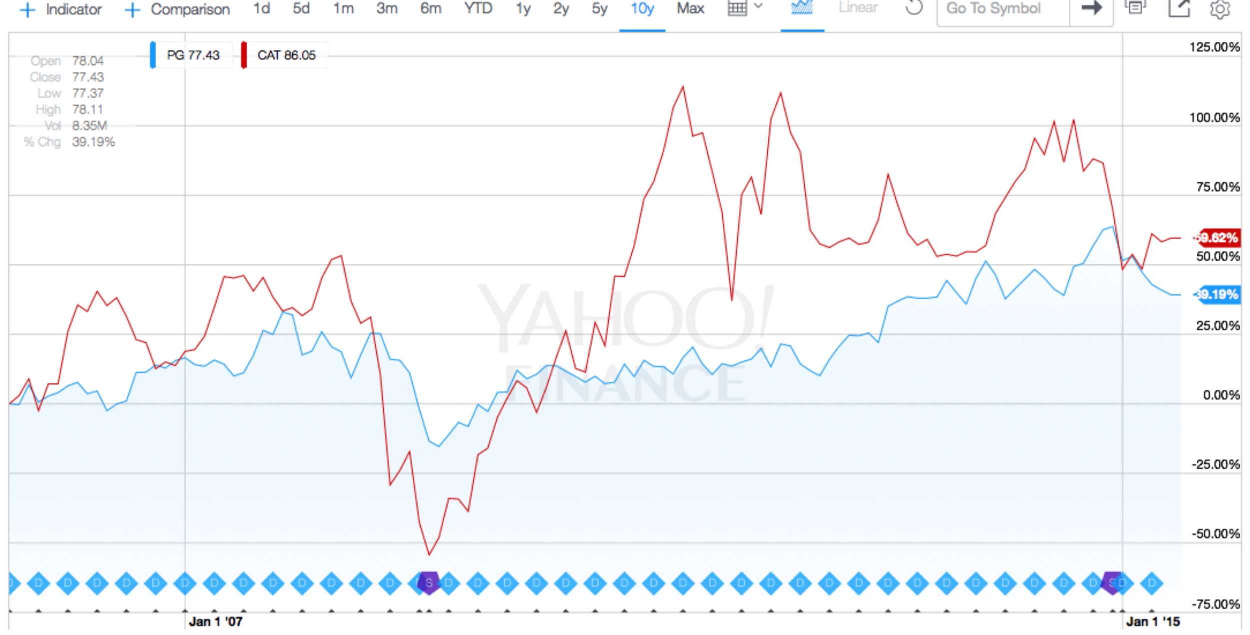
So non-cyclical stocks are defensive. You can add protection to your portfolio by increasing the percentage of non-cyclical stocks.

What Does This Look Like Over Time?

Proctor & Gamble (PG) has been around for decades producing goods you use every day, whether the economy is good or bad.

Caterpillar (CAT) manufactures heavy construction equipment and some consumer goods, such as home and garden tools. It's definitely a cyclical stock tied to the business cycle.

The following chart looks at 10 years and illustrates the performance difference between cyclical (Caterpillar) and non-cyclical stocks (Proctor & Gamble).



Proctor & Gamble is blue and Caterpillar is red.

Notes about the chart:

- This chart indicates the percent change from the beginning of the period to the end, so both stocks begin at 0%.
- Notice the big dip about one-third of the way in from the left. This is the 2007–2008 financial crisis. Both stocks fell, but the cyclical Caterpillar falls farther and faster.
- Both recovered, but the P&G stock's recovery was a slow, steady rise, while Caterpillar has a much more "peaks and valleys" recovery.
- This chart is not about how one stock is better than the other. It shows how a non-cyclical stock typically follows a less dramatic path.

Non-cyclical products:

- Food
- Beverages
- Tobacco
- Paper products (you know the one I'm talking about)
- Toothpaste
- Soap
- Electricity, gas, water

For many of us Boomers, less drama in our lives (and particularly in our investments) is a good thing.

It's not a bad thing to settle for a lower return in exchange for less risk. By shifting some of your portfolio into non-cyclical stocks, you add some protection from a major dip in the stock market.

Funds

You can own individual non-cyclical stocks like P&G or you can buy a fund that focuses on these types of stocks.

Mutual funds and Exchange Traded Funds (ETFs) offer several possibilities.

Dividends

As an added bonus, many non-cyclical stocks also happen to pay good dividends. These tend to be older, more established companies with solid market share and lots of cash coming in.

They're just like the Dividend Divas we looked at earlier in this e-book.

Less volatility and dividends too! What's not to like?

Your Best Strategy

Investing in non-cyclical stocks, whether directly or through a fund, is a conservative strategy. If your risk tolerance is low, you'll want more of your retirement fund in these stocks than in growth stocks, for example.

Stick with household name companies.

Non-cyclical stocks are also a way to *slow down* your portfolio the closer you get to retirement when protecting what you have becomes more important than high growth, which always comes with more risk.

V. Summary

You can create an investment plan that works for you using these four ideas.

You can sleep better knowing your retirement funds are in conservative, proven investments.

The hard reality is if you're way behind in saving for retirement, there's no easy way to fix the problem.

You can take some steps to improve your situation:

- Put your money to work using these four investing ideas
- Put as much cash into your retirement plan as possible
- Look very hard at your spending and set a goal to reduce it by 25%: invest the savings
- Consider working a few more years, even part-time will help
- Know when to begin claiming Social Security benefits: don't even consider starting before your fully eligible date (66 or 67 for most)

You may know other steps that fit your personal situation.

The most important thing is to begin NOW. Waiting is a luxury we don't have.

Ken Little Resume

And now, for the part you've all been waiting for, my resume:

I've spent a good portion of my professional life writing and editing investing and personal finance content for newspapers, magazines, the Internet, and books.

From this experience, I have learned that the best approach is to begin with the basics and build on that foundation. Motivated individuals become confident investors if they understand basic concepts.

I believe that most individuals can become confident investors with access to the correct information presented in an organized and easy to understand format.

This information will not make anyone an investment professional, however it will provide readers with the tools they need to ask intelligent questions and make informed decisions.

The steps that brought me here include:

- Business editor of the San Antonio Express-News
- Vice President of Marketing and Communications for USAA
- Chief financial writer for Strong Mutual Funds (now part of Wells Fargo)
- Consultant to several large financial services companies
- Writer/editor for About.com Stocks website
- Author of 15 books on investing and personal finance

My books are available from Amazon.

Investing for Boomers provides quality online education to help you enjoy your retirement by investing wisely now.

This e-book outlines a basic investing plan to help you enjoy a better retirement.

The plan is thoroughly explained in an online course. The class covers the first two sections of this e-book: stocks and bonds.

It's a proven investing strategy in use for decades by conservative investors. You can set the whole thing up in less than an hour.

Learn more about this class and others at:

www.investingforboomers.com/courses