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Be Wary of the I Fund

A fundamental principle of investing is to diversify your holdings between stocks and bonds, as well as other assets such as precious metals or real estate. Investors can increase their diversification further by including some International Holdings. The TSP offers plan participants the possibility to invest internationally through the I Fund.

The goal of the I Fund is to match the performance of the MSCI/EAFE world index. This offers investors the chance to own equity of more than 1600 companies in over 20 developed countries, excluding the United States. In comparison, the objective of the C Fund is to match the performance of the Standard and Poor's 500 (S&P 500) Index, a broad market index comprised of 500 medium to large-sized U.S. companies. If you compare the returns of the C Fund to that of the I Fund you'll probably notice the stark contrast in return rates despite the risk of investing being similar in both funds. The 10-year average return for the I Fund is 5.85%, and year to date return is 3.37%. Compare that to a 10-year average return for the C Fund of 13.59% and a year-to-date return of 13.93%. These returns are published on the TSP website as of 12/02/2020.

One way to measure the risk associated with a portfolio or stock is to review its beta rating. Considering that both the C and the I have about the same risk or beta rating of approximately 1, it begs the question of whether the I Fund is really the best place for your money. For those of you who have selected one or more Life-Cycle funds to invest in, I highly recommend reviewing just how much of the fund is invested in the I Fund to decide if you are comfortable with it. For example: 21.04% of the 2030 Life-Cycle Fund is invested in the I Fund. I really think it is worth taking the time to put your own mix together using the five funds available and relying less on the Lifecycle models.

Just as a reminder, the TSP has implemented more flexibility for partial withdrawals for those of you separated from service or still active and over the age of 59 ½. This could provide you with the opportunity to deploy a portion of your account outside of the TSP and possibly into some select international markets or investments that you may benefit from.

I am available for a consultation free of charge to PMA members, which includes reviewing your retirement scenario and helping you make important decisions such as:

- When to claim your social-security benefit.
- Determine if your financially ready to retire.
- How to reduce taxes for your heirs.
- TSP allocation that is consistent with your goals and risk tolerance.
- The election of a survivor annuity at retirement.
- Review information about trust & wills.
- Analyze your FEGLI coverage and provide options for private life insurance if needed.

For those of you who would benefit from ongoing support from a Certified Financial Planner, you can retain my services at a reduced fee available to all PMA members. Whether you are interested in options for transferring funds out of the TSP or would like guidance for effectively managing your money remaining in the TSP, there are ways for me to assist you in any scenario.

All Securities Through Money Concepts Capital Corp., Member FINRA / SIPC
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