

# Research on the Retirement Strategy Based on the Characteristics of Asset Class

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**Abstract.** The distribution of asset classes continues to draw attention from the general public, and available statistics show that prospective retirees frequently make costly mistakes when handling their retirement plans [1]. Therefore, this paper analyses and describes retirement plans and incorporates the attributes of asset classes with retirees' individual conditions to build retirement strategies. This paper mainly studies five investment asset classes, identified as cash asset, credit asset, property, equities, and alternative assets, whose performances are different in risk, yield and liquidity. Due to these varied features and characteristics of the various asset classes, time horizons, spending habits, and diversions may affect asset allocation in retirement investing plans. This paper examines retirement planning through the perspective of asset classes. In terms of practical application, the significance of this study lies in its potential to offer investment guidance to social retirees, and it conceptually increases the research literature on the subject of the asset allocation of investment plans.

**Keywords:** Asset classes, retirement planning, time horizon, spending habit, diversification.

## 1. Introduction

A class of assets is a system for categorising diverse types of investments based on predetermined criteria [2]. A class of assets is a collection of assets that stand out from other assets by sharing a few key characteristics [2]. There are many different forms of asset classes: property investment (real estate), cash and cash equivalents, equities (shares), bonds, commodities, patent rights, copyright holders, and objects that can be conserved, appraised, and traded (silver and art collectables) [3]. The majority of investment sectors would classify real estate, collectable works of art commodities, natural resources, hedge funds, private equity, other financial derivatives and even cryptocurrencies like Bitcoin as Alternative Assets. Alternative investments may be less liquid than traditional investments due to their substitutability, and they may also require a longer investment horizon to reflect significant value [4]. Additionally, tangible and intangible assets that investors who purchase and sell to generate short- or long-term income are included in the category of investment assets [5].

In general, assets that share similar characteristics and are subjected to the same laws and regulations can typically be grouped together. The market improves the relevance or comparability of the effectiveness of assets belonging to the same class. An asset class can be defined as a collection of comparable financial instruments. Furthermore, the relationships between asset classes are often so weak that they occasionally result in a negative correlation [6].

In China, using the retirement strategy as an illustration, tax-deferred pension insurance benefits are divided into a variety of asset classes, including liquid assets, fixed income assets, shares, and alternative instruments. The tax-deferred pension insurance funds are urged to make investments in sectors that adhere to national policy and industrial requirements. [7].

The remainder of the paper is divided into the following sections. The second section presents the features of the vital asset types. The last section investigates retirement planning through the lens of asset attributes. The fourth part contains the argument. Finally, section 5 marks the conclusion of the article.

## 2. Analysis of The Characteristics of Main Asset Classes

Each asset class will exhibit specific risk and return traits and will operate differently in a variety of market circumstances. Through asset class diversification, investors typically strive to lower portfolio risk and improve return performance [8]. Cash assets, fixed income/credit, real estate, equities, and alternative assets are the main asset groups for investments, with risk levels ranging from low to high [8]. This paper analyses these assets from the perspectives of profitability, liquidity and risk, as shown in Table 1.

**Table 1.** asset classes characteristics

Assets classes	Profitability	Liquidity	Risk
Cash asset	Media	High	low
Credit asset	Depending on credit asset types		
Property	High	Low	Low
Equities	Depending on equity's types		
Alternative asset	Media	low	Media

### 2.1 Cash asset

Treasury securities, money-market funds, deposit certificates, and other assets that are easily convertible into cash are all considered to be "cash assets" [8]. From a financial and investing perspective, talking about cash assets is typically regarded as a necessary component of creating a portfolio because cash offers significant advantages. Cash is susceptible to inflation, but it is not exposed to capital risk, which is the likelihood that a company would lose money on an investment in fixed assets [8]. As a result, its value may be characterised as stable. Cash assets can be swiftly converted into cash or equivalents due to their liquidity. When periodically reviewing investing possibilities and reallocating funds to new investments or investors, this is especially helpful. Last but not least, if market conditions are bad for a corporation, cash may be used to cover ongoing expenses or revenue instead of continuing or starting new investments [9].

From society to cash assets, cash also helps society flourish by providing given groups with a certain amount of money. Consider credit unions, where low-income households can obtain loans at reasonable rates thanks to their financial reserves [8].

### 2.2 Credit asset

The credit asset class consists of fixed-income securities, asset-backed securities, and other financial instruments. A class of assets and securities known as defined income offers investors a specified quantity of cash flows, frequently in the form of fixed dividends or interest. When a fixed-income investment matures, an investor may get more money or interest costs [8].

Different types of credit assets have differing levels of risk attached to them. Since governments in developed nations are less likely to collapse, government bonds are frequently seen as low-risk investments. On the other hand, government bonds are not risk-free because of the influence of policies and economic situations. The risk associated with Asian government bonds increased significantly during the 1997 Asian financial crisis. Moreover, the risk associated with bonds issued by nations with low credit ratings is not insignificant [10]. For instance, Greece's obligation to make bond payments in 2012 was not met. Most corporate bonds are riskier than comparable government bonds. Investors in corporate bonds can earn a higher return by taking more risk owing to this diversity in risk [11].

Fixed-rate bonds have a significant risk known as interest rate risk, that refers to the possibility that variations in interest rates may result in a rise or fall in the market value of the shareholder's bond. If interest rates drop, the value and demand for bonds will rise. Instead, interest rates rise and investors will no longer prefer the lower fixed interest rate provided by bonds, which would cause the price of bonds to decline [15].

Although a credit asset's return may not be as high as that of stocks, its risk is lower. As a result, it is often thought of as an essential component of a portfolio. It is possible to use a predetermined profit as a return to balance profits during market downturns. In this situation, it has a lower investment risk, especially for portfolios with a negative correlation [17].

### 2.3 Property

The property is made up of commercial real estate, undeveloped land, rental properties, and other real estate acquisitions and investments [12]. Direct real estate purchases by investors are feasible, but they are expensive and complex to do so. Consequently, these investments frequently take the form of shares or mutual funds in public companies and real estate corporations. Nevertheless, investors cannot always be able to buy the stocks they want [8].

Real estate investments could provide investors with a stable source of income because the majority of buildings are leased on a long-term basis. Moreover, real estate also offers a better rate of return than fixed income and is less risky than equities. Consequently, investors favour this investment strategy [8]. Contrarily, real estate investing has its own set of risks, such as a lack of liquidity. Real estate transactions are drawn-out; therefore, substantial trading costs, an extended holding period, and a poor turnover rate are appropriate. Its volatility is consequently limited. As a result, investors are eager to make investments in these assets through mutual funds and securities [8]. Another concern is Covid-19's detrimental influence on real estate investment. Since the COVID-19 outbreak, businesses, including supermarkets, have been closed due to restrictions and lockdowns in some areas. Additionally, the requirement for commercial facilities like offices has decreased as work has shifted from in-person to online settings. Due to these circumstances, returns on real estate investments will be lower [13].

### 2.4 Equity asset

Equities, commonly referring to as stocks, are a share of the ownership of a publicly listed corporation. By either receiving dividends or selling their shares at a premium, investors can profit [14].

To gain exposure to a number of companies, investors purchase stocks directly or through mutual funds. Investors are becoming highly interested in purchasing investment equity assets. Initially, a fund is a kind of investment which is made up of numerous shares of a business. It might lower the risk of an investment. Second, funds make it possible for small investors to make inexpensive investments in a variety of stocks. Finally, funds have sophisticated portfolio management abilities. A charge is paid by mutual funds investors to hire knowledgeable portfolio managers to acquire and sell stocks. These institutional investors have extensive trading expertise [14].

Equities are a crucial part of a portfolio for investors and one of the most essential factors of producing sustainable returns. Stocks are high-risk compared to other forms of investing [14]. The stock risk may be harmful to the growth of businesses, an organisation, or even the market as a whole. The stock risk of giant corporations is frequently lower than that of small corporations due to the fact that small businesses have lower brand recognition liquidity and shorter trading periods, and are more prone to declare bankruptcy. Young enterprises have a higher possibility of failing, but they also have more excellent growth prospects, which makes it easier for investors to earn larger returns [8].

### 2.5 Alternative assets

Alternatives are valued assets that keep their value over time. They are also known as the marketable commodity asset class. Materials, renewable energy, livestock, and agriculture are the

four broad categories of goods traded at alternatives. Additionally, alternatives may carry an enormous risk compared to the other four financial asset types [15].

It is possible to use alternative assets to lower the portfolio risk connected with other asset classes. Consider the situation with gold [15]. Although gold is frequently perceived as a riskier investment than stocks, the gold market is unaffected by volatility in the stock market. Consequently, incorporating gold into a portfolio helps lower the risk associated with investments. Alternative Assets may also help diversify portfolios and introduce investors to a variety of industries [8].

### **3. Analysis of retirement planning based on asset characteristics**

#### **3.1 Retirement planning**

Retirement planning is a multi-step process that develops over time. It relates to the financial strategies of earning, investing, and finally allocating money in order to maintain oneself in retirement. Seniors' self-assurance in their capacity to manage the changes that come before retirement may increase as a result. Additionally, improving employee comfort and their capacity to generate income entails retirement planning. Numerous famous investment structures, including individual retirement (IRAs) and 401(k)s, provide retirement investors with tax-advantaged opportunities for capital growth [16]. Although 62 is the earliest age at which one can start receiving retirement benefits and social security, the average retirement age in many nations is higher than 65. Besides, people should save 15 per cent of their gross income year starting in their twenties and continuing until retirement [17]. Additionally, a variety of considerations need to be taken into account in accordance with each person's demands during the development of an effective retirement plan.

#### **3.2 Main factors to consider and asset allocation**

There are three primary factors: time horizon, pre-retirement requirements, and diversification. In the next section, these three criteria could be explored as how to allocate asset classes.

##### **3.2.1 Time horizon**

The time horizon is the length of the investor's plans to hold onto an asset before selling it. The investor's time horizon for obtaining a financial goal, such as retirement, could also be represented by it. An individual's current and anticipated retirement age are essential factors in retirement planning. The risk tolerance of the portfolio increases as the time horizon, or the longer the period until retirement, rises [18].

A youthful individual with an extended time horizon and high-risk tolerance may choose a riskier item for his asset allocation. In this case, stocks make sense since, despite their volatility, they have historically outperformed other assets over the long run, including bonds. On the other hand, as investors age, their portfolio should focus more on income and capital preservation. This necessitates placing more money into less hazardous investments, including securities, which will not provide the high returns of stocks but are more reliable and provide an adequate income [6]. Additionally, investors will eventually need to worry about inflation. Typically, investors' savings typically decrease as a result of inflation, so plan for a retirement that is likely to outpace inflation [8].

##### **3.2.2 Post-retirement spending habits**

Bernicke [19] argues that the creation of a proper retirement plan could benefit from an accurate estimate of consumption habits and expenses after retirement. Retirees tend to spend more money once they stop working because they have more time to buy and travel. In addition, when longevity is taken into account, people tend to spend more as they live longer. As a result, retirees in this circumstance require additional retirement income and reserves. However, standard social security can only cover basic living costs due to the impact of inflation; in response, a decent retirement plan must incorporate extra personal savings to supplement the primary retirement income [9]. When it comes to asset allocation, retirees who wish to acquire real estate, such as houses, need to include the

property money into their retirement plans because they will require additional funds to buy these assets [8].

### 3.2.3 Diversification

Diversification is a strategy for reducing risk by allocating funds over a wide variety of assets through the use of investment products, intermediaries, and more. By making investments in several sectors that respond differently to the same occurrence, it hopes to cut losses. Additionally, a diversified allocation of pension assets is done by using the pension portfolio. This self-directed pension gives access to asset classes, comprising a large number of investments, stocks, investment trusts, exchange-traded products, fixed income instruments, and commercial real estate. It provides customers the choice of single or staggered drawdown options [20]. The weaknesses of several asset classes can be made up for with this asset allocation. Therefore, the portfolio of a pension fund may be rebalanced to maintain risk levels over time while also reducing investment risk and losses [21].

## 4. Discussion

An asset is a resource that a company owns or controls, that was the consequence of earlier deals or events, and that is anticipated to bring economic benefits to the firm. The six accounting components are assets, debts, owners' ownership, revenue, expenses, and net income [22]. The balance sheet shows the first three accounting items, which disclose the financial situation; the income statement shows the last three accounting items, which disclose the outcomes of operations [22].

Assets are resources that the organisation has maintained or that it controls and that result from previous transactions or occurrences and are anticipated to produce financial gains. They are not assets and belong to the business if they do not deliver financial benefits. Depending on their volatility, assets can be classified into a wide range of groups, such as current assets, long-term ventures, fixed assets, intangible and tangible resources [8]. Current assets are referred to as the company's assets that are expected to be sold, used up, utilised, depleted, or otherwise disposed of within one year via normal business operations. It can be seen on the balance sheet of a business, one of the required annual financial statements. Investments in a company that yield long-term rewards are known as long-term assets. Long-term assets might comprise tangible resources such as a company's real estate, equipment, and machinery [23].

Additionally, fixed assets are physical assets used in the operation of a firm over the long term. They are categorised as property, plant, and equipment on the balance sheet because they provide long-term financial benefits and have a life span of more than a year. Intangible assets are resources that are nonmaterial in structure. Goodwill, brand awareness, and intellectual property like patents, trademarks, and royalties are examples of intangible assets. Intangible assets appear in contrast to physical resources, which includes real estate, automobiles, machinery, and inventories. However, a tangible asset is one that is composed of physical matter. Examples include a structure, rolling stock, manufacturing equipment or machinery, and office furniture. Inventory and fixed assets are both examples of physical assets [22].

## 5. Conclusion

This paper focuses on analysing the characteristics of asset classes and the asset allocation in retirement strategies based on those analysis mentioned earlier. The main findings are that retirement planning must be done in terms of time horizon, and typically, the longer a person's time horizon, the greater his risk horizon. Secondly, retirees might assess their spending patterns in retirement and prepare their asset allocation for possible future needs. Thirdly, diversifying the assets in the retirement plan will lower risk and increase income.

The findings of this study enhance the analysis of the essential characteristics of main asset classes and help the public in choosing more effective asset allocation strategies as they prepare for retirement. However, this article does have several limitations, such as the fact that the result is not supported by

any data validation on the conclusion. Therefore, future research should investigate it more thoroughly.

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