



**EUSTACE**  
ADVISORS

Client Resource

**Fidelity Mutual Fund and ETF Recommendations**

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# Document Structure

The structure of this document will consist of:

1. The basic criteria I use to select the recommended Fidelity funds, ETFs and Fixed Income solutions.
2. Suggested Asset Allocation amounts based on risk tolerance and investment timeframe.
3. An overview of recommended Fidelity solutions for each of my Core Portfolio categories:
  - a. U.S. stock market index funds and ETFs.
  - b. International stock market funds and ETFs.
  - c. Bond funds and ETFs.
  - d. Balanced funds.
  - e. Target Date Funds.
  - f. Sector-specific Funds and ETFs.
  - g. Fixed Income Investments
4. Several examples.

This document is intended as a guideline for investors who select their portfolio components. It is important to review the asset allocation periodically (I suggest at least once per year and upon a significant life change event) and rebalance as appropriate.

Fidelity also offers their own Model Portfolios, which you can review at:

<https://www.fidelity.com/mutual-funds/fidelity-fund-portfolios/overview>.

For investors who want minimal investment maintenance, Fidelity offer two types of diversified investing options, Asset Manager<sup>®</sup> and Freedom<sup>®</sup> Funds (target-date funds), which take into account your investment goals, timeline, risk tolerance and automatically rebalance the underlying portfolio. The primary advantage of the Asset Manager<sup>®</sup> and Freedom<sup>®</sup> Funds is their simplicity (you invest in a single entity, which owns numerous sub-entities offering the stated diversity) and automatic rebalancing; their primary disadvantages are their expense ratios (costs), rigid goals (either a set date in the future or fixed asset allocation %) and muted long-term performance due to over-diversification.

## Portfolio Recommendation Criteria

Fidelity offers over 10,000 mutual funds and ETFs from dozens of different mutual fund companies, including their own. This documents focuses on Fidelity funds and ETFs and will note if there is a 3<sup>rd</sup>-party alternative may be similar and offer some advantage.

### 1. Management Style

In most cases, I recommend passively-managed equity funds and ETFs that track a well-known index such as the S&P 500. For equity investing, most research demonstrates that a passively-managed, low-expense fund or ETF will typically out-perform an actively-managed equity fund over the long term (5+ years).

For balanced (mix of equities and bonds) funds and ETFs and broad-market bond funds and ETFs, I lean towards actively-managed options as the expertise offered by good investment management teams is often worth the added expense.

## 2. Fees

I only recommend no-load mutual funds; a no-load mutual fund is an investment that does not charge a sales commission or "load" when you buy or sell shares. This means your entire investment amount is used to buy shares, allowing for greater potential returns compared to load funds, where fees are deducted from your initial investment or subsequent earnings.

No-load mutual funds are often sold directly by the fund company or through fund supermarkets like Fidelity and Vanguard, rather than through a broker or third-party sales firm, thus avoiding sales commissions. That said, sometimes Fidelity, Vanguard and Schwab will charge a modest sales fee to acquire shares of mutual funds from other companies (for example, Schwab charges a \$75.00 fee per purchase, to buy certain Fidelity mutual funds within a Schwab account).

ETFs are generally "no-load" by their nature, as their shares are traded on an exchange like stocks and do not charge the same types of sales loads as mutual funds.

My recommended funds and ETFs avoid sales fees (loads), yet they still have an expense ratio, which covers ongoing operating, management, and administrative costs. My objective is to find the highest quality fund or ETF within a given expense ratio range. Sometimes, particularly with actively-managed funds, the expense ratio will be higher but may be worthwhile if the investment management team demonstrates value.

## 3. Tax Efficiency

For investments in taxable brokerage accounts (i.e., non-retirement accounts), understanding the tax ramifications of the particular fund is particularly important. I look at two primary factors when assessing this metric: fund turnover rate and dividends earned.

Turnover rate refers to the percentage of the fund's total holdings that changes during the year. The higher the turnover rate, the more the fund is buying and selling internal assets, leading to tax consequences related to the Capital Gains Distributions that must be paid by the Fund or ETF manager.

Dividends earned on the holdings within a Fund or ETF are taxable for the year in which they are paid when the Fund or ETF is held in a Taxable account. If you are in your peak earnings window, we can manage this by holding more Dividend-paying investments in your retirement accounts and holding more growth-oriented investments in your taxable accounts.

These two factors are much less important for retirement accounts, as no earnings are taxed until the account owner takes distributions in a traditional pre-tax retirement account and no earnings are taxed at all on qualified distributions from a Roth retirement account.

#### 4. Performance vs. Benchmark and Peers

Many mutual funds and ETFs are built to track established benchmarks and indexes, such as those listed below. These indices are market capitalization weighted, meaning a specific stock's weight in the index is proportional to the stock's total market value, which gives larger companies a greater influence on the performance of the index.

Index	Market Segment	# companies in index	Size of Companies
S&P 500	Large-cap U.S. stock market	500	Largest 500 publicly traded U.S. companies
Russell 3000	Total U.S. stock market	3,000	Largest 3,000 publicly traded U.S. companies
Russell 1000	Large-cap U.S. stock market	1,000	Largest 1,000 companies from the Russell 3000
Russell 2000	Small-cap	2,000	Smallest 2,000 companies from the Russell 3000
NASDAQ Composite	U.S. and International stocks that trade on the NASDAQ market	>2,500	Most are large-cap with a market capitalization of at least \$10B.
Dow Jones Industrial Average	Select U.S. stocks	30	Used as a general gauge of the broad U.S. economy.
MSCI World ex-US	Large-cap International Stocks only	776	Mostly Large-cap companies in 22 of the 23 Developed Markets countries (US is not included).
FTSE Global All Cap ex US	Broad capitalization range of companies located in developed and emerging markets around the world, excluding the United States.	~2,200	Large, mid, and small-cap companies in 46 developed and emerging markets, excluding the U.S. It captures 99% of the non-US global investable market capitalization.

### Asset Allocation Recommendations

Based on the investor's risk tolerance, time horizon, and investment preferences, the allocation of their investments between equities and fixed-income investments will vary.

At Eustace Advisors, we gather extensive data from the client in order to establish an Investment Policy Statement, which will define a target Portfolio Risk Category specific to that client. The Investment Policy Statement is a key document to guide investing decisions, define how and when the portfolio is monitored and adjusted, and clearly define responsibilities between Advisor and Client.

Portfolio Risk Category	% Equities	% Fixed Income
Very Aggressive Growth	90	10
Aggressive Growth	80	20
Growth	70	30
Conservative	60	40
Capital Preservation	50	50
Custom	TBD	TBD

As the Sample Portfolios in this document are implemented, the client can adjust their equity vs. fixed-income allocation over time to be in line with the appropriate Risk Category that they fall into.

## Recommended Fund/ETF options

Notes:

1. If a fund has not existed for 10 years, we use the fund's Lifetime performance and highlight this in **red** text.
2. If Eustace Advisors' ownership holds a stake in a noted Fund or ETF, its name will be in **bold** text.

### U.S. stock market index funds and ETFs

Name	Ticker	10-yr return	Turnover Rate	Exp Ratio
<b>Total Market Index Fund</b>	FSKAX	13.66%	2.0%	0.015%
500 Index Fund	FXAIX	14.15%	2.0%	0.015%
Large Cap Growth Fund	FSPGX	16.92%	24.0%	0.035%

### International stock market funds and ETFs

Name	Ticker	10-yr return	Turnover Rate	Exp Ratio
<b>Total International Index Fund</b>	FTIHX	8.37%	4.0%	0.06%
International Index Fund	FSPSX	8.82%	4.0%	0.035%

Both of these funds have 0% holdings in U.S. equities (i.e., they fall in the ex-US category), which is desirable to achieve diversity from U.S. stocks in a broad portfolio.

I think both funds are good options and would lean to FSPSX as it has a higher weight in Europe and Japan, lower expenses, and less volatility.

### Bond funds and ETFs

Name	Ticker	10-yr pre-tax return	10-yr after-tax return	Exp Ratio
<b>Total Bond Fund</b>	FTBFX	2.75%	1.27%	0.45%
<b>U.S. Bond Index Fund</b>	FXNAX	1.66%	0.50%	0.025%
<b>Capital and Income Fund</b>	FAGIX	7.95%	5.61%	0.90%

FTBFX and FAGIX beat their category benchmarks; FAGIX ranks in the top 1% of the Morningstar High-Yield Bond category.

Most funds with significant Bond holdings will have a high turnover rate; thus, we use a comparison of the pre-tax and after-tax return to assess net earnings on these investment types. Return After Taxes on Distributions are calculated using the historical maximum federal individual marginal income tax rates associated with fund distributions and assume that an investor continued to hold the shares. Therefore, they do not reflect the federal income tax impact of gains or losses recognized when fund's shares are sold. These returns do not reflect the impact of state and local taxes. Actual after-tax returns depend on your tax situation and are not relevant if you hold shares through tax-deferred arrangements such as IRAs or 401(k) plans.

Due to the tax consequences of the holdings of these funds, we recommend these investments be used for short-term goals and in retirement accounts.

## Balanced funds

Name	Ticker	10-yr pre-tax return	10-yr after-tax return	Exp Ratio
Balanced Fund	FBALX	10.90%	8.99%	0.46%
Puritan Fund	FPURX	10.63%	8.47%	0.47%

Balanced Funds hold a mix of equity and bond investments; both FBALX and FPURX are roughly 65% invested in equities and 35% in bonds.

Both of these funds have the highest (5-star) Morningstar rating for the Moderate Allocation category and perform better than the average of other funds in that category.

Most funds with significant Bond holdings will have a high turnover rate; thus, we use a comparison of the pre-tax and after-tax return to assess net earnings on these investment types. Return After Taxes on Distributions are calculated using the historical maximum federal individual marginal income tax rates associated with fund distributions and assume that an investor continued to hold the shares. Therefore, they do not reflect the federal income tax impact of gains or losses recognized when fund's shares are sold. These returns do not reflect the impact of state and local taxes. Actual after-tax returns depend on your tax situation and are not relevant if you hold shares through tax-deferred arrangements such as IRAs or 401(k) plans.

Due to the tax consequences of the holdings of these funds, we recommend these investments be used for short-term goals and in retirement accounts.

## Sector-specific Funds and ETFs

Name	Ticker	10-yr return	Turnover Rate	Exp Ratio
<b>Select Technology Portfolio</b>	FSPTX	22.35%	48%	0.62%
Invesco QQQ ETF (3 <sup>rd</sup> party alternative to FSPTX)	QQQ	18.98%	8%	0.18%

FSPTX is a very technology-centric fund (>90% of its holdings are technology companies); I promote this option for investors who favor the growth potential of technology companies, as

a means to diversify their investments in the technology segment instead of trying to pick individual winners.

QQQ aligns with the NASDAQ 100 Index and also has a significant portion of its assets tied to Technology providers (~60%). However, QQQ invests in other segments such as healthcare, consumer discretionary, and communications which leads to more diversity and lower volatility than FSPTX. QQQ also has a lower expense ratio. Based on the diversity and expense factors, I steer most Eustace Advisors to QQQ as the better option among these two as long as they do not have to pay any fees to acquire shares of this holding.

## Dividend Focused Funds and ETFs

Name	Ticker	10-yr pre-tax return	10-yr after-tax return	Exp Ratio
High Dividend ETF	FDVV	12.93%	11.62%	0.15%
Dividend Growth Fund	FDGFX	12.65%	10.32%	0.88%

Dividend-paying funds offer a stream of regular income and may offer lower volatility than broader-index mutual funds and ETFs. The regular income can be beneficial for investors seeking cash flow, while the underlying companies are often more stable, which can lead to lower price fluctuations and function as a cushion during market downturns. When dividends are reinvested, as I recommend when possible, they can help grow wealth over time through the power of compounding.

I focus on funds that target companies with a history of steadily increasing dividends, as these have proven to offer better long-term returns than companies with intermittent, flat or declining dividend payments.

The Fidelity High Dividend ETF is designed to reflect the performance of stocks of large and mid-capitalization dividend-paying companies that are expected to continue to pay and grow their dividends. It is composed of mostly U.S. based companies and is rated 5-star by Morningstar in the Large Value category and has significantly exceeded the performance of the average fund in that Morningstar category. Its top 3 holdings are Nvidia, Microsoft and Apple, so this fund's performance will correlate to others listed above (FSPTX, QQQ, FXAIX and FSPGX).

The Fidelity Dividend Growth Fund is also designed to reflect the performance of stocks of large-capitalization dividend-paying companies that are expected to continue to pay and grow their dividends, with more of a focus on growth-oriented holdings than FDVV. It has a higher exposure to International companies than FDVV, which has tempered its performance over the past decade vs. FDVV. Its top 3 holdings are Nvidia, Microsoft and Alphabet, so this fund's performance will also correlate to others listed above (FSPTX, QQQ, FXAIX and FSPGX).

Due to the tax consequences of the holdings of these funds, we recommend these investments be used for short and intermediate-term goals and in retirement accounts.

## Fixed Income Investments

I focus on two primary types of Fixed Income investments types, with minimal risk: Money Market Mutual Funds and Certificates of Deposit (CDs).

Fidelity offers two excellent Money-Market Mutual Funds. The SPAXX fund is often used as the Cash Account (Settlement Account) for Fidelity Brokerage accounts. Both of these Money Market Mutual Funds offer significantly higher yield than checking, savings and money-market savings accounts from most major banks.

Fund	Ticker	7-Day Yield	1-Yr Return	Expense Ratio
<b>Fidelity® Government Cash Reserves</b>	FDRXX	3.33%	3.84%	0.37%
<b>Fidelity® Government Money Market Fund</b>	SPAXX	3.26%	3.78%	0.42%

CDs are another low-risk investment option for generating better yield on your savings than the rates offered by most banks on savings and checking accounts. It is easy to set up a CD Ladder to make management of this investment type as simple as possible.

An overview of CD ladders can be found here:

[https://www.eustaceadvisors.com/files/eustace\\_advisors\\_research\\_paper\\_how\\_to\\_build\\_a\\_cd\\_ladder.pdf](https://www.eustaceadvisors.com/files/eustace_advisors_research_paper_how_to_build_a_cd_ladder.pdf) and Fidelity offers a step-by-step utility to build a CD ladder in line with your timeframe and investment amount, which can be found here: <https://www.fidelity.com/fixed-income-bonds/cd-ladders>.

## Example Portfolios

These examples are built around the Fidelity solutions summarized earlier in this document. I intentionally limit these proposed portfolios to a small # components; I believe that for most investors, your Emergency Fund can consist of one investment type; your short-term Goal Fund can consist of 2 investment components; and your longer-term Goal Funds typically do not need more than 4-5 investment components (which can be allocated via a Target Date or Asset Manager® fund).

### Emergency Fund

An Emergency Fund should have assets that can cover up to 6 months of critical living expenses. Since you may need access to these assets on an immediate basis, the optimal investment type will have minimal risk and no time commitment restricting access to your funds. Thus, I recommend investing your Emergency Fund in one of the two Fidelity Money Market Mutual Funds (SPAXX or FDRXX).

An Emergency Fund is a crucial part of every Financial Plan and should be established and maintained as a complement to all of the other saving and investing categories to follow.

### Health Savings Account

An HSA offers pre-tax contributions, no taxes on earnings, and tax-free qualified distributions. Most HSA administrators will use low-yield cash account as the default investment. Based on your planned usage of your HSA, I suggest the following options:

1. If you use your HSA assets to cover medical expenses on an ongoing basis, I recommend one of the two Fidelity Money Market Mutual Funds listed above (SPAXX or FDRXX) to minimize risk to your capital.
2. If you expect to need access to the funds within 5 years, for example as you are approaching retirement, I recommend investing in one of the Balanced Funds (FBALX or FPURX).
3. If your intention is to leave your HSA untouched for at least 10 years, I suggest investing the assets in the mix of funds noted below for Medium-term (>10 years) goals. This recommendation is contingent on your establishment of a sufficient Emergency Fund to cover unexpected near-term medical expenses.

### Short-term (<3 years) goals

These assets are often targeted at a significant purchase (house, new car, vacation property, big vacation) planned for purchase within 3 years. This is my suggested investment mix:

Timeframe before purchase	<1 year	<2 years	<3 years
SPAXX or FDRXX	80%	50%	20%
FBALX or FPURX	20%	50%	80%

If want to be more conservative, shift more assets into SPAXX or FDRXX.

## Medium-term (>10 years) goals

Typically, this investment “bucket” is managed via a taxable brokerage account and is targeted for wealth acquisition over time to meet a wide range of goals, the most basic being long-term financial security. Due to the longer timeframe over which these assets can remain invested, I recommend a focus on investments that offer long-term growth prospects significantly higher than historical inflation rates and fund/ETF options with low turnover that allow us to defer taxes until we sell the assets (and pay lower capital gain tax rates).

The asset allocation in this Example Portfolio should be adjusted based on your risk tolerance and timeframe.

Risk Tolerance	Total Market Index Fund (FSKAX)	International Index Fund (FSPSX)	Capital and Income Fund (FAGIX)
Conservative	40%	20%	40%
Growth	45%	25%	30%
Aggressive	50%	30%	20%

As you get closer to the time when you will need a portion of the assets in this “bucket”, I suggest you shift that portion into the funds suggested for the Short-term goals listed above.

## Tax-Advantaged Education Savings Accounts

I favor target-date funds as a simple, and effective, option for education savings accounts such as 529s, especially when it is expected that the invested funds will be used within a 4-5 year period of the target date. Information on Fidelity’s 529 investment options, which include age-based (i.e. target date) options, can be found at: <https://www.fidelity.com/529-plans/investment-options>. Fidelity also allows 529 investors to select other customized investment options.

## Tax-Advantaged Retirement Savings Accounts

Each individual’s situation and goals must be taken into account when defining a savings and investing plan. This is especially true with retirement accounts, based on the very lengthy investment timeframe (often >40 years), and the potential post-retirement timeframe (often >25 years). I have other resources to help understand retirement savings options and factors that should be taken into account when selecting your contribution type (pre-tax or after-tax), investment options, and rollover rules, and encourage discussion of retirement savings with a financial advisor as part of a comprehensive personal financial plan.

That said, here are two options to consider from Fidelity, which oversees more employer-sponsored retirement plan funds than any other company. These options are targeted at passive investors who want to set up their automated contributions, establish easy-to-manage diversified portfolios within a single investment selection, and achieve returns in line with historical stock market averages.

### 1. Target Date Funds

These are good options for passive investors, especially those early in their careers with >10 years until retirement. A target-date fund is typically a “fund of funds” invested in a range of U.S. and international equities and bonds. The TDF manager automatically adjusts the fund’s asset allocation over time, shifting from a more aggressive weighting in equities (stocks) to a more conservative mix of bonds as you approach a specific retirement date. You choose a fund based on your expected

retirement year, and the fund manager oversees the diversification, rebalancing, and risk management for you over time.

I typically encourage clients to select a target date 5 or 10 years past their actual retirement target date, to sustain a higher weighting in equities for the first 5-10 years in retirement, as I believe most TDFs do not account for the potential of a lengthy (>25 years) retirement. Thus, a 40-year old client expecting to retire at age 65 should select a Target Date 2055 or 2060 Fund, vs. the 2050 Fund that would align with the year they turn 65 (2050).

Fidelity's target date funds are divided into three categories: actively managed (Freedom Funds), passively managed (Freedom Index Funds), and a blend (Freedom Blend Funds), with the Freedom Index Funds having the lowest expense ratios, which are comparable to other passive index funds. The traditional Freedom Funds have higher expenses due to active management and a broader diversity of the underlying investments, and the Freedom Blend Funds fall in the middle.

In some cases, the expenses are reduced for Institutional Investors, such as large employers, and some employers may not offer access to all three classes of the Freedom Funds. All Fidelity Freedom Fund types are competitive regarding returns and expenses, so I do not have a strong preference amongst them – if I had to pick one, I would go with the Index option due to the lower expense rate.

I am showing the four primary 2060 Freedom Fund options for reference; note that there are many additional TDFs from Fidelity with other target dates.

Name	Ticker	10-yr return	Exp Ratio
Freedom® 2060 Fund	FDKVX	11.21%	0.68%
Freedom® Blend 2060 Fund	FHANX	9.97%	0.47%
Freedom® Index 2060 Fund Institutional Premium Class	FFLEX	10.74%	0.08%
Freedom® Index 2060 Fund Investor Class	FDKLX	10.69%	0.12%

## 2. Allocation-Based Funds

These options are suitable for investors who want a pre-built, actively managed portfolio with an allocation mix based on their CURRENT risk tolerance – the investor will need to move assets between Allocation funds as their situation and risk tolerance change.

The fund name indicates the approximate allocation of equities (stocks) in the fund; the Asset Manager® 70% fund has 42% invested in U.S. equities and 32% invested in International equities for a total of 74% in equities, with the 26% balance invested in Bonds and Cash.

I include four funds in the table below – there are also 20%, 40% and 60% options available.

Name	Ticker	10-yr pre-tax return	10-yr after-tax return	Exp Ratio
Asset Manager® 30%	FTANX	5.35%	4.26%	0.50%
Asset Manager® 50%	FASMIX	7.31%	5.46%	0.53%
Asset Manager® 70%	FASGX	9.23%	8.05%	0.63%
Asset Manager® 85%	FAMRX	10.67%	9.68%	0.63%

## Post-Retirement Investments

Post retirement asset allocation analysis must take into account numerous factors, which are beyond the scope of this document – I encourage consulting with a financial planner to help establish and maintain a post-retirement financial plan.

As a general rule, most post-retirement investment asset allocations will focus on three timeframes:

1. Short-term (<2 years): in addition to unexpected expenses defined as emergencies, these assets may also be needed to supplement retirement income such as pensions and social security to meet ongoing living expenses. The investment types defined earlier for Emergency Funds are good options for these needs.
2. <5 year timeframe: for most retirees, they need to prepare for significant expenses related to home improvements and maintenance, vacations, medical and long-term care costs, and family support. The investment types defined earlier for Short-term goals are good options for this category.
3. >5-year timeframe: since many retirements last 20 years or longer, retirees should allocate a portion of their assets to investments that are likely to track historic market returns and outpace inflation. This longer timeframe will also take into account long-term care costs and legacy intentions. Presuming adequate funds have been invested to meet the Immediate and <5 year projected expenses referenced above, the investment types defined earlier for Medium-term goals are good options for this category.

The amount of a retiree's overall assets that they should allocate into the three timeframe "buckets" noted above will vary based on their current situation (cash flow and balance sheet), risk tolerance (often driven by a fear of running out of money in retirement), projected long-term care costs, and legacy intentions. As noted above, a financial planner will likely be a valuable resource to help establish and maintain a post-retirement financial plan.