SAFETY IN THE MIDST OF A VOLATILE MARKET

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RETIRE WITH CONFIDENCE.

These past few months in the markets have been a rollercoaster ride. With volatility spiking you may feel like you've experienced financial whiplash. When markets are this uncertain and your latest brokerage statements are disappointing, emotions can run high. It's only natural. But it's also important to be clear-eyed and clear-minded about how to respond. And make no mistake about it, December of 2018 ranks historically near the top of the list when it comes to really bad months in the stock market, just look at the chart:

Quarter Ending	Quarterly Performance
June 1932	-37.7%
Sept 1931	-33.6%
Dec 1929	-27.8%
Sept 1974	-25.2%
Dec 1987	-22.6%
Dec 2008	-21.9%
Dec 1937	-21.4%
June 1962	-20.6%
Mar 1938	-18.6%
Sept 1946	-18.0%
June 1970	-18.0%
June 1930	-17.7%
Sept 2002	-17.3%
Dec 2018	**-17.1%**

The last time we had a month this bad in the markets was December of 2008. Think back to 2008. How did you do that year? If you lost money, how long did it take you to recover? And what if we have another similar downturn in 2019 after what just happened in December?

What I have found with some clients is that the trauma of the losses they experience can tend in many cases to freeze them into inaction, much like a deer caught in the headlights of a car does not move even though they should. And so, the question is: what actions should you consider in a time of high market volatility? Well, the answer will different for each investor depending on age, goals, risk tolerance, etc. However, for anyone over 50 and even remotely starting to think of retirement, here are a few thoughts.

Remember That Volatility Is Normal

It's important for you to realize that the end-of-year market selloff is not a temporary volatility pothole on the road to financial prosperity. The reality is that volatility is the ***norm*** in investing. It always has been and always will be. The remarkably low volatility of the market in 2017 allowed many investors to think they had arrived at some kind of a "new normal." The truth is that 2017 was more of the exception, and 2018 was more of the rule. Let me explain.

Standard deviation is one way to measure volatility. Since 1957, the long-term average standard deviation has been 15.6%. While 2017 had an amazingly low standard deviation of 6.7%, 2018 was only slightly higher than the historical average, coming in at 15.9%. In other words, if you are unnerved by volatility but think that the past few months have been an anomaly, you need to understand that the bumpy ride of recent months is far more the historic norm than not.

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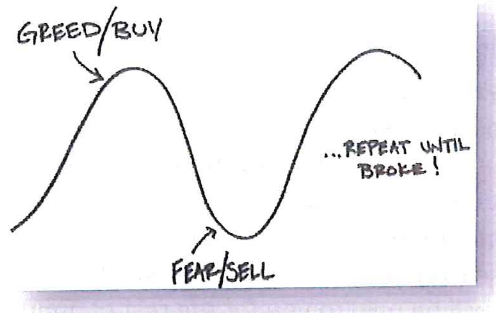
Fidelity Investments has published studies which found that, since 1920, the S&P 500 has, on average, experienced a 5% pullback three times per year, a 10% correction once per year, and a 20% bear market decline every three years. These 5% and 10% annual pullbacks have occurred even in years when the markets ended up to the positive. In spite of these regular corrections, markets have still generated positive returns over the long run.



It has been my observation that for many clients who are risk-averse and/or are getting closer to retirement, the high level of volatility that they expose themselves to may not, in the end, serve them well. Given enough time, the markets will generally head in a long-term positive direction, but if the risk you expose yourself to creates short-term losses that are more than you can bear, you are very likely to bail out when the market bottoms out, stay in cash while the market recovers, buy back in when the market is peaking, and then repeat the cycle until you're broke.

I believe the goal of retirement planning is about aligning your dollars with your dreams, your portfolio with your passions. If you have a disconnect between the level of risk you are truly able to bear and the level of risk you are actually exposed to, you may want to take another look at your asset allocation.

Know When to Make the 'ROI' Pivot

The materialistic culture in which we live has a tendency to make us feel that success is all about accumulating as much money as possible and that whoever 'dies with the most toys' is the winner. As a result, too often the portfolios of people approaching retirement at age 55, 60, or 65 resemble something an aggressive 30-year-old would have. That is, in my opinion, a bad job on the part of the advisor. I'd like to encourage you, as you approach this stage of life, to get past the daydreams of riches and focus on the real world of ever-increasing longevity requiring ever-lengthening streams of retirement income. Think about it this way:

When you were younger, ROI stood for **'Return On Investment,'** as it should have and as it traditionally does. Now that you are older and approaching retirement, those same three letters should stand for **'Reliability Of Income.'**

Why? Because at this stage of your life, you have far more to lose from a bear market than you have to gain from a bull market. To create a retirement plan that minimizes the risk of running out of money, it's more valuable to seek predictability than potential. Creating guarantees in your retirement is exactly the same thing you did as a responsible younger person with a family, except in reverse. When you were young, you bought life insurance in case you 'died too soon.' In retirement, you want to insure against 'living too long.' An annuity can help you do that.

The academic research is very much in favor of this idea. For today's retiree, the statistical risk of running out of money has never been higher, and annuities are increasingly being seen by academicians, researchers, and financial analysts as vital to a well-designed retirement plan. In a study from the American College in 2012, researchers looked at the statistical likelihood of a 65-

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year-old retired couple running out of money if they were withdrawing 4% per year in inflation-adjusted income (the oft-cited "4% Rule"). They looked at over 1,000 different asset allocations, analyzing each with over 200 Monte Carlo simulations, and what they found was that a portfolio with a significant fixed annuity allocation had the highest likelihood of success for that 65-year-old couple. The bottom line is that annuities are not perfect financial products, but they can be amazing tools in helping you achieve the goal of not running out of money in retirement.

Focus On Income For Life

While fixed indexed annuities can offer you some upside potential by crediting interest based on a market index (the S&P 500 is a common one), their chief value for securing your retirement is the guarantees they offer when it comes to principal protection and income for life. Lifetime income riders at their core are designed to give you a contractual promise from an insurance company that a stipulated amount of income will be paid to you for the rest of your life, even if the actual account balance of your annuity were to go all the way down to zero. It's that simple.

Think of it this way: So much of what is done today in retirement planning is based upon projections: "*If* the market does this, and *if* inflation does that, *then* retirement will be a comfortable one for you." Income riders on an annuity are based not upon projections, but upon predictability. Consider a hypothetical scenario. Let's say you are 55 years old and you want to retire in 10 years at age 65. You place $250,000 in a fixed indexed annuity with an income rider that has a 6% annual rollup during deferral and a 5% withdrawal guarantee when you begin to receive income. In 10 years, the income account value would be $447,711. A 5% withdrawal guarantee would produce $22,385 in annual income that you could not outlive. Period. Ask yourself: is there any other financial product that can, with that degree of predictability, produce that much in guaranteed future income?

In a world of exploding longevity and increasing economic turbulence, is there another product that will continue to send you a check each month *even if there is a zero balance in the account*? That is the value of the fised indexed annuity with a lifetime income rider. I tell my clients that I am a believer in worst-case scenario planning. We can hope for the best, but it is important to plan for the worst. When you hit a zero balance in any other financial product, the worst case scenario is that there is no money left in the account and the income that is needed for retirement stops. With a fixed indexed annuity with an income rider guarantee, only the first part of that worst-case scenario would apply, because the income checks would continue for the rest of your life.

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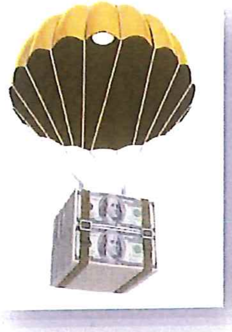

Let me offer an analogy. Imagine you were going to go skydiving. You drive to a skydiving school and, after signing lots of documents that state that if you end up doing an imitation of a pancake on the airport tarmac, you will blame no one but yourself, you reach for your checkbook to pay the $200 fee. As you are about to fill in the dollar amount, you nervously look up and ask the flight instructor, "Has anyone ever died doing this?" He answers you by saying, "Yes. A few people have died, but there is a 98% chance that your chute will open and you'll be fine...However, for an additional $20, you can rent an extra backup chute that would give you a 100% chance of your chute opening." Let me ask you: after hearing that, would you be writing a check for $200, or for $220? I thought so. Me, too. That is the value of a fixed indexed annuity with a lifetime income rider. Without it, you may very well never run out of money. With it, you can rest assured knowing that you won't.

Conclusion

In conclusion, remember that volatility is a normal thing in the markets, and that you need to have a plan to address the impact of volatility on your portfolio – especially as you get closer to retirement and have less time to recover from potential losses. The ROI pivot - from return on investment to reliability of income – is a key way to ensure that at least your basic living expenses are covered by guaranteed income for life. Please call me if I can help you review your situation at no cost and no obligation.

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