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Incise Insight

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Market Adjustment
You have probably heard someone say: "I was going to retire until this happened". We heard it in 2008 and 2009 and I just heard it after the stock market plummeted recently. The comment usually is driven by what happened to someone's 401(k) account balance.

My immediate response to that comment would be: How well have you planned? And are you are taking an investment-only approach?

Why are we always shocked when markets adjust? It is a part of what markets do. They have always included volatility and always will. We cannot control what will cause an adjustment and when it will occur.

In some ways we must get back to treating retirement income planning like it was done for decades in the U.S. We must incorporate tools which pension managers have at their disposal. The only difference now is that you, the retiree, must act more like a pension manager instead of an investor. In addition, you should seek out ways to improve efficiencies. You have a full slate of tools available but in all likelihood you are only being exposed to a few.

I remind you again, there are muliple risks that a retiree faces. They are market risk and the impact of the sequence in which you experience rates of return, longevity risk, inflation risk, shock risk and health risks. Investments are only good at addressing one of these risks. If you work with an advisor or firm who only focuses on investments, you are not dealing with someone who is able to implement tools which are good at addressing the other risks. If comprehensive planning takes place, market risk should not be a big issue.

On a recent webinar, Kerry Pechter, editor and publisher of the Retirement Income Journal described what he refers to as the need for an "**ambidextrous advisor**". He said, "An ambidextrous advisor uses both investments and insurance products to maximize retirement income and minimize risk". "An ambidextrous advisor considers all of a households's assets and liabilities; not just its investable assets." I would add that a macro economic advisor will also seek financial efficiences on your behalf.

In order to understand why focusing on just investments or just insurance related products alone limits you, what follows are examples of various tools which can be used to address the various forms of retirement risk.

Market & Sequence of Return Risks: Spend less ☹, use buffer assets (home equity and cash value of life insurance), income flooring with annuites, an asset dedication approach to investing, and laddering with bonds.

Longevity Risk: Single Premium Immediate Anunities, Deferred income annuities, QLACs. living benefit riders and home equity with reverse mortgage. **Note**: Longevity risk cannot be resolved on a personal level unless you are willing to spend less.

Inflation risk: equites, real estate, annuitization, laddering with I-bonds or TIPS, and a rising glide path with the asset dedication investment approach.

Combinations of various tools is what can usually produce the best results for producing retirement income, minimizing longevity risk and leaving a legacy. For greater efficiencies, retirement planning should begin as soon as someone starts putting money aside for retirement.

Current research indicates that the 4% withdrawal rule for producing income off an investment portfolio is no longer feasible in this low interest rate environment. A safe withdrawal rate hovers more in the 2.5% range. This alone should motivate a retiree to seek a more diversified approach to retirement income planning. $25,000 per year of income off a $1,000,000 portfolio is not a lot of income.

If your only focus is on the value of your 401(k), I am afraid every time something like what recently occurred, whether it is before or after your retirement, will cause you concern. Conversely, if your focus is solely on insurance related products, you are substituting security for potential.

Will you continue to grieve when your 401(k) or IRA balance is impacted by market fluctuations? If, so perhaps you should take steps to do something about it, so it doesn't continue to happen.

Business: There are a number of good reasons to understand the value of your business. Several are: planning for retirement, creating a succession plan and completing buy/sell agreements. I have access to a good foundational business evaluation tool I can provide for free. If you would like to discuss, give me a call or drop me an e-mail.

2.3 Trillion That is the estimated cost of the recent CARES act to support Americans during the corona virus, adding to the $23.7 trillion of U.S. debt as of the end of March. This equates to over $75,000 of debt per person in the U.S. When you add in unfunded liablitites (promises), the U.S. debt adds up to over $105 trillion.

Mark the **NEW** date:

Come learn, enjoy good wine, good food, good music and good company!

Where: Blue Mountain Vineyards
4480 Hoot Owl Drive, Berthoud

When: Thursday evening
August 25h at 6:00 p.m.

Heavy Hors D 'Oeuvres will be served.

Please RSVP by Thursday, August 20th.
Call: (970) 593-0619 or
e-mail: info@LongsPeakEducation.net or
on-line: https://august25.eventbrite.com

*This is a no-pressure educational and social event.
There will be no particularized offers, solicitations
or recommendations for professional services.*

- Independent professionals Maria, Thomas and Dan will speak briefly on the topics of risk management, estate planning and financial education.
- Wine-Tasting & Food-Pairing Presentation
- Entertainment by Concert Pianist Maria Kurchevskaya

*Come relax for an evening!
The atmosphere will be casual.*

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Incise Insight Newsletter

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The content here is not intended to provide individual, family, or business financial advice. True financial advice cannot be provided without a deep understanding of each individual situation, which can only be accomplished through an in-depth analysis which involves a two-way dialogue. It is important that individuals take steps to meet with qualified professionals who take a macro-economic approach, not merely a "black box" financial planning approach to your finances including, but not limited to, risk, insurance, investments, or tax.