



Worried About the Stock Market?

It's hard to believe the stock market was hitting new highs just five weeks ago. October has been a rough month. I know some people are getting nervous based on questions or comments I've heard from friends, neighbors, and clients. One person asked me whether they should proceed with buying a house in light of what's going on in the stock market. Another asked me if I thought the market would recover before they needed to take their RMD next year, and a third asked if I thought we were at or near the bottom.

The bad news is I never know if the market is going to bounce right back as it has done dozens of times over the past several years, or if this is the beginning of a larger decline. The good news is this type of volatility is completely normal and expected.

Let's review:

As of the market close on 10/26/2018, the S&P 500 is down 9.28% since the market peak set on September 20. A diversified, moderate risk Morningstar portfolio index, that is common among investors over the age of 55, is down 5.85% for the same period. Investors never like to see any declines in their portfolio values, but even conservative investors should expect these types of swings.

Markets are more volatile than most people realize or remember. Here is a screenshot of a slide I use in a retirement planning course I teach that shows the gross return (before fees) of a conservative portfolio over the 20-year period of 1997—2016. This portfolio is more conservative than those of most retiree investors in my experience. This portfolio is 70% cash or bonds and only 30% stocks, yet it still declined 14.8% in a single year. *(Source: Thompson Reuters, 2017. Past performance is no guarantee of future results. The returns shown do not include taxes, fees, and other expenses. Actual results will vary.)*

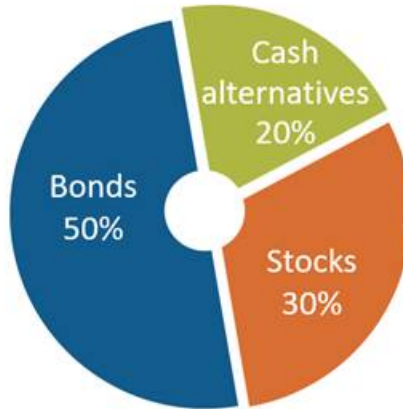
Conservative portfolio

1997–2016

Best year 17.3%

Worst year -14.8%

Avg. annual 6.1%



Does your investment portfolio match your risk tolerance?

We use software at our firm that measures the volatility of our portfolios and also assigns each client a risk score based on their answers to a risk tolerance questionnaire. This enables us to recommend an appropriate portfolio for each client. You can see in the screenshot below that a moderately conservative portfolio (risk score of 45) has a 95% probability of returning in the range of (-8.2% to +16.3%) in any 6-month period.

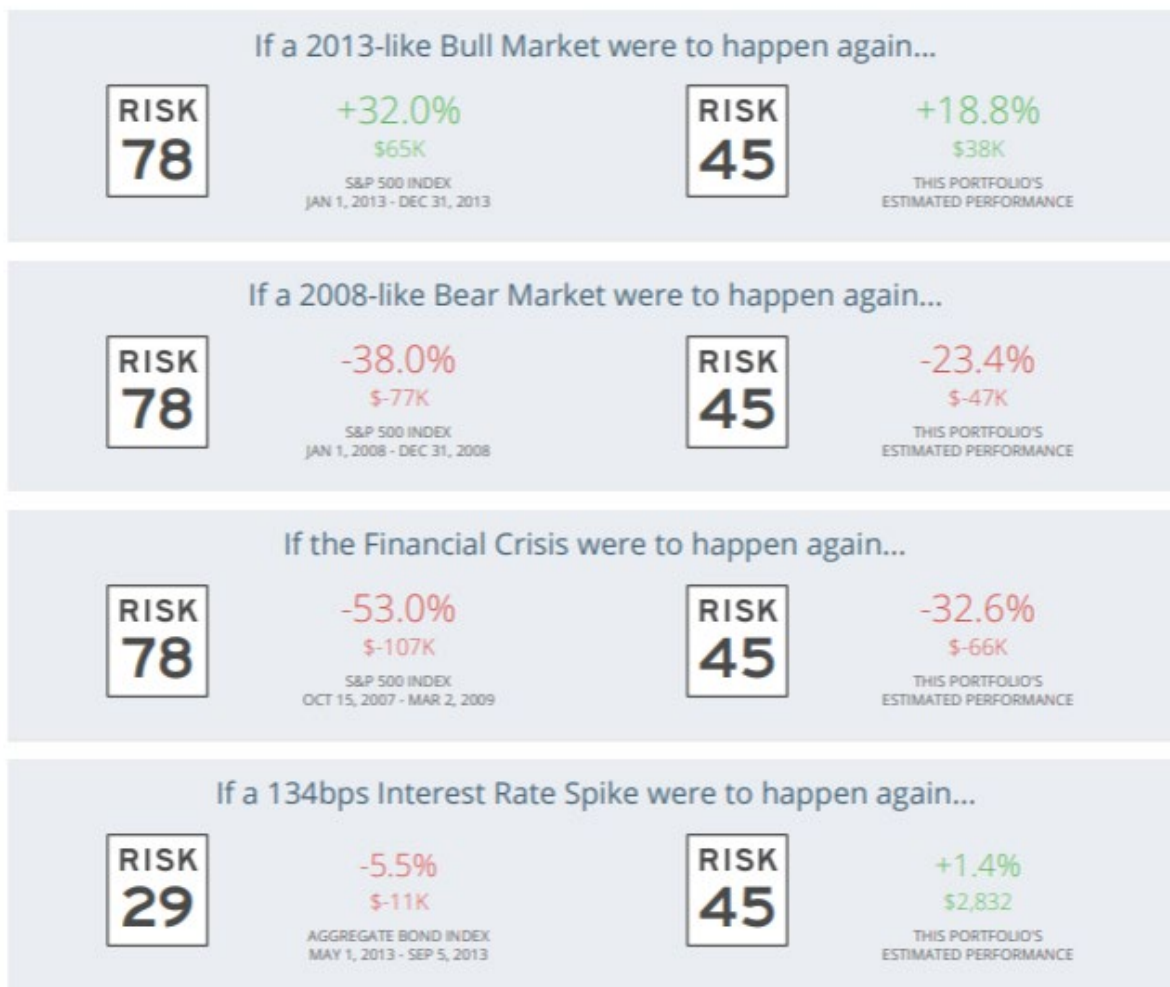
Target Asset Allocation (Proposed Portfolio)

This is your target asset allocation (proposed portfolio), as captured on January 05, 2018.



However, this is not the maximum upside or downside an investor in such a portfolio can expect. That range is just for a 6-month period. The screenshot below shows how this portfolio would have performed in some “stressful” market environments. In 2008, for example, a portfolio with these types of risk characteristics would have declined approximately 23.4%. You can also see in the screenshot below that the S&P 500 (risk score of 78) would have been down 38% during the same timeframe (2008).

Target Asset Allocation Stress Tests



These calculations are designed to be informational and educational only and do not constitute investment advice. Investors should review their investment strategy periodically as financial circumstances change. The stress tests provided are a rough approximation of future financial performance should markets experience conditions similar to those shown. It is highly unlikely that such historical events will repeat themselves. The results presented by this stress test are hypothetical and may not reflect the actual growth of actual investments. Riskalyze and its affiliates are not responsible for the consequences of any decisions or actions taken in reliance upon or as a result of the information provided.

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NOTE: These calculations do not report what happened to this portfolio during the noted market environment. The "this portfolio's estimated performance" uses actual volatility and correlation statistics from Jan 1 2008 through present in conjunction with the noted rate of return (or loss) for the index shown to present an estimated performance should another environment like those presented occur again. For example, the "2013-Like Bull Market" scenario uses the portfolio's actual volatility (as measured by standard deviation) and correlation statistics (using a correlation matrix) from January 1st 2008 through present while assuming the same return realized by the S & P 500 index in 2013 of 32%.

Should you play it safer?

Despite the positive long-term returns of the stock market, you may want to consider more conservative investments (municipal bonds, fixed annuities, CDs) if stock market volatility keeps you up at night, creates stress, or affects your health. These more conservative investments have less downside but also less growth potential. Realistic return assumptions for these "safe" assets over the next few years are likely in the 2–4% range.

Where does the market go from here?

I think there is a 50% chance the market rallies into year end and another 50% chance that the decline continues. [You cannot time these things](#). However, the good news is several positions within most well-diversified portfolios are not volatile. In other words, if your portfolio declines 6%, there are probably some holdings that are down 10% or more and others that may not be down at all. These stable holdings within a portfolio are important because they can buy you time and the ability to stay on course. You (or we) can sell these non-volatile holdings, as needed to fund withdrawals, giving the more volatile stuff time to recover.

I know that seeing account values vary by several thousand dollars in a day can be scary, especially if you are already retired or nearing retirement. However, the worst thing you can do is make emotional financial decisions that are not based on any type of plan or research. So, my advice is to get a financial plan, review it periodically, and stick with the plan that enables you to sleep at night *and* gives you a high probability of success (not running out of money). My other piece of advice is to stop watching the market and focus instead on enjoying your friends, family, travel, and hobbies. Leave the worrying to us.

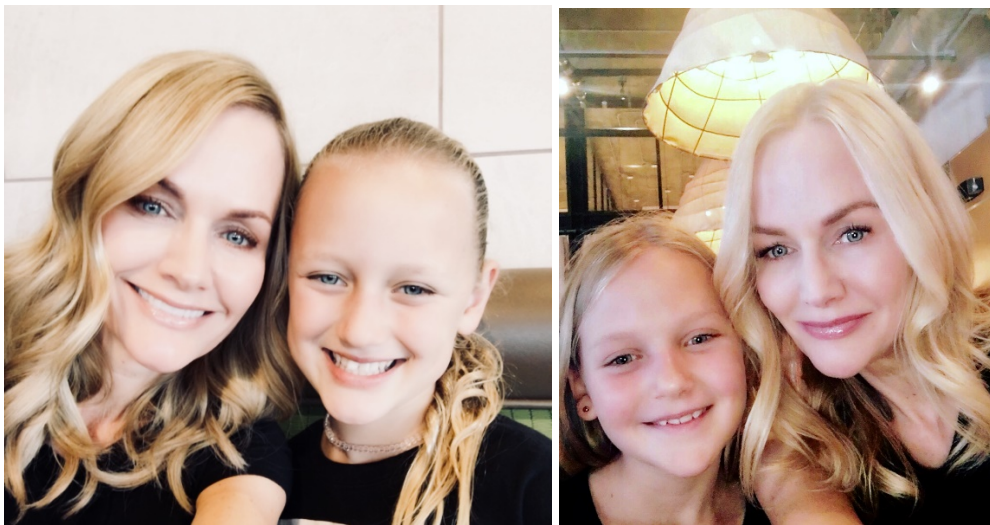


Have a great week and call or email any time with questions.

THOUGHT THIS WAS INTERESTING

A Birthday Poem

My wife, Angela, celebrated her birthday this past weekend. I won't say how old she was, but she's been celebrating her 21st birthday for about 27 years now. Anyway, my two younger kids (Grace 10, and Maya 9) asked her what she wanted for her birthday. Angela said she wanted something homemade. So, with minor assistance from me, they wrote her this poem:



My Mom

My mom doesn't like mornings, she dreads her alarm,
But after 3 cups of coffee, she has lots more charm.

She's extremely generous, always willing to share,
She irons our clothes and styles our hair.

My mom is beautiful...although not very tan,
On an unrelated note, she must sleep with a fan.

She lounges at the pool and thinks beach days are fun,
This is ironic, 'cause she hides from the sun.

My mom teaches us manners like "thank you and please,"
She makes taco soup and yummy grilled cheese.

She is loved by our dogs, Lily and Max,
She cooks them gourmet food and gives 'em lots of snacks.

Mom keeps a clean house, her bed's always made,
And if we do our chores, our allowance gets paid.

She is very creative, she likes doing art,
She gets good grades at nursing school, 'cause she's really smart.

My mom needs glasses, something's wrong with her eyes,
Her readers are 2x, and her "Over 40" app magnifies.

She tells us to clean up our room and pick up our toys,
But she'll have bigger things to worry about if we start liking boys.

My mom likes to dress up and go fancy places,
At bedtime kisses each of our faces.

She can be silly, making us laugh.
She likes '80s rock music, but doesn't like math.

Thank you for being the greatest mom ever,
We'd end with the perfect rhyme, if we were more clever.

*All our love, to the moon and back, kids love the most,
Gracie & Maya*