PANDEMICS AND THE STOCK MARKET

What to do with your money in the face of the unimaginable

The Retirement Income Store®

Pandemics, Market Free Falls And The Assault On Retirement Savings

By David J. Scranton, CLU, ChFC, CFP®, CFA, MSFS

To say March 2020 was a volatile month for the stock market would be an understatement. During the course of the month, the market's fluctuations have resulted in substantial losses. Many Americans have seen their portfolios shrink by 20% or more.

It's déjà vu once again. With the outbreak of the coronavirus, ensuing economic slowdown and violent market reaction, many have grown fearful of investing. The speed and severity of this COVID-19 outbreak, combined with the massive behavioral and economic consequences has driven the global financial crisis. Worst of all, this has cost many Americans their lives as the outbreak continues to spread.

We are certainly entering uncharted territory. It feels scary and overwhelming. Many economists see this as a backdrop to a correction, and the stock market is teetering on recession.

The damage wasn't limited to domestic markets either. The incredible drop in U.S. equities impacts markets around the world, and downturns globally also impact our market. The sell-off wiped out many investors' gains for several years, along with the retirement dreams of many who are close to retirement age.

A Look Back in History

This whole situation reminded me of when I watched the dot com-com implosion tear apart the markets in 2000, and when I saw so many peoples' fortunes decimated during the 2007 - 2009 stock market collapse.

In 1999, while most Wall Street cheerleaders seemed to believe that the sky was the limit, I believed something completely different. My knowledge of stock market history led me to believe that a big market correction was right around the corner. I knew from my interpretation of basic historical trends that the market was going to take a turn for the worst. The trends also told me that there would be a series of dips that would last 15 - 20 years before the market improved again.

By understanding the history and trends, it enabled me to foresee the coming 2000 stock market collapse and the onset of what I believed would be a new 20-plus year secular bear market cycle. Sure enough, the first big drop occurred from 2000 - 2002. Fortunately, I was able to warn many of my clients of what I felt was coming and managed to help them avoid damaging losses to their retirement savings.

It was at this time that I decided to change my business model and build my practice around defensive, income-based financial strategies designed to help protect clients from dramatic stock market fluctuations and economic uncertainties.

The Birth of the Income Generation

In 2015, I founded Sound Income Strategies, LLC. Sound Income Strategies (SIS) is made up of experienced investment management specialists, who provide their clients actively managed portfolios with the goal of maximizing income first and opportunities for growth second.

Although Sound Income Strategies works with a broad range of clients, we specialize in working with those who are retired or near retirement. Increasingly, that means we work with Americans in the Baby Boomer – or what I call the Income Generation – demographic who understand that the game has changed significantly when it comes to planning for retirement.

For most Baby Boomers, traditional employer-based pensions no longer exist. In the wake of two major stock market drops since the year 2000, many have learned the hard way that the mutual funds in their retirement accounts are vulnerable.

Baby Boomers understand that the onus is on them, more than ever before, to prepare financially for retirement and try to protect their assets. With that in mind, we put a strong emphasis on active portfolio management and client education, working with all our clients to ensure they have the best possible investment strategy in place to meet their particular goals.

We make sure our clients understand their investment options, the importance of financial defense, the alarming facts about stock market history, and how changing interest rates can impact certain investments adversely.

People at or near retirement who are aggressively invested in the stock market should meet with an advisor who can better allocate their funds between risky and less-risky investments, such as bonds or bond-like instruments.

Granted, the stock market has performed very well over the past decade, recovering nicely from the financial crisis in the late 2000s. However, it is also important to note that market performance has been propped up in part by extensive quantitative easing from both the Federal Reserve and global central banks.

It is reasonable to question your judgement when you see markets fall the way they have recently. It's also easy to let your emotions get the better of you. However, even amidst the free fall, you need to adopt a rational approach and trust your fiduciary to help you reach your financial goals.

Surprising Facts of Stock Market Investing

Believe it or not, since the turn of the century, fixed-income investors have achieved an average return that is very similar, if not slightly better, to that of buy-and-hold stock market investors. These stock market investors have averaged roughly 4.75% with dividends factored in and accounting for inflation through the end of 2017.[1]

By comparison, many income-based investors whose portfolios have been properly managed have achieved close to 5% income and greater than a 5% total return.[2] Plus, they've done it with far less risk of a major loss during the two major market corrections that occurred between 2000 to 2002 and 2007 to 2009.

In a way, fixed-income investors have been able to put their portfolios on "cruise control" and not worry if the next big market correction is right around the corner.

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1 Annualized growth rate of the S&P 500 January 1 2000 – December 30, 2017: http://moneychimp.com/features/market_cagr.htm

2 https://www.advisoryhq.com/articles/best-fixed-income-investments

Conclusion

The bottom line is that right now is a good time for anyone close to retirement to reduce, and even eliminate, their exposure to stock market risk. The markets have had a good run lately, and although they could still climb slightly higher, there is also a good chance we could see a third major market correction in the near future. There is also the possibility that we are in one of those declines right now.

If you are just starting out in your career, you might be able to ride out such a loss and be alright once you are ready to retire. However, if you are in or near retirement age, you don't have the same luxury. We believe that individual investors who put their money to work with the same purpose-based methods used by institutional investors could significantly reduce and even eliminate the need to invest in the stock market during retirement. This is good because the next bear market could leave the portfolios of those still investing in stocks torn apart.

The impact of COVID-19 will be with us for a while, certainly into 2021. Many economists believe a recession is imminent. The question is for how long, and that's what's disrupting the markets. They recognize that governments will respond differently to the pandemic – leading to different outcomes for the stock market. Regardless, we will be in a different place in 2022. Will it be a better one? That's to be determined.

About The Retirement Income Store®

The Retirement Income Store, is made up of a national network of Income Specialists with a common goal of helping retirees and pre-retirees reduce their exposure to stock market risk, so they can use their retirement savings to establish ongoing streams of income for retirement. Our Income Specialists are not just fiduciaries; they understand both pre-retiree and retiree investment needs. They provide guidance and take comfort in knowing that our income-based strategies better protect clients from market turmoil.

About David J. Scranton

David J. Scranton is a money manager, Amazon Bestselling Author, national TV host of The Income Generation, Founder of Sound Income Strategies, LLC, The Retirement Income Store®, and Advisors' Academy. For over three decades, David has made it his mission to educate those at or near retirement about a more conservative investment strategy – Investing for Income.

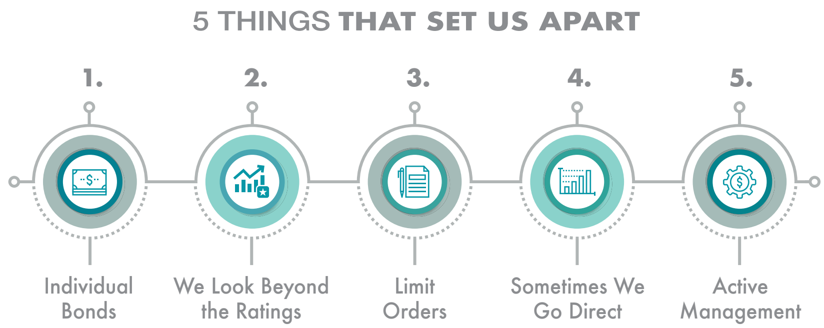
If you are not willing to own a stock for 10 years, do not even think about owning it for 10 minutes.

— Warren Buffett, CEO of Berkshire Hathaway

5 Things that Set Our Income Specialists Apart

In the financial services industry, financial advisors will typically specialize in either the stock market or the bond market, but seldom both. If an advisor says they can help you with fixed income investing, most will take the easy way out and invest your money in bond mutual funds.

The problem is that bond funds tend to have risks and tax implications that can be significantly reduced by investing in an actively managed portfolio of individual bonds. That brings us to the first thing that sets the Income Specialists at Sound Income Strategies and The Retirement Income Store® apart from the typical stock market-based financial advisor.



1. Income Specialists Invest Client Money in Individual Bonds, Not Bond Mutual Funds

Our Income Specialists possess the specialized training and knowledge required to create customized portfolios of individual fixed income securities, such as bonds and bond-like instruments. When you buy an individual bond, you have a guarantee that you'll get a fixed rate of interest for the life of the bond, and when the bond matures, you're guaranteed to get the face value of the bond back at maturity—assuming no defaults. With bond mutual funds, neither guarantee exists.

2. Income Specialists Look Beyond the Ratings

We learned during the Financial Crisis of 2007-2009 that all those AAA-rated mortgage bonds that were about to default had ratings attached to them that were far too generous. Income Specialists know they need to look beyond these ratings to research the actual financials and management of the issuers themselves.

3. Income Specialists Use Limit Orders

Most advisors will purchase fixed income securities using market orders and will end up buying those securities at prevailing market prices for that day. Our Income Specialists use limit orders when buying fixed income securities on their clients' behalf. That way, if the prices of those securities happen to be up that day, we can be sure our clients don't overpay.

4. Income Specialists Go Directly to Buyers And Sellers to Negotiate The Best Prices

Our Income Specialists are committed to conducting the research required to find out who is buying and selling various fixed income securities at any given time. That way, our traders can go directly to the buyer or seller and negotiate a better price for our clients.

5. Income Specialists take an Active Management Approach

Our active management of individual fixed income securities allows our portfolio managers to continually identify and act upon opportunities to maximize returns for our clients. Our active management approach allows us to take advantage of market dislocations and other short-term developments in order to capitalize on opportunities to upgrade, or swap, for higher yields or capital gains for our clients.

While most Registered Investment Advisory firms take shortcuts to simplify their efforts, our management team is diligent in their research. We seek to build customized portfolios of individual fixed income securities that fit the individual needs of each client. In other words, we concentrate on helping you look forward to retirement with a greater sense of security than most typical stock marked-based plans can offer.

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