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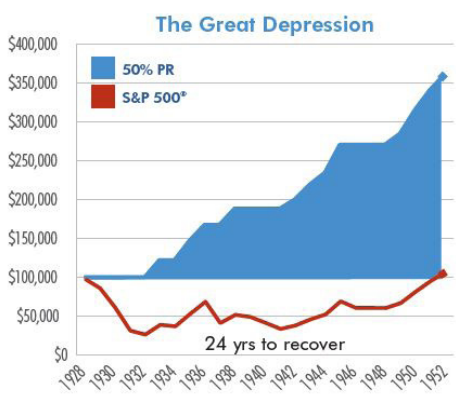
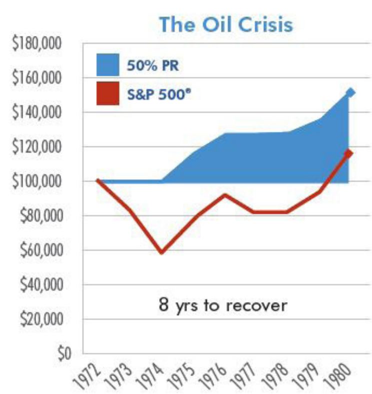
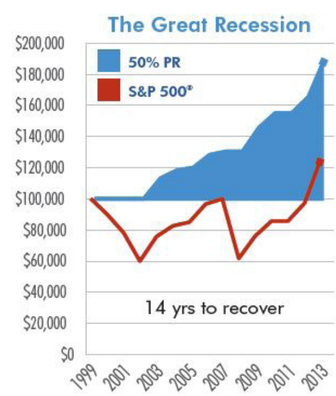
Beware of the Bear…Market

One risk with traditional asset allocation is a "bear market," defined as a period of time where the market frequently drops 20% or more from peak to trough.[3] Bear markets eat away at the stock and bond portion of your retirement portfolio. According to research by Ativa Interactive, from 1900–2013, there were 32 bear markets, or about one every 3.5 years.[4] It takes an average of 24 months for the stock market to recover from a bear market. It could take much longer, depending on how your assets are invested. Suppose your portfolio declined 35% from $100,000 to $65,000, at a 4% annual return it would take 11 years for your portfolio to recover to your initial value of $100,000. At 6% annual return, it would take 8 years to recover, while at 8% it would take 6 years before you are back to the point where you started.

Figure 2 compares two sets of data: the average number of years it takes to recover from bear markets during your working years while you are still accumulating assets, and the number of years it takes during retirement, when you are withdrawing money at 5% per year. As you can see, it is much easier to recover from a bear market when you are working and accumulating money than when you are retired and taking money out of your retirement savings.







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Longevity: The Longer You Live, The More Money You Need

One hundred years ago, it was unusual to know someone who was older than age 80. Today, the average life expectancy for most Americans is 80, or even older. According to MarketWatch, for a married couple both aged 65, there is a 1 in 4 chance that one spouse will live for another 30 years. You want to make sure your retirement savings will support your lifestyle for that long of a period of time once you start taking distributions. Running out of money too soon has become a legitimate concern, as projected life expectancy is extended.

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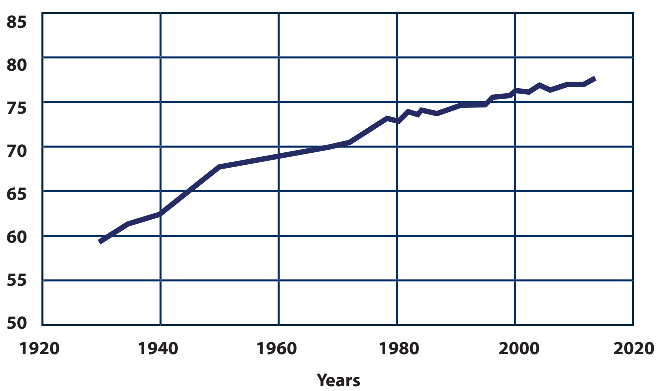
Living longer is a blessing. While you are working and accumulating assets, time is your ally. However, once you are retired, from a financial standpoint, it can be a risk and a challenge: you may need steady retirement income for 30 years or more. Longevity increases the likelihood that you could outlive your money. Figure 5a shows the life expectancy for individuals living in the United States—notice the steady increase. By contrast, Figure 5b shows the value of a hypothetical retirement portfolio. This illustration assumes you have $250,000 at the beginning of retirement and you will withdraw $20,000 per year. It also assumes an average return of 2.5% per year from a bank CD or similar low risk investment. Unfortunately, in this typical scenario you will run out of savings in just 15 years. So, if you live longer than 81 years old, which is quite possible, you will have nothing left to cover your daily living expenses.

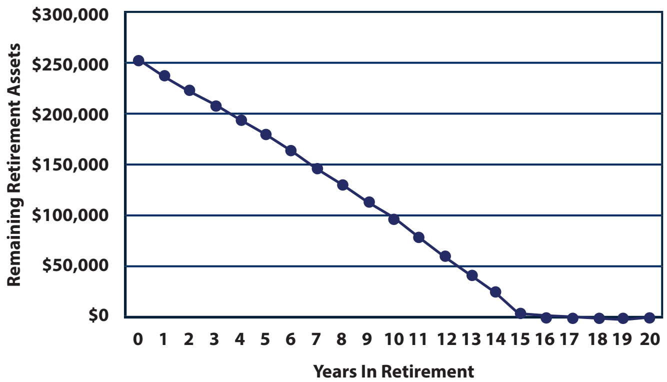
Traditional investment vehicles (stocks, bonds, mutual funds, or bank CDs) do not guarantee lifetime income.[1] You risk running out of money with these investments.[8]

Figure 5a: Life Expectancy of United States (1920–2014)



Source: Centers for Disease Control and Prevention

Figure 5b: Depleting Savings in Retirement



Assumptions: At the beginning of retirement: $250,000

Withdraw: $20,000 per year. Average return from a CD[7] or low risk investment: 2.5% per year annual rate of return.

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