Her Retirement®

Get comfy and grab yourself a cup of tea, coffee, water or wine.
Say hi and let everyone know your favorite Netflix show.

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Housekeeping…

- Get comfy: turn off and tune out distractions
- Next 2 weeks, same time, same place, same Zoom link
- 90-minutes for each session (6 hours of retirement education)
- Try to start and end on time
- Replay links and homework will be available day after class at:
  - Masterclass Homework – Her Retirement
- Audio and video controls
- Taking notes: pen and paper
- Post questions in the chat (prize to peeps who comment most)
- Prizes from Class 1…are coming!

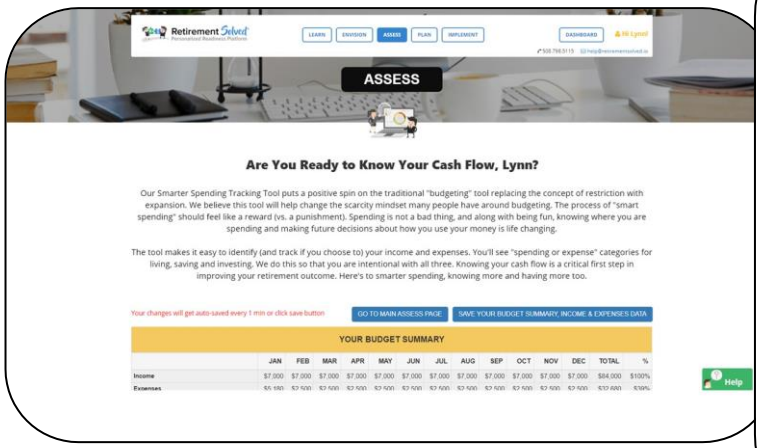
This Week's Mom Story

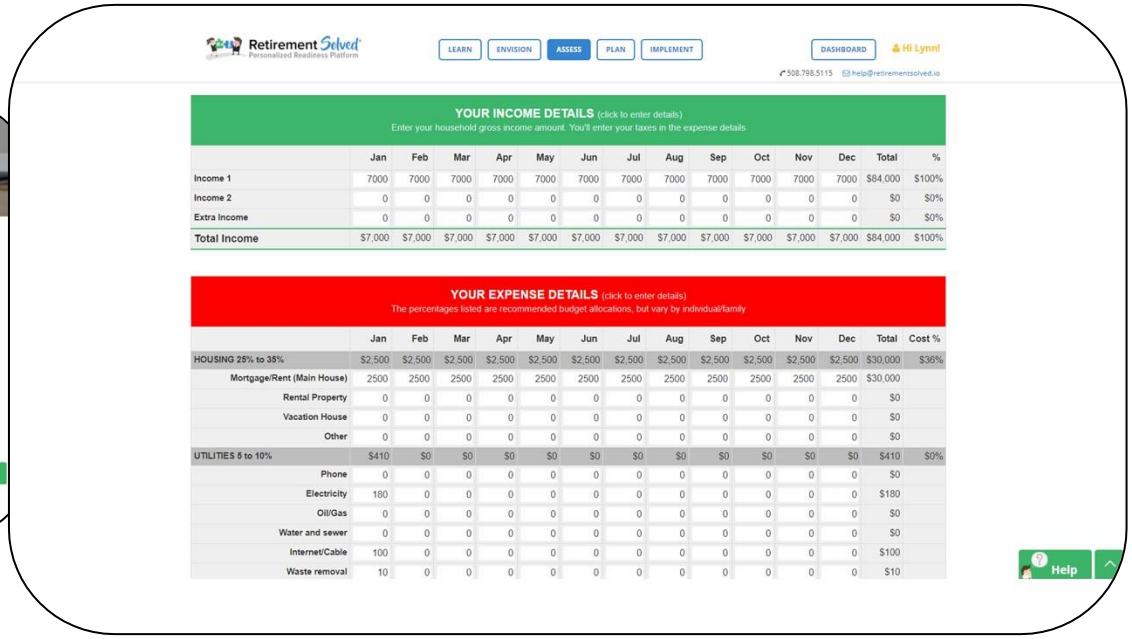
Doggie daycare at meem's house

And more of her suggestions

How did everyone do with the homework?

Check out Spending Tracker Tool





In Addition to Teaching, Brian is a Retirement Advisor to Many Pre- & Post-Retirees

- YRA is a one-stop retirement advisory practice focused on pre-retirees 50-70 years old
  - Offices in Acton, Worcester & Leominster
  - Services offered online across US
- Resident retirement “geek”
- Investment Advisor Representative with 30 years experience
- Founder: Tax Smart Network
- Former professional football player: Patriots, USFL, Arena.

Brian Saranovitz

Brian Featured in National News Media

& author of many white papers

Forbes

U.S.News & World Report

HUFFPOST

FiduciaryNews.com
Stay Informed. Stay Up-To-Date. Stay Safe.

Work+Money

GO BankingRates

moneytips

MarketWatch

Reader's digest

Listing in this publication is not a guarantee of future Investment success. This recognition should not be construed as an endorsement of the advisor by any client.

https://yourretirementadvisor.com/2018/08/07/brian-saranovitz-featured-in-forbes/

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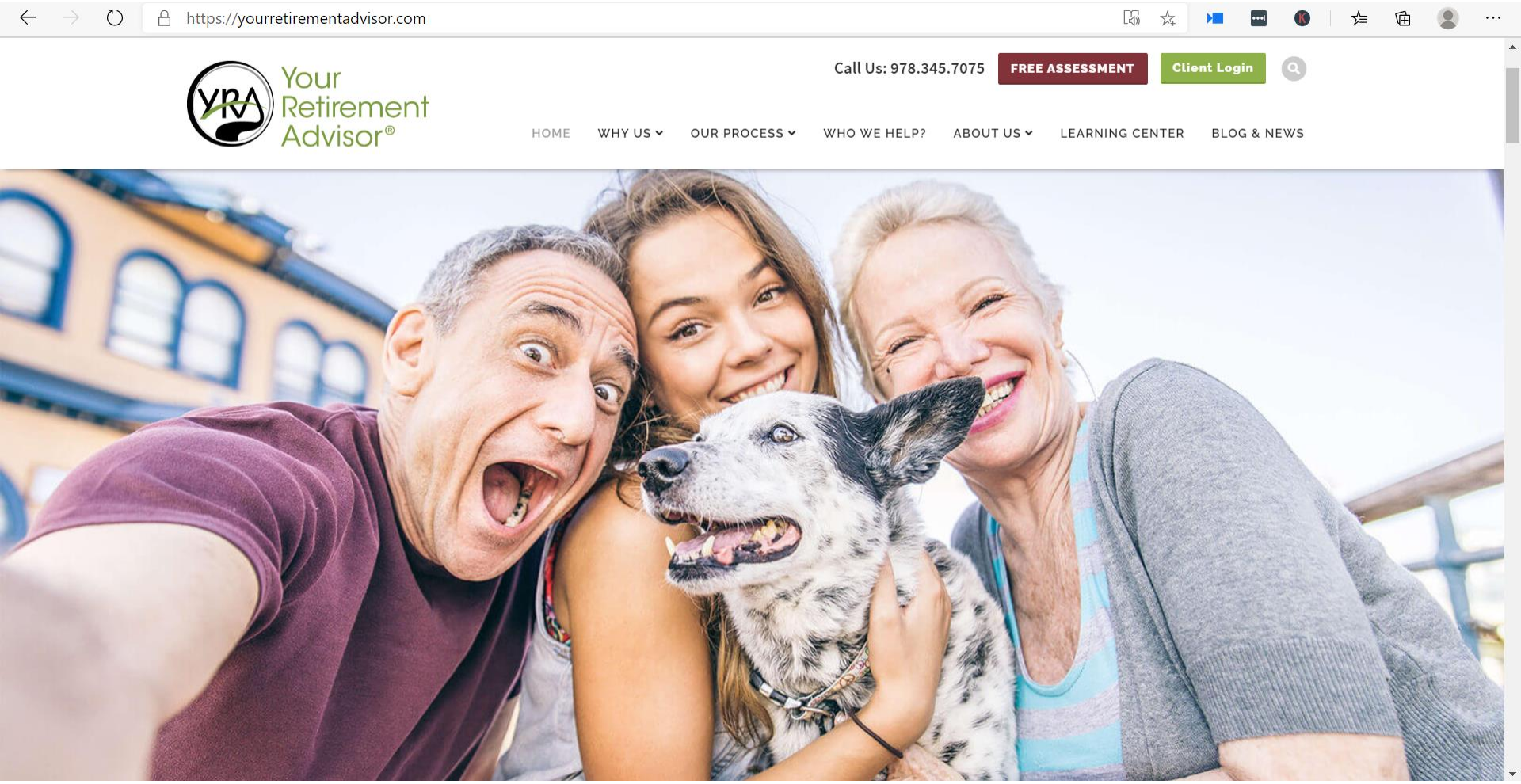

www.YourRetirementAdvisor.com

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Build Your Plan with these Steps

- ❑ Use the Retirement Readiness Platform to Take an Inventory and Understand Possible Gaps
- ❑ Get serious about physical and mental health
- ❑ Pre-Retirement Optimization
- ❑ Consider your goals/lifestyle desires
- ❑ Understand & address risks
- ❑ Create your Income Distribution Plan
  - ❑ Identify sources of income & expenses
  - ❑ Address any gap
  - ❑ Refine your retirement portfolio to balance growth & guarantees
  - ❑ Understand fees and portfolio costs
  - ❑ Choose tax efficient withdrawals
- ❑ Create your Income Protection Plan
- ❑ Get Reliable Guidance

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“ Most advisors concentrate solely on managing investments. They don’t incorporate all the intricate retirement strategies that must be utilized to dramatically increase the probability of a retiree’s success.”

–Dr. Wade Pfau, Retirement Researcher

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Non-Traditional Approach

The 5 Most Important Multi-Discipline Strategies

1. **Retirement Portfolio Optimization (RPO) –** *Reducing volatility in your portfolio is imperative to creating a sustainable retirement income for life.* Properly combining a globally diversified stock portfolio, structured products and principal protected FIAs can dramatically reduce portfolio risk and thereby increase portfolio survival (meaning not running out of money).

2. **Tax Efficient Income Distribution –** *Tax efficiency in retirement will reduce taxes and ultimately increase the probability of portfolio survival.* Tax diversification (having tax-free, taxable and tax-deferred investments) in retirement offers the ability to create a tax efficient income distribution strategy.

3. **Social Security Timing** – *Proper Social Security filing and maximizing this important income source can dramatically increase the probability of retirement success.* Social Security income accounts for almost 33% of the average retirement income for retired Americans.

Non-Traditional Approach

The 5 Most Important Multi-Discipline Strategies

4. **Alpha-Efficient Portfolio Management** - *Adding positive manger "Alpha Effect" to a retirement portfolio can increase portfolio survivability when withdrawing income.* A high-quality investment portfolio incorporating low-cost passive index funds with active money managers can potentially increase returns above a "passive only" strategy.

5. **Prudent Use of Home Equity in Retirement** - *Leading academic research indicates that the use of home equity in retirement can increase the probability of portfolio survival* and increase the legacy to loved ones.

Activate
Go to Settin

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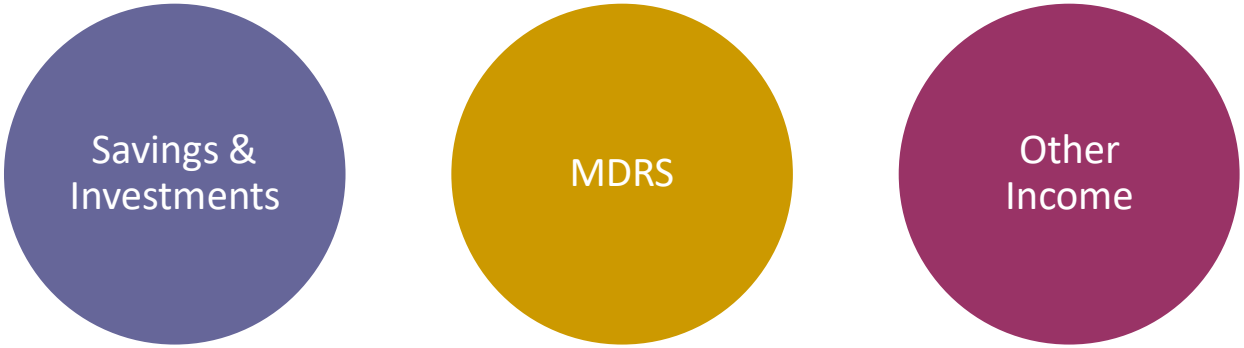
Retirement Income Planning

Other ways to create income…



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Assuming you have an Income Gap, you can create a "retirement paycheck" from your savings & investments.

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One of the most important factors in creating this paycheck is to determine how much can be taken out "safely."

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This is called the
Safe Withdrawal Rate (SWR) or
Portfolio Overdraft.

Have you heard of SWR?

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You also have other vital risks to mitigate.

The Right Plan Mitigates Risks

Portfolio Overdraft Risk

Portfolio Overdraft Risk is the risk of taking too much money out of your portfolio early in retirement

Your plan must address the Safe Withdrawal Rule:
The percentage of a portfolio that can be safely withdrawn annually (adjusted for inflation), keeping the portfolio intact for a retiree's lifetime.

William Bengen 1994 study = 4%

- Findings based on historical data dating back to 1926
- Portfolio was invested 50% in S&P 500 stocks and 50% in intermediate term government bonds
- Bengen recently said his rule is a guide NOT a rule
- Due to today's low interest rate environment, many recent studies have refuted Bengen's 4% rule

The Safe Withdrawal Rule

Low Bond Yields and Safe Portfolio Withdrawal Rates, Morningstar Research

- Morningstar's Research refutes Bengen's 4% rule
- Adjusted the "safe withdrawal" rate down to 2.4% when investing in a 60% stock/40% bond portfolio with a 30 year retirement time horizon.[4]

Hypothetical Example: $500,000 portfolio Value

- 4.0% withdrawal = $20,000 per year income
- 2.4% withdrawal = $12,000 per year income

This equates to a 40% decrease in income!

Investments in securities do not offer a fix rate of return. Principal, yield and/or share price will fluctuate with changes in market conditions and, when sold or redeemed, you may receive more or less than originally invested. No system or financial planning strategy can guarantee future results.

The Safe Withdrawal Rule

Morningstar's Executive Summary states:

"Yields on government bonds are well below historical averages. These low yields will have a significant impact for retirees who tend to invest heavily in bonds."

"We find a significant reduction in 'safe' initial withdrawal rates, with a 4% initial real withdrawal rate having approximately a 50% probability of success over a 30 year period."

Investments in securities do not offer a fix rate of return. Principal, yield and/or share price will fluctuate with changes in market conditions and, when sold or redeemed, you may receive more or less than originally invested. No system or financial planning strategy can guarantee future results.

Market Volatility Risk

- Volatility is a statistical measure of the dispersion of returns for a given security or market index. Commonly, the higher the volatility the riskier the security. – Investopedia, 2017

"Studies *prove that the higher volatility portfolio, when taking withdrawals, the shorter the portfolio will last."*

Volatility Is A Portfolio Killer

- **Growth Phase –** Accumulating your assets

  Volatility has no effect on the final value of a growth portfolio

  ✓ A portfolio with high volatility Vs a low volatility portfolio will end up with the same value over time when in the growth phase

- **Income Phase –** Taking Income from your assets

  Volatility has a major effect on a portfolio when taking withdrawals

  ✓ A portfolio with the lower volatility will last longer when taking withdrawals, all other variables being equal

Market Volatility Risk

Why You Must Care About Volatility in Retirement

by Sure Dividend, Seeking Alpha, Oct 14, 2014

Study Variables:

- Initial portfolio value: $1,000,000 portfolio
- Annual withdrawal (for living expenses): $3,333 /month
- Assumed rate of return: 9% per year in all scenarios
- 30-year duration for different standard deviation levels

Study Findings:

- 45% standard deviation = 69% chance of failure
- 30% standard deviation = 40% chance of failure
- 20% standard deviation = 12% chance of failure
- 15% standard deviation = 3% chance of failure
- 10% standard deviation = 0% chance of failure

Sequence of Return Risk

"Sequence of return risk is the risk of receiving lower or negative returns early in a period when withdrawals are made from investments" (Investopedia, 2017)

- The first 10 years of returns indicates your retirement outcome
  - Negative Sequence - Lower returns in the early years
  - Positive Sequence - Higher than average returns in the early years

Sequence of Return Risk

Possible Scenarios

- Negative Sequences
  - Lower bond yields (current interest rate environment)
  - Stock market losses (2000-2001 & 2007-2008)
  - The Lost Decade (2000-2010)

- Positive Sequences
  - Higher bond yields (1962-2008)
  - Stock Market Bull Market (2009-2018)

Where Will Interest Rates Be When You Retire?

10 Year Treasury Yields

Treasuries have generated a 1.26% ROR (2012-2018)

Source: for S&P 500 and 10 Yr T Bonds annual returns on stocks, T-bonds and T-bills 1928-current, www.stern.nyu.edu

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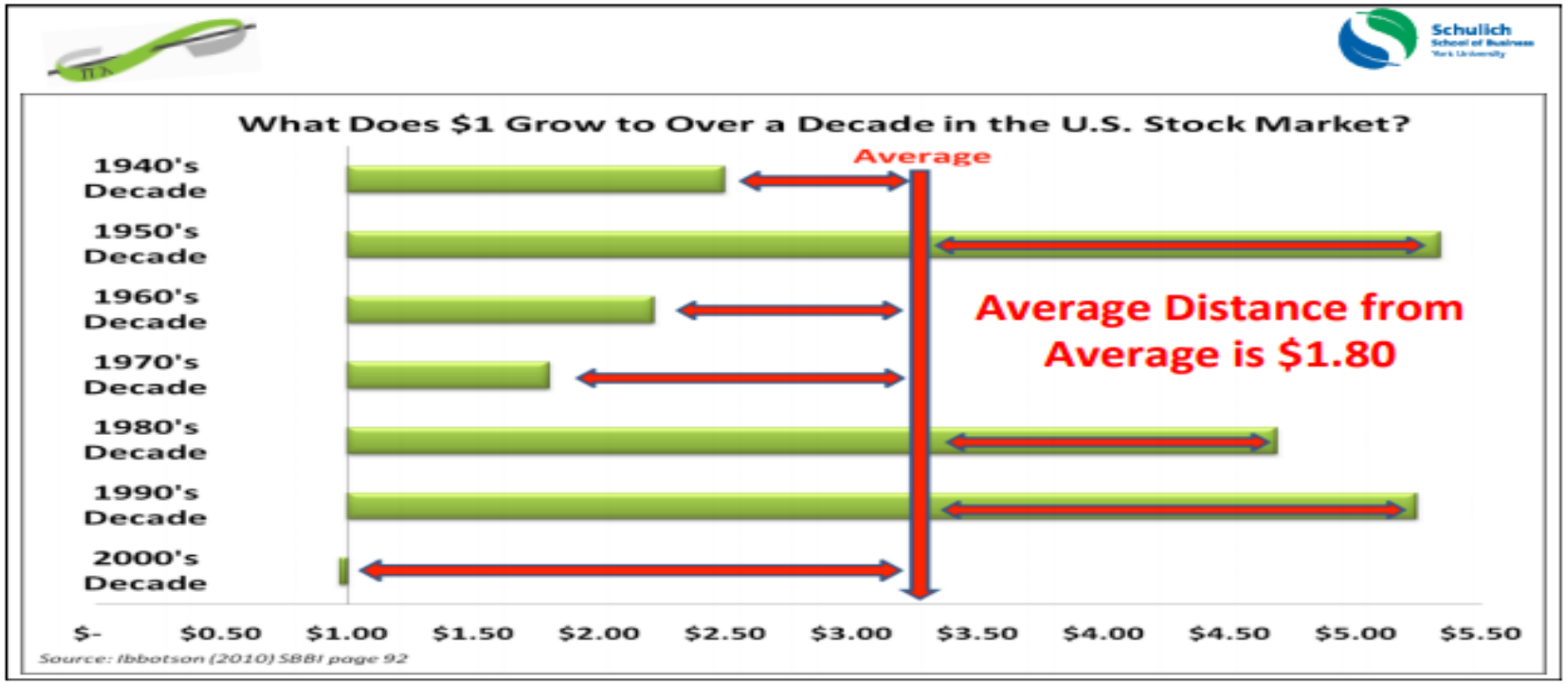
Where Will Stocks Be When You Retire?



Interest Rate Risk

Interest rate risk is the potential for rising interest rates to cause the decrease in price of an investment

- When interest rates go up, the current market price of bonds goes down

- When interest rates rise, stocks usually do not perform as well, especially if they have a large amount of debt

Two Viable Solutions to the Bond Dilemma

Solution #1: Market-Linked Structured Products

What is a Market Linked Structured Product???

Definition: A Structured investment product is a type of investment that is designed to meet specific investor needs with a customized product mix. They typically use derivatives to meet the investment objective, whether it be to increase return or decrease risk. They can be linked to any market index such as the S&P 500 Index to derive their return.

Source: MarketWatch.com, 4.23.20

Two Viable Solutions to the Bond Dilemma

Market-Linked Structured Products

As a Bond Alternative

- Designed to offer principal protection to eliminate or minimize market losses on the market index
- The investor will receive a ***percentage*** of the market index return known as a Cap
- Greater growth potential than a bond and with lower risk

GREATER RETURN POTENTIAL with LESS RISK is an awesome combination when approaching or in retirement as we have discussed!

Source: MarketWatch.com, 4.23.20

Two Viable Solutions to the Bond Dilemma

Solution #2: Fixed Index Annuities (FIAs)

What is an FIA???

Definition: An indexed annuity is a type of annuity contract that pays an interest rate based on the performance of a specified market index, such as the S&P 500. Many investment indices are utilized today and many crediting methodologies exist.

Indexed annuities offer their owners, or annuitants, the opportunity to earn higher yields than fixed annuities when the financial markets or the index perform well. Typically, they also provide protection against market declines in the index selected.

Two Viable Solutions to the Bond Dilemma

Fixed Index Annuities (FIAs)

FIAs follow the performance of the market by offering interest credits based in part on the performance of investment indices

- FIAs protect against market downturns
  - No market losses – "zero is your hero"
- Growth linked to an investable index
  - Will receive a ***percentage*** of the index return through caps, participation rates and spreads
- Alternative to a bonds ***NOT an alternative to stocks***

Two Viable Solutions to the Bond Dilemma

Choose your FIA or your SIP carefully

Contract #1

S&P 500 Index Return (2017): 19.82%

Participation Rate: 60%

Cap: 14%

Spread/Fee: 3%

Crediting Period: 1 Year

Credited to account: 5.40%

Contract #2

S&P 500 Index Return (2017): 19.82%

Participation Rate: 40%

Cap: No Cap

Spread/Fee: 1%

Crediting Period: 1 Year

Credited to account: 6.92%

Inflation Risk

Inflation will erode the purchasing power of dollars in the future. This is important if you retire on a fixed income.

	Cost Today	Cost in 20 Years
Gallon of milk	$3.50	$6.32
Haircut	$30	$54.18
Running shoes	$85	$153.52
New car	$20,000	$36,122

Assumes a 3% annual inflation rate, which cannot be guaranteed

Stocks are the best hedge against inflation?

True or False?

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What's Up with Inflation Today?

Are You Concerned? Should We Be Concerned?

In Summary…

- ✓ The sequence of investment returns & volatility risk can significantly impact your investment portfolio when taking distributions
- ✓ The Math proves… The portfolio with the lower risk, when taking withdrawals, will last longer all other factors being equal
- ✓ At current low interest rates, bonds will not generate the returns of the past
- ✓ According to leading research from Morningstar the new Safe Withdrawal Rate is reduced from 4% to 2.4%
- ✓ Market-Linked Products and FIAs offer a viable solution to the bond dilemma

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Now that we understand the risks we should mitigate, let's talk about how our "retirement portfolio" should be allocated to mitigate risks and create as much income, growth and protection as possible.

Disclosure:

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Your savings & investments are invested in various "portfolios." A typical pre-retirement portfolio is 60% stocks and 40% bonds. But some people have upwards of 80-90% in stocks.

Creating an Efficient Income Portfolio

3 Strategies to create an *Efficient Retirement Income*

STRATEGY 1: Retirement Portfolio Optimization – Reduce Risk, Increase Return

- Integrate investments and strategies properly to reduce portfolio risk & Increase growth potential

STRATEGY 2: Alpha Portfolio Management – Maximize investment returns

- Adding positive manager alpha to a portfolio to potentially increase returns above the index

STRATEGY 3: Tax-Efficiency Income Distribution – Reduce taxes

- Creating a tax-efficient income to decrease taxes can increase spendable income or leave a larger legacy to loved ones

Creating an Efficient Income Portfolio

STRATEGY 1: Retirement Portfolio Optimization –

- Reduce portfolio volatility and risk
- Increase growth potential

The goal: To create a portfolio with the highest return for the risk you are assuming

The stock market is extremely resilient but extremely volatile!

The Coronavirus V-Shaped Recovery

S&P 500 Index

- February 19th 2020 – March 23rd 2020 = **- 33.41%**
- March 24th 2020 – December 1st 2020 = **+ 60.35%**

  - **2020 Return of the S&P 500 Index = 15.76%**

History of Bear Markets

*Must understand what a **true Bear Market looks like** and how Sequence of Returns can effect your retirement*

*With the Coronavirus V-Shaped recovery and the last 10 year raging bull market, it is imperative for **pre-retirees to wake up to some stock market realities…***

As my old football coach once said, "When your winning, don't get fat, dumb and happy!"

Bear Market Definition - Investopedia, Mar 22, 2020

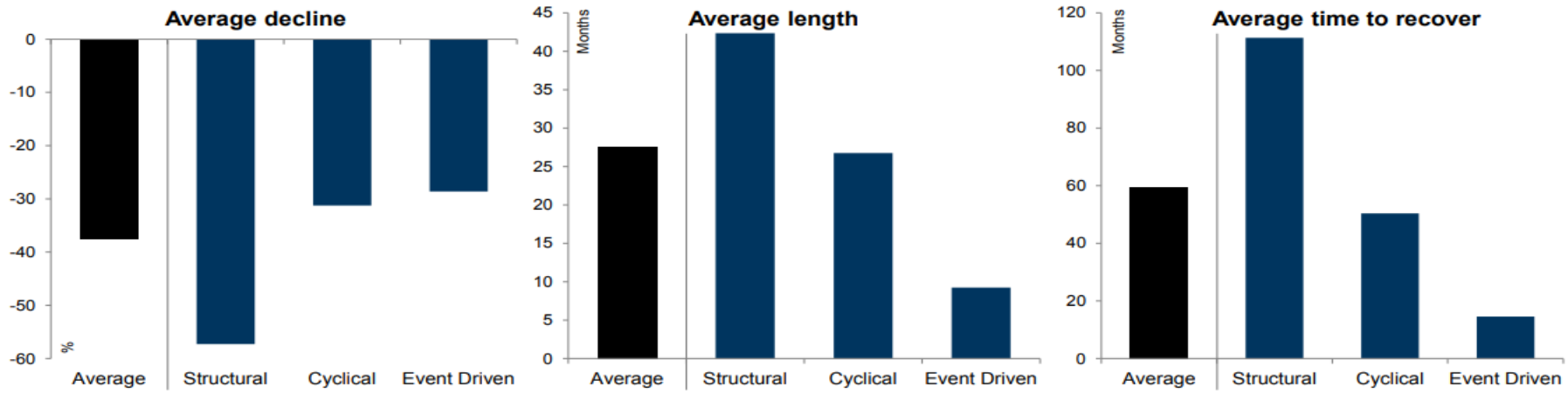
By definition … A **bear market** is when the market experiences prolonged price declines.

It typically describes a condition in which securities prices fall 20% or more from recent highs amid widespread pessimism and negative investor sentiment.

History of Bear Markets since 1835

3 Types of Bear Markets (market downturn of 20% or greater)

- **Structural bear markets**, on average, see drops of 57%
- **Cyclical Bear Markets,** on average, see drops of 31%
- **"Event driven" Bear Markets**, on average, see drops of 28%



Source: Goldman Sachs Global Investment Research

Challenging the "Status Quo"

We are now going to challenge the "status quo" that most "traditional" advisors and individual retirees still rely on…

With or without a pandemic, we as retirement educators have successfully been challenging convention for many years.

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The Unconventional Yet Efficient Retirement Strategy…

The Hybrid Income Portfolio (HIP)

The UNCONVENTIONAL yet highly EFFICIENT solution

Retirement Portfolio Design

Conventional Portfolio Vs Unconventional Portfolio

- ✓ Remember the portfolio with the lower volatility, when taking withdrawals, will last longer all other factors being equal
- ✓ Raising the Safe Withdrawal Rate is paramount to maximizing retirement income
- ✓ The Unconventional Portfolio reduces risk and offers higher potential return and ultimately more potential income

Let the Games Begin!

Retirement Portfolio Design

Conventional Portfolio Vs Unconventional Portfolio

Conventional Retirement Portfolio Design

- Diversified Stocks: 60%
- Bonds: 40%

Summary

- ✓ Inefficient portfolio design
  - ✓ Higher risk & lower return potential
  - ✓ Low bond yields may reduce portfolio returns moving forward
  - ✓ An Increasing interest rate environment will increase portfolio risk & volatility

S&P500 Index & 3-month treasury bonds: http://www.stern.nyu.edu/~adamodar/pc/datasets/histretSP.xls

Retirement Portfolio Design

Conventional Portfolio Vs Unconventional Portfolio

Unconventional Retirement Portfolio Design

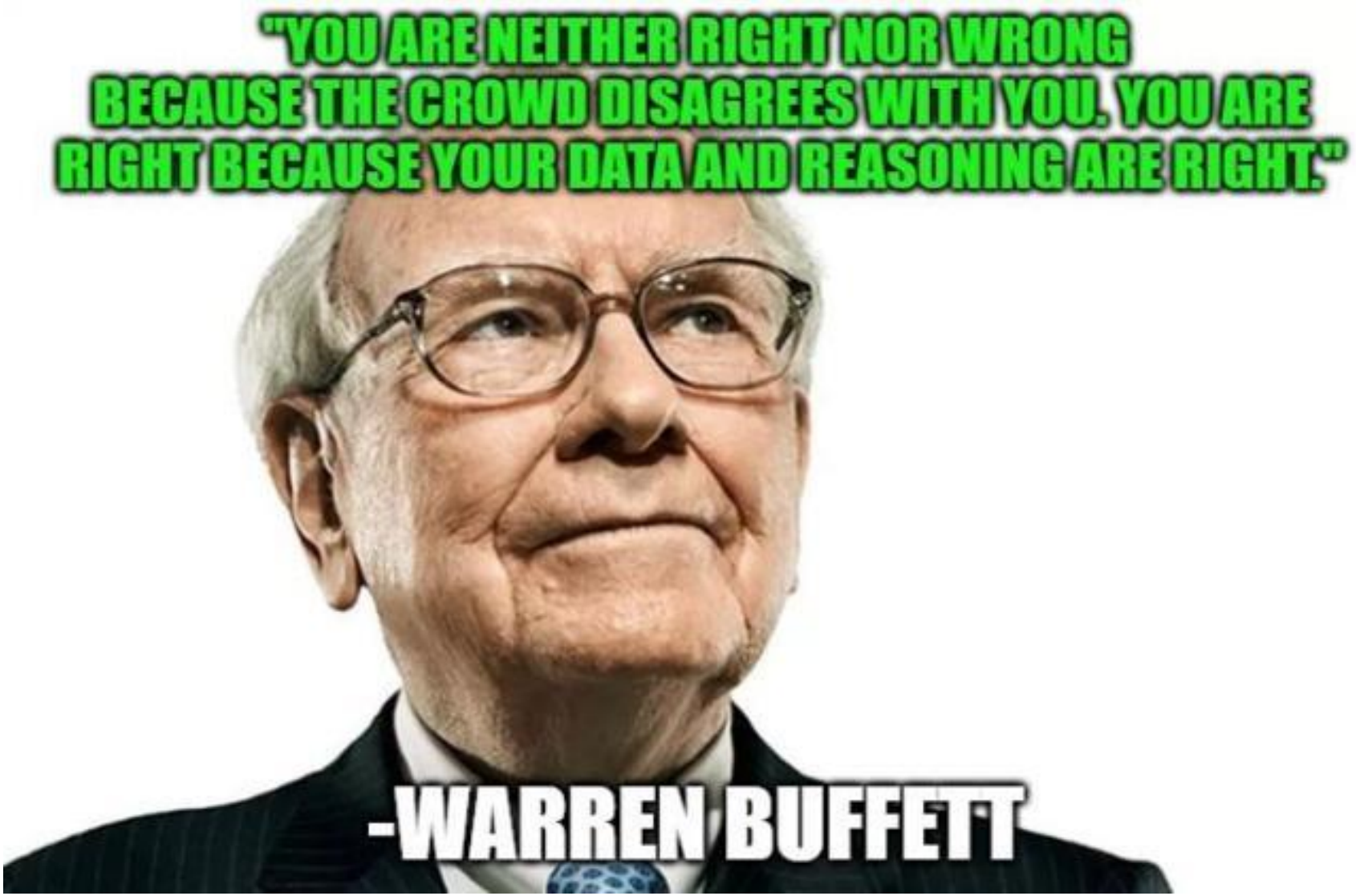
Combining Diversified Stocks with Market-Linked Structured Products

- Diversified Stocks: 30% -50%
- Bonds: 0%
- Market-Linked Structured Products: 50% -70%

Summary

- ✓ Efficient portfolio design
  - ✓ Lower risk & higher potential return
  - ✓ Replace low yielding bonds with Structured Products

S&P500 Index & 3-month treasury bonds: http://www.stern.nyu.edu/~adamodar/pc/datasets/histretSP.xls


"YOU ARE NEITHER RIGHT NOR WRONG
BECAUSE THE CROWD DISAGREES WITH YOU. YOU ARE
RIGHT BECAUSE YOUR DATA AND REASONING ARE RIGHT."
-WARREN BUFFETT

Retirement Portfolio Design

Retirement Income Projection Analysis (RIPA) - Retirement Inputs:

Current Ages:

- Mr. & Mrs. Case Study – 65

Retirement Age:

- Mr. & Mrs. Case Study – 65

Projection Duration (25 Year Retirement):

- Age 65 - 90

Total Current Assets:

- Current Invested Assets: $1,000,000 in qualified IRAs

Income Target Requirements:

- Net Income Requested: $40,000/annual (net)

Inflation Estimate:

- Inflation @ 2% annually

Portfolio Case Study

Retirement Scenario Overview

- **Scenario A: TRAA 6040**
  - Retirement Income Generated: $40,000 annual (net)
  - Retirement Income inflated @ 2% annually
  - **Traditional Plan: 60% Global Diversified Stocks & 40% Diversified Bonds**

- **Scenario D: HIP 303040**
  - Retirement Income Generated: $40,000 annual (net)
  - Retirement Income inflated @ 2% annually
  - **HIP Strategy: 30% Global Diversified Stocks, 30% Structured Investments & 40% FIAs**

Portfolio Case Study

Portfolio Balances age 90

After completing your Retirement Income Projection Analysis (RIPA) with all your personal income goals, variables and assumptions the following outcome is realized based upon several retirement scenarios. Each scenario offers a different retirement outcome which should be reviewed carefully to determine the best course of action to create the best potential retirement outcome (not running out of income)

Retirement Income Grid

Income Goal (net): $40,000 per year with 2% inflation increases

	Negative Sequence of Return Projection	*Average Sequence of Return Projection*	*Positive Sequence of Return Projection*
Scenario A **TRAA 6040**	Account balances $0 at age 85/85	Account balances $1,538,440	Account balances $2,944,161
Scenario D **HIP 303040**	Account balances $627,982 at age 85/85 Account balances $493,195	Account balances $1,901,723	Account balances $2,986,913

Retirement Projection Disclosures

Retirement Income Projection Analysis Important Disclosures

Retirement Planning & Projection Software: The software used to produce all values in this report including tables and charts is RetireUp.

Sequence Return Projections in Charts Below: The different sequences of variable returns cover a range of possible outcomes for your retirement portfolio, given your starting balance, the type of insurance or investment product, and your desired income level and other goals. The future returns, their sequence and individual year returns, were generated using a random number generator, using a normal distribution and standard deviation. The end result is a 100-year hypothetical sequence of returns. The RetireUp software runs 100 year-by-year permutations of the simulated returns and determines which subsets of the entire sequence would generate the most optimal (Positive Sequence), least optimal (Negative Sequence) and mathematically average (Average Sequence) hypothetical results for an individual report. A typical report will run 30-40 years, so only a subset of these 100 years will be used. These returns are all simulated and do not represent historicsequences. While some of these hypothetical scenarios may utilize past performance data, your actual future results will be different, either better or worse, so these results should not form the sole basis of your retirement income strategy.

Rate of Return Estimates by Investment Type (hypothetical) Explanation: Returns sourced from Weathvest Marketing white paper. In that paper 1928 – 2016 return data for bonds and the S&P 500 alongside historical S&P 500 Dividends Yields, were sourced from New York University (NYU) Stern School of Business. The study used a hypothetical FIA with an S&P 500 index-linked interest crediting method. It used a 50% S&P 500 participation rate to approximate FIA returns for the time-period between 1950 and 2017. In the opinion of industry expert Jack Marrion, since interest rates were much higher for most of that time-period than they are today, this represents a conservative assumption.

Aggregated Rate of Return Estimates in Retirement Scenario Overview Explanation: Aggregate based on percentage in each asset below & reduced rate by 1.5% to be more conservative & rounded down to nearest whole percentage.

Ex. (Investment Type Return) * (Investment Type Percentage of Portfolio) = Aggregated Rate of Return

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Wealthvest White Paper: Role of FIAs in Retirement Portfolio, 2018. https://wealthvest.com/white-papers/index.html.

Additional Disclosures

Disclaimer: Investments in securities do not offer a fix rate of return. Principal, yield and/or share price will fluctuate with changes in market conditions and, when sold or redeemed, you may receive more or less than originally invested. No system or financial planning strategy can guarantee future results. Therefore, no current or prospective client should assume that future performance or any specific investment, investment strategy or product will be profitable.

Fixed index annuity guarantees are based on the financial strength and claims paying ability of the issuing company and do not apply to the performance of the index which will fluctuate with market conditions. Fixed index annuities are long term products and can be subject to restrictions, limitations and surrender charges. When you buy a fixed index annuity, you own an insurance contract. You are not buying shares of any stock or stock index.

All economic and market performance are historical and not indicative of future results. Investors and not directly invest in indices. Investments in securities do not offer a fix rate of return. Principal, yield and/or share price will fluctuate with changes in market conditions and, when sold or redeemed, you may receive more or less than originally invested. No system or financial planning strategy can guarantee future results. Therefore, no current or prospective client should assume that future performance or any specific investment, investment strategy or product will be profitable.

Investors should consider the investment objectives, risks, charges, and expenses of the variable annuity and the underlying subaccounts carefully before investing. The prospectus contains this and other information about the variable annuity. Contact Brian Saranovitz at 435 Lancaster Street, Suite 358, Leominster MA 01453 or call 978-345-7075 to obtain a prospectus which should be read carefully before investing or sending money.

Securities and advisory services offered through Cetera Advisors LLC, member FINRA, SIPC, a broker/dealer and a Registered investment Advisor. Cetera is under separate ownership from any other named entity.

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Let's Talk Timing...
If you have an IRA today...what can you do?
If you have a 401k today...what can you do

Let's Talk Withdrawal Strategies...When and How?

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Retirement “Income Readiness" is being able to make this statement:

Neither a stock market correction nor rising interest rates will have a noticeable impact on either the amount of income produced by my portfolio or my ability to keep that income growing.

https://www.lifehealth.com/achieving-retirement-income-readiness-numbers-concepts/

The Benefits of Having an Investment Advisor

Alpha Portfolio Management

Investment Manager Alpha

A measure of the investment manager's ability to add either positive or negative returns versus the appropriate benchmark.

Positive Alpha: Above average returns

Negative Alpha: Below average returns

Alpha Portfolio Management

Passive Vs Active

Two Investment Management Strategies

Passive or Index Investing – Following a particular index such as the S&P 500 Index in an attempt to duplicate the returns of the respective index

- No Money Manager - following the index allocation
- Lower management expenses - since no manager
- Return will be commensurate with that of the index
- No possible manager Alpha

Active or Alpha Investing – Actively selecting securities from an index to attempt to outperform the respective index

- Active Money Manager making adjustments to the portfolio
- Manager is attempting to select the “best” stocks from the index to outperform the passive index
- Higher management fees since higher trading cost and manager expense
- Potentially can outperform the index or passive strategy
- Must have a process to select above average managers

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Alpha Portfolio Management

Active Vs Passive Money Management, April 8, 2016

Baird Asset Manager Research, Robert W. Baird

Asset Class	% of Periods Median Fund Produces Excess Return	Efficient (favoring passive) or Inefficient (favoring active) Asset Class	Market Assets (% Active / % Passive)
Large Cap Core	20%	Efficient	31% / 69%
Tax Exempt Fixed Income	40%	Mixed	95% / 5%
Large Cap Value	41%	Mixed	81% / 19%
Taxable Fixed Income	41%	Mixed	67% / 33%
Large Cap Growth	45%	Mixed	96% / 4%
High Yield Bond	47%	Mixed	88% / 12%
International Value	48%	Mixed	73% / 27%
Global Real Estate	51%	Mixed	63% / 37%
International Core	51%	Mixed	47% / 53%
International Growth	54%	Mixed	99% / 1%
Small Cap Core	63%	Inefficient	44% / 56%
Emerging Markets	64%	Inefficient	60% / 40%
Real Estate	65%	Inefficient	45% / 55%
Small Cap Value	67%	Inefficient	58% / 42%
Mid Cap Growth	68%	Inefficient	90% / 10%
Mid Cap Value	69%	Inefficient	81% / 19%
Mid Cap Core	72%	Inefficient	28% / 72%
Small Cap Growth	74%	Inefficient	86% / 14%

Source: Morningstar Direct; Baird Analysis.

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Alpha Portfolio Management

Active Vs. Passive Equity Investing, March 2015

Hotchkis & Wiley Study, March 2015

I. The Three Findings

After reviewing innumerable research papers that dissect the benefits and drawbacks of active and passive investment management, we have identified three results that appear to be widely acknowledged as fact:

Fact 1: *The average active manager* has underperformed the passive benchmark after fees

Fact 2: *Some active managers* have demonstrated ability to outperform the passive benchmark after fees

Fact 3: *High conviction* is a common characteristic among active managers that have outperformed

When Looking at Your Portfolio's Performance...

Alpha Portfolio Management

Absolute vs Relative Returns

Absolute Return

Returns of an investment or portfolio <u>without comparison</u> to a benchmark or index

- Hypothetical Example:
  - Assume 9.27% net rate of return on a large company U.S. based stock fund
  - Good, Bad, Average?
  - No way to know!

Relative Return

Returns of an investment or portfolio <u>compared</u> to a benchmark or index

- Hypothetical Example:
  - Assume 9.27% net rate of return on a large company U.S. based stock fund
  - Average return on all other large company U.S. stock funds = 10.96%
  - Good, Bad, Average? 1.69% below average!

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Absolute Vs Relative Returns

Investment Management:
Balanced Funds Analogy
Hypothetical 10 year Returns (net)

- **Balanced Fund A = 6.97%**
- **Balanced Fund B = 7.67%**
- **Balanced Fund C = 9.13%**

- **Balanced Fund Average = 8.07%**

Which fund would you choose???

Alpha Portfolio Management

- Properly Diversify Your Portfolio
- Prudently Select Investments
- Monitor the Portfolio and Adjust Regularly

A Passive AND Active Portfolio May Increase Retirement Success

Alpha Portfolio Management

Properly Diversify Your Portfolio

Modern Portfolio Theory (MPT)

- Introduced by Harry Markowitz in 1952
- Won the Nobel Price in Economics in 1990
- Proper diversification based upon correlations and statistical evidence
- Create a portfolio with the highest return for the risk assumed

A Passive AND Active Portfolio May Increase Retirement Success

Alpha Portfolio Management

Prudent Selection of Investments

- Combining passive index funds with high-quality alpha generating active managers can add positive portfolio alpha
- Challenge is uncovering high-quality, alpha generating investment managers
  - Over 20,000 active mutual funds, ETFs, Separate Account Managers
  - Select 8-10 “Best of Breed” funds, ETFs or SMAs to the balanced portfolio
  - Ensure fees are reasonable

A Passive AND Active Portfolio May Increase Retirement Success

Alpha Portfolio Management

Prudent Selection of Investments

Some Selection Criteria

- Low Turnover Ratio (< category average)
- Concentrated Portfolio (20-30 holdings)
- Avoid Over-Concentration (<10% per holding)
- Manager Tenure (>10 years)
- Risk Profile (< category average)
- Reasonable fees (< category average)

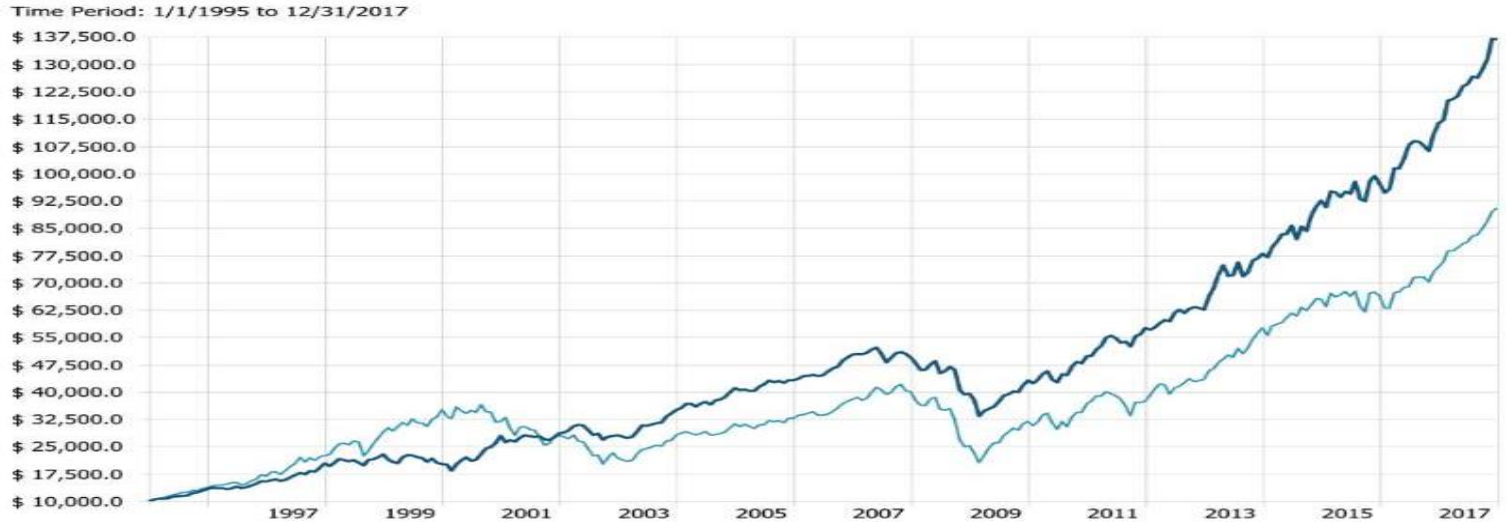
A Passive AND Active Portfolio May Increase Retirement Success

Alpha Portfolio Management

Monitor Your Portfolio and Adjust Regularly (net of fees)

- Create your proper benchmark(s)
- Analyze each manager and aggregate portfolio Vs the proper benchmarks regularly to maintain high performing portfolio
- Adjust your portfolio managers when necessary (hire & fire)
- Assess your relative return to the benchmark

A Passive AND Active Portfolio May Increase Retirement Success



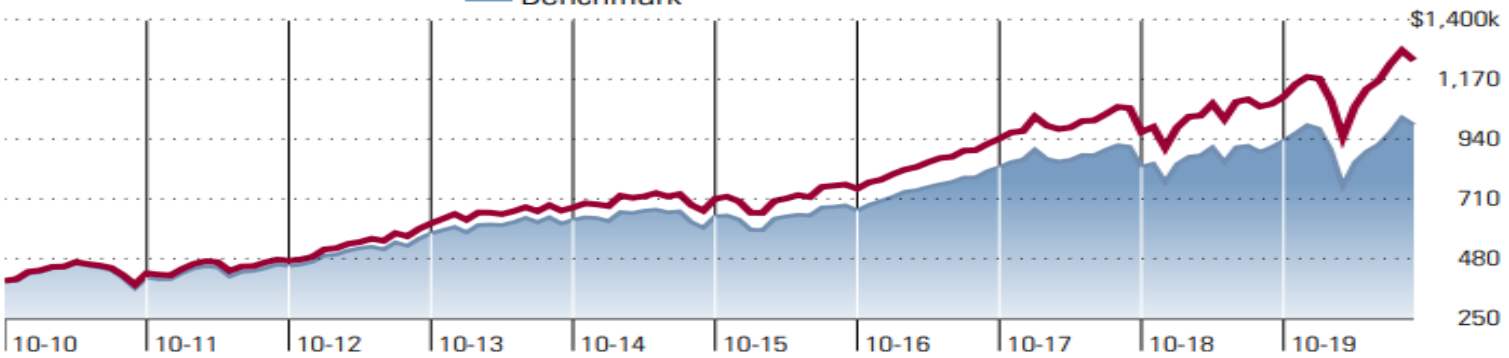
Let's Look at the results now …

Alpha Portfolio Management

Morningstar Relative Return Analysis

Performance 09-30-2020

Investment Activity Graph — Portfolio — Benchmark — Initial Mkt Val: $394,527 — Final Mkt Val: $1,242,123



Trailing Returns*	3 Mo	1 Yr	3 Yr	5 Yr	10 Yr
Portfolio Return	6.80	15.55	10.48	13.34	12.60
Benchmark Return	8.31	9.45	6.79	10.67	10.08
+/- Benchmark Return	-1.51	6.10	3.69	2.67	2.52

**Full return history is not available for all securities. Please see Return Participation disclosure.*

Activate Windows
Go to Settings to activate Windows.

Source: Morningstar Advisor Workstation: data as of 09.30.20 release date

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Alpha Portfolio Management

Conclusion

- Selecting Investment managers is hard
- Doing it properly can add Manager Alpha to a portfolio
- Passive Indexing will reduce fees but cannot generate Alpha to a portfolio
- Adding both Passive and Active management may be the best option
- Benchmarking your managers regularly and replacing when necessary is essential
- Benchmarking you aggregate portfolio (net of fees) regularly is essential to assess the portfolio value

When is the last time you or your advisor benchmarked your portfolio versus the proper benchmark (net of ALL fees)???

Retirement Portfolio Stress Test

Brian can complete one complementary anytime

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Should someone have a review of their IRA or 401k allocations prior to retirement?

Can You Name One of the Key Risks??

What is the Name of the Retirement Optimized Portfolio Brian Discussed?

True/False?

I learned a lot from tonight's class.

True

You learned …

1. The main risks to mitigate in retirement
2. Retirement optimized portfolio…HIP
3. The Alpha Manager effect
4. The role of life insurance and HECMs

Next Week…

Class 1:
- Identifying key Retirement Risks
- Middle Way Guidance - An unbiased and balanced approach in retirement
- Safe Withdrawal Rate – How much can you safely withdraw from your portfolio

Class 2:
- Developing a retirement income plan
- Guaranteed Income sources in retirement
- How does Social Security work?

Class 3:
- Optimize your Savings & Investments: create a withdrawal strategy
- How to create a Retirement Optimized Portfolio
- How to protect your portfolio amidst market volatility
- Investment Planning – Alpha generating money management
- A hybrid strategy to generate both growth and income

Class 4:
- Minimizing your taxes to as close to zero as possible
- Healthcare/Long Term Care
- Pulling it all together and working on your retirement readiness

Next Steps...

1. Remember to vist the Homework page
2. Enter your info into the software Assess module
3. Get ready for next week

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Reminder!

Take action and hold yourself accountable. This class and our platform can help get you started. Our coaching can keep you going and hold you accountable while also connecting you to the resources you need.

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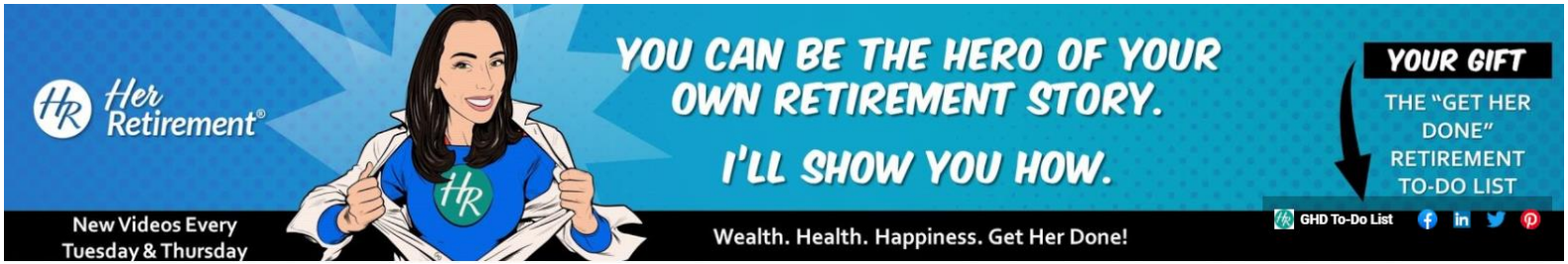
Get more support, information and inspiration

from my podcast, Youtube channel and private FB group



Links...

- Her Retirement Website
- Retirement Solved Readiness Platform
- Lynn's Blog & Podcast
- Lynn's Private Her Retirement Facebook group
- Lynn's Youtube Channel
- Coming Soon: Lynn's book

Reminder: You Can Get Help Anytime You Need It…

1. Work with Her Retirement to get fully prepared for planning and implementing
2. Request ANY type of assessment
3. Connect with a CFP to get your plan started or subject matter experts to review an existing plan and get a revised one or new one implemented, or discuss an urgent issue

Schedule time on Lynn's calendar to discuss any of the above options.

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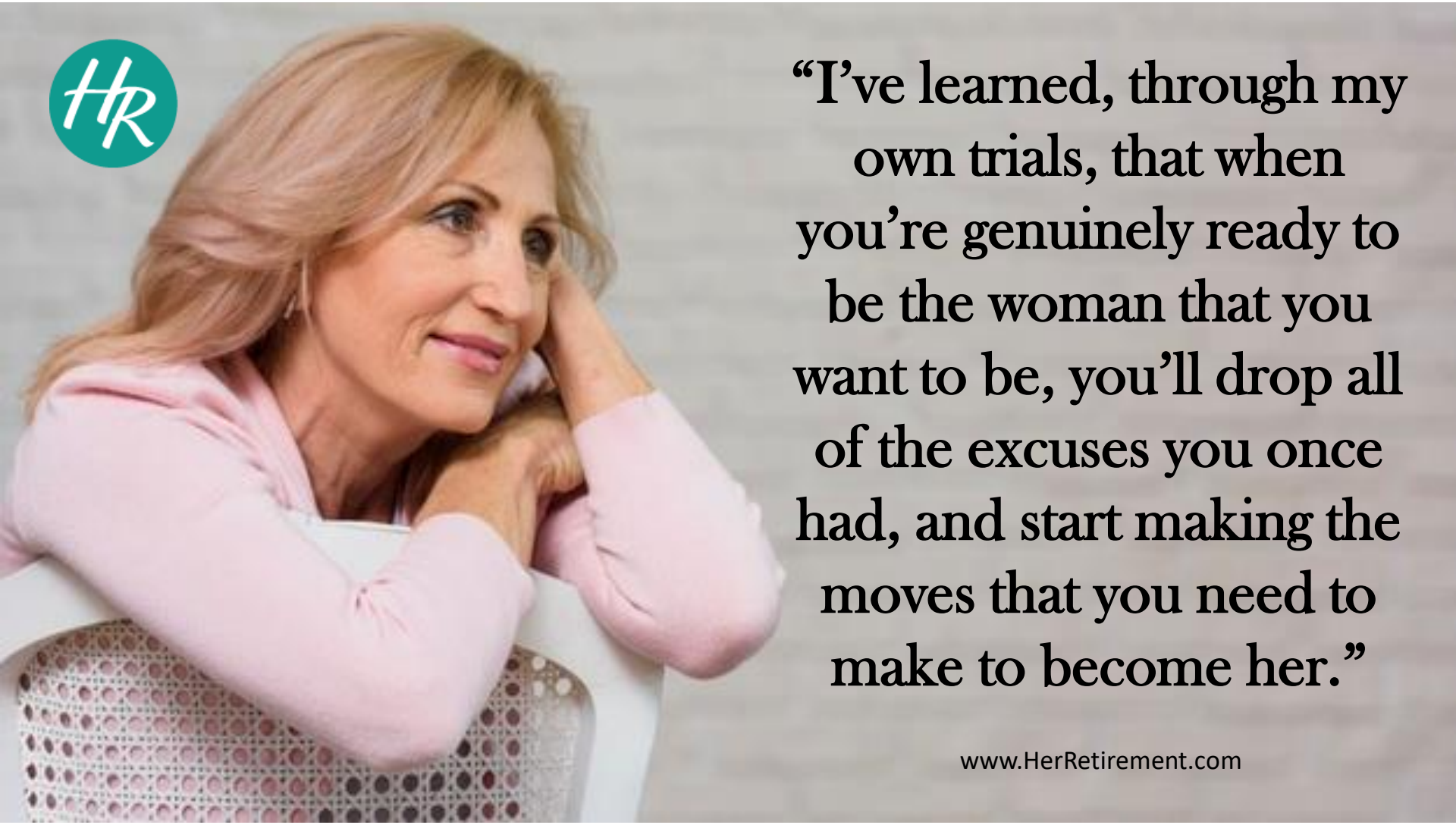

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Thank you for coming tonight.

SmartHER. StrongHER. More Secure.

Let's Get Her Done. See you next week.