Her Retirement®

Welcome to

Her Retirement Roadmap® Masterclass

Class 4: Part 2

Retirement Optimized Portfolios

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At the end of the seminar, you will be provided an opportunity to visit with us one-on-one to discuss your specific circumstance in a private, comfortable setting. There is no obligation to you for this visit.

For Class 4: Part 2
I am joined by Brian Saranovitz. Brian is an Investing Expert & President of Your Retirement Advisor

Portfolio Risk Optimization

Remember the mathematical equation;

The portfolio with the lower risk level, when taking withdrawals, will last longer all other factors being equal

… Let's discuss how to create a "Risk Optimized Portfolio" that can generate a more effcicient income for life

Portfolio Risk Optimization

Combining a variety of different assets to maximize returns while minimizing risk or volatility to the greatest extent possible... ***Maximum growth for the risk assumed.***

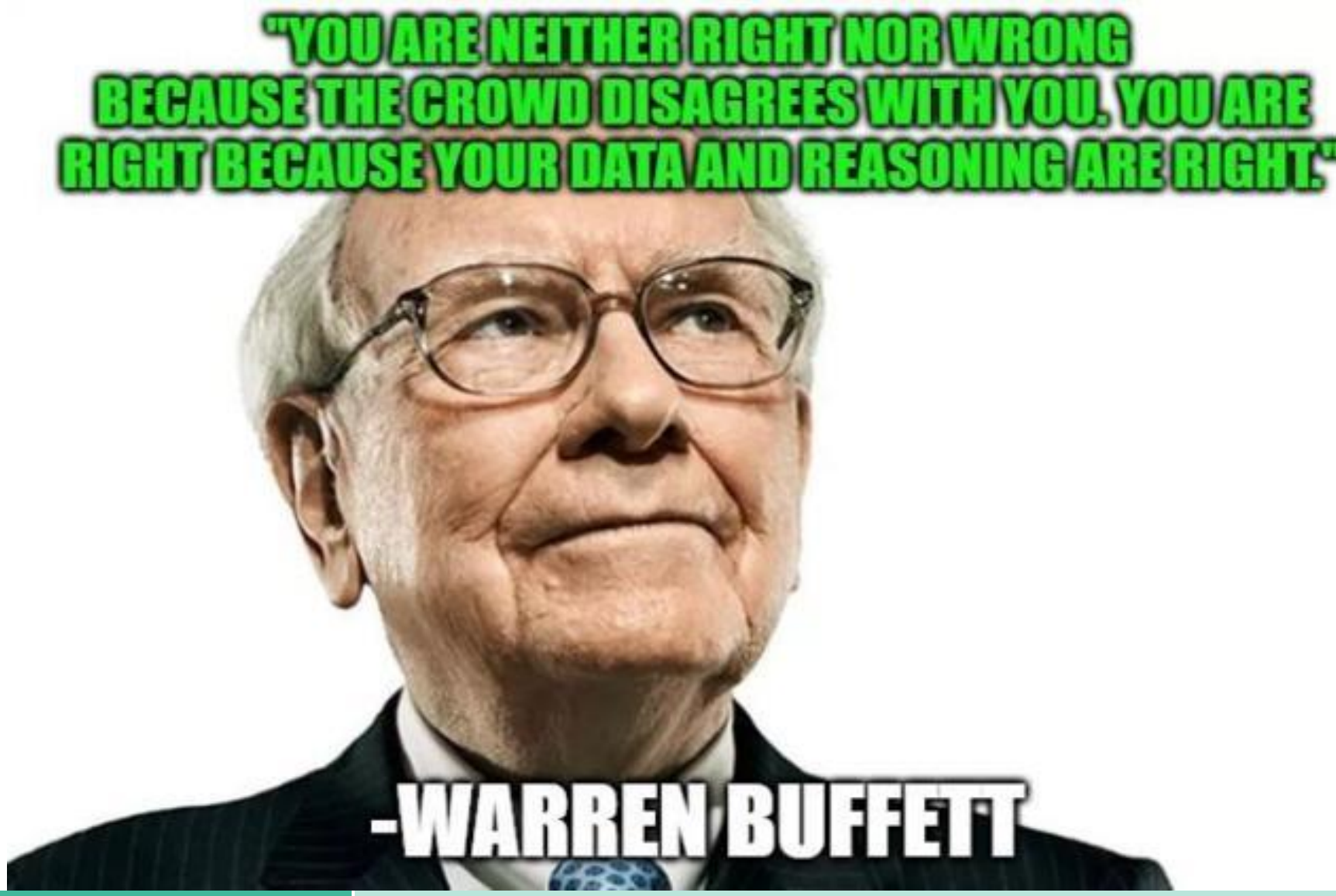
Portfolio Risk Optimization

- **Risk #1:** Portfolio Overdraft
  - The Safe Withdrawal Rule
- **Risk #2:** Market Volatility Risk
- **Risk #3:** Sequence of Return Risk
- **Risk #4:** Interest Rate Risk
- **Risk #5:** Longevity Risk
- **Risk #6:** Inflation Risk

Beyond 401(k)'s & Traditional Stocks and Bonds

Are You Maximizing Your Opportunities for Growth & Protecting Your Retirement Savings???

- Stocks
- Bonds
- Mutual Funds
- Exchange Traded Funds (ETFs)
- Buffered ETFs
- Annuities (Fixed, Variable, FIAs, ILVAs)
- Structured Notes
- REITS
- Plus, much more…


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

Portfolio Risk Optimization

Creating an Efficient Income Portfolio to last a lifetime Reduce portfolio volatility and risk

- Increase growth potential

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

Stock Market Reality

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 12-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 you're winning… don't get fat, dumb and happy!"

Bear Market Definition

(Investopedia, 2020)

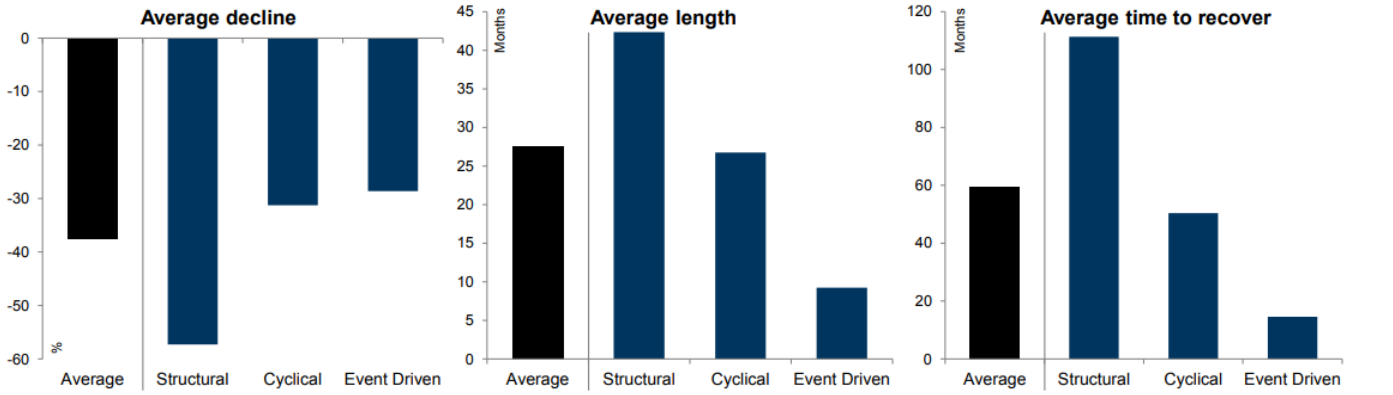
By definition … A **bear market** is when the market experiences prolonged price declines.

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

The Bond Dilemma

Not intended for use with the client

Major Indices Performance

Combined Account Portfolio

Prepared for:

Period: 2/18/22 - 5/17/22

BENCHMARK	SELECTED PERIOD (%)	YEAR TO DATE (%)	ONE YEAR (%)	THREE YEARS (%)	FIVE YEARS (%)	SINCE START DATE (%) 5/13/15
Dow Jones Industrial Average (Price Only)	-4.83	-10.14	-4.87	8.21	9.64	8.80
S&P 500	-6.32	-13.74	-0.38	14.54	13.66	12.07
NASDAQ Composite	-12.63	-23.40	-10.42	15.30	14.79	13.34
Russell 2000	-8.97	-17.69	-16.46	7.53	7.66	7.28
Dow Jones U.S. Total Stock Market Index	-7.61	-15.54	-5.05	11.75	10.98	9.35
Bloomberg U.S. Credit	-8.20	-13.31	-11.19	0.29	1.45	2.14
Bloomberg U.S. Government	-5.04	-5.04	-7.77	-0.82	-0.77	1.06
FTSE 3-Month Treasury Bill	0.07	0.08	0.11	0.68	1.09	0.85
MSCI EAFE (TRN)	-11.01	-13.96	-11.37	4.53	3.65	3.13
Consumer Price Index	2.83	3.70	8.26	4.19	3.40	2.90

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

Solution 1: Market-Linked Structured Products

As a Bond Alternative

- Designed to offer principal protection to eliminate or minimize market losses on a 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 1: Market-Linked Structured Products

- Offered by Investment Banks and Insurance Companies
- Contractually guaranteed by the investment bank or insurance company
- Many different structures; Leveraging upside market returns or decreasing downside market risk
- Historically utilized by large institutional investors and affluent individuals due to substantial minimums (typically $1million or more)
- Now available at $25,000 minimum in ETF's or Variable Annuity contracts

Source: MarketWatch.com, 4.23.20

Two Viable Solutions to the Bond Dilemma

Solution 2: Fixed Index Annuities (FIAs)

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

Solution 2: Fixed Index Annuities (FIAs)

How they work?

- Follow the performance of the market by offering interest credits based in part on the performance of investment indices
- 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***

Fixed Indexed Annuities (FIAs)

Hypothetical Fixed Index Annuity Contract

Contract Terms

- Index: S&P 500 Index
- Credit Term: 1 year term
  - Participation rate: 60%
  - Cap rate: No Cap
  - Spread: 1% Spread

Hypothetical Calculation

Year #1

- S&P 500 return for the first year = 12.27%
- Participation rate is 60% = 7.362%
- Spread is 1% = **6.362% credited to the account**

Year #2

- S&P 500 return for the 2nd year = 17.26%
- Participation rate is 60% = 10.356%
- Spread is 1% = **9.356% credited to the account**

Year #3

- S&P 500 return for the 3nd year = -22.56%
- Participation rate is 60% = 0%
- Spread is 1% = **0% credited to the account**

The Hybrid Income Portfolio

A "Risk Optimized Portfolio" Strategy

The UNCONVENTIONAL but 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%

Overview:

- ✓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

- Diversified Stocks: 30%
- Bonds: 0%
- Market-Linked Structured Products: 30%
- Fixed Index Annuities (FIAs): 40%

Overview

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

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

Portfolio Case Study

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 historic sequences. 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.

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

Take-Aways from Class

1. Guaranteed Income Annuities may be a viable strategy for you
2. Fill your gap with other income sources:
3. Most people create an income from their defined contribution plans, creating a Hybrid Income Portfolio
4. This NEW portfolio protects from downside risk while offering growth potential

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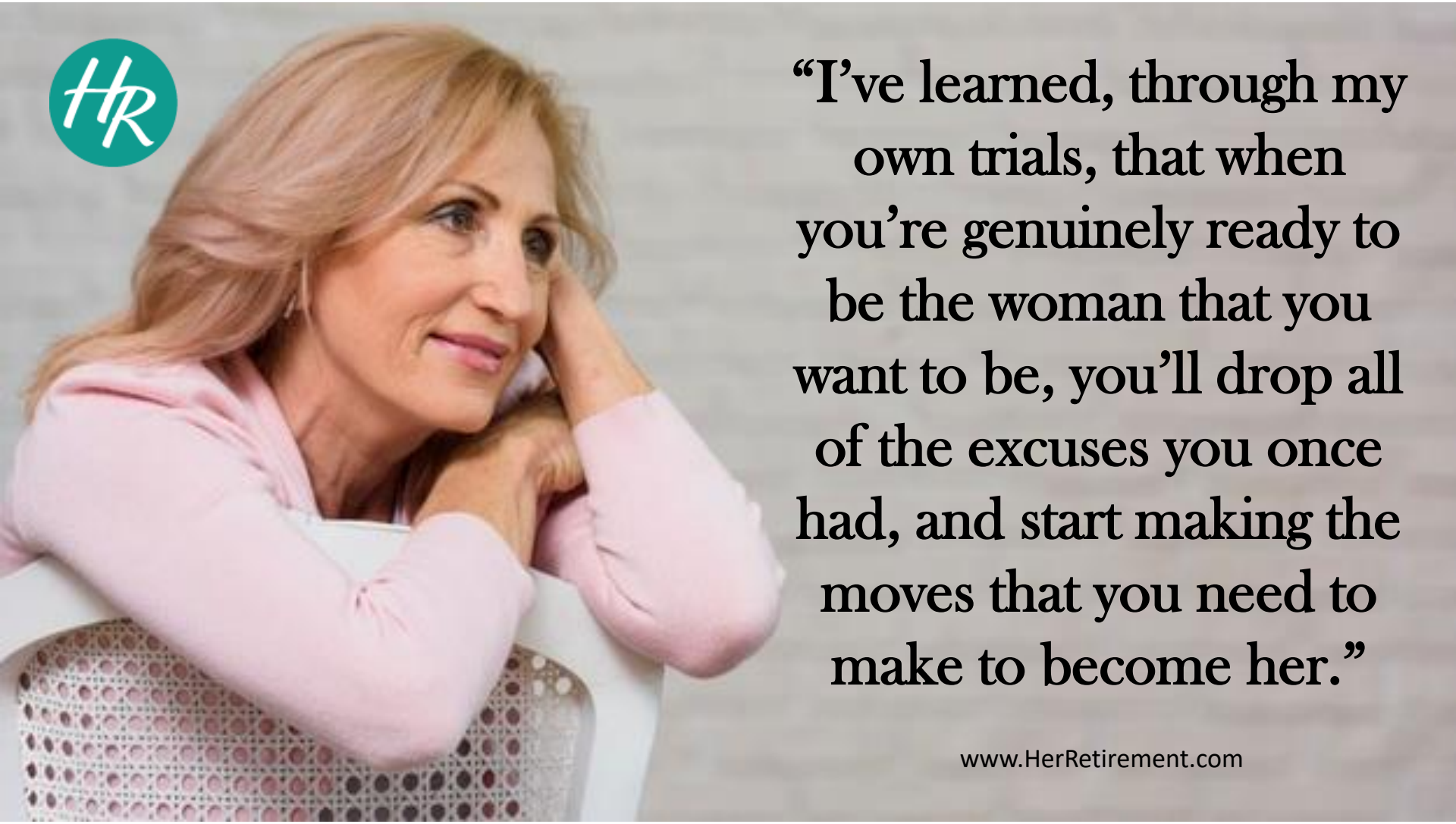

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Thank you watching Class 4: Part 2
If you'd like to chat with Brian about his Hybrid Income Portfolio, reach out to me.