SOUND INCOME STRATEGIES

Times Change, and Financial Strategies Should Change with Them

As the stock market roller-coaster ride that began this winter continues into a third season, I wanted to make this month's newsletter a brief refresher about why I believe my income-based business model is so appropriate for this new "era of economic uncertainty." For nearly 20 years, my firm's unique approach to retirement planning has differentiated us from all those financial advisors who are still mentally stuck in the 1990s and, thus, married to outdated, growth-based business models. That differentiating factor continues to help us educate more people each day about how to achieve their retirement goals in an era of unprecedented challenges and risks.

I've written about those challenges and risks many times in this space, and none of them have diminished or disappeared. We still have an overvalued stock market that is out of touch with economic realities and influenced more by artificial factors. Inevitably, the markets will have to make fundamental sense again, and I believe the most likely way it will happen is with a major and sustained stock market correction on par with those that occurred from 2000 to 2003 and from 2007 to 2009.

Some analysts have suggested that we may be right on the verge of that correction or that it may have already started based on the historic levels of volatility that began in early February. Market volatility more than doubled on February 5 when the Dow experienced its steepest one-day drop in history. Since then, the volatility index, or "fear index," has experienced six sessions that saw a jump of at least 20 percent.[1]

Is it possible that the volatility will diminish and that the market will get back to the upward trend it started on in March of 2009, a few months after the first round of quantitative easing was launched? Well, anything's possible—but is it likely with so many potential tipping points for a sustained market downturn in place? There are uncertainties around trade, oil prices, China and South Korea, the European Union, interest rates, inflation, the federal deficit, and—especially—GDP growth, which even the Federal Reserve has forecast will be considerably lower in the next three years than the 4 percent initially promised by Donald Trump.

Generational Challenges

Again, we're living in a brand-new age of economic uncertainty, one in which many of the old textbook rules and guidelines for investing and retirement planning have become outdated, if not downright obsolete. Adding to the need for new rules and strategies are a host of financial challenges unique to today's generation of retirees and near-retirees—challenges that our parents and grandparents didn't face.

I've discussed these issues many times in this space as well. They include the near-disappearance of defined benefit pension plans, the ever-rising cost of healthcare, the fact that many people

near retirement age are caring for aging parents and/or grown children, and the fact that life expectancy rates today are higher than ever, meaning that people need to prepare for up to 30 years of reliable retirement income.

So, how does a differentiated business model like ours address these uncertainties and challenges more effectively than the outdated models favored by many advisors? Well, if you're a client and a regular reader, you already know the answer. Still, I'd like to briefly summarize it and also share a pair of links to some short whiteboard animation teaching tools we've created about income-based investing.

I would encourage you to share these links with friends and relatives you think might also be "mentally stuck in the 90s" and possibly carrying too much risk because of it. It's possible that in learning about the income-based model, the proverbial "lightbulb" might snap on over their heads (as it does for many people), once they understand that investing for income actually requires reducing your investment risk, not increasing it, as is commonly believed.

Total Return = Income + Growth

Again, that's because total return is a product of both growth (measured in capital appreciation) and income (generated through interest and dividends). Many people are taught that in order to increase your returns you must increase your growth through old-fashioned buy-and-hold investing in the stock market. But, they *aren't* taught that this approach doesn't work in a long-term secular bear market cycle like the one we're in now. In this kind of market (and especially in the midst of so much unprecedented uncertainty), growth can quickly turn to shrinkage, as investors learned the hard way with those major market downturns that began in 2000 and 2007.

When you focus on increasing your returns by increasing your income, however, it means you're typically investing in bonds and bond-like instruments and other vehicles designed to decrease volatility and better protect your principal from a major loss. You're decreasing your risk in order to increase your income, which also puts you in a position to strategically grow your portfolio "the old-fashioned way," by re-investing in other income-based vehicles.

This is a specialized approach uniquely designed for today's challenges, but it's an approach best taken with the help of a qualified advisor who specializes in this kind of differentiated business model. So again, I encourage you to share the short educational videos below with friends and family, but preferably with the disclaimer: don't try this at home!

Investing for Income: https://vimeo.com/advisorsacademy/review/257728250/a0ff717401

Sound Income Strategies Investment Approach:
https://vimeo.com/advisorsacademy/review/259904420/17bb4034d8

1. Ryan Vlastelica, "There's been a historic amount of earthshaking stock-market volatility this year," *MarketWatch*, last modified on April 11, 2018, https://www.marketwatch.com/story/theres-been-a-historic-amount-of-earthshaking-stock-market-volatility-this-year-2018-03-22

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