SOUND INCOME STRATEGIES

Financially Speaking, Plain Old Common Sense Can Be Priceless

Can you remember the first time your mom or dad talked to you about common sense? Was it right after they caught you climbing out your bedroom window onto the roof of the house, or throwing plastic army men into the toilet? Odds are, you learned about the importance of common sense right after you were caught not using it; in other words, doing something risky or senseless.

I mention this because I realize that all the factors that come into play when making financial decisions can be overwhelming, so much so that the importance of plain old common sense can get lost in the shuffle. If you've been reading this newsletter all year, you know I've written at length about many of these factors. That's because they *are* important, and I believe it's my responsibility to keep my clients educated about the forces impacting the economy and financial markets.

I've discussed, for example, the record levels of stock market volatility we've seen this year; the effects of the Trump Administration's trade policies; the influence of many unstable geopolitical factors abroad; the Federal Reserve's goals and challenges in raising short-term interest rates; and the myths and misconceptions surrounding the bond market as long-term rates began notching higher.

Key Messages

Again, I'm well aware it can all be overwhelming, especially when I'm breaking down important, but somewhat complex, details like the relevance of price-to-earnings ratios or the potential economic dangers of a flattened yield curve. Amid all the details, however, my hope is that, as clients, you take away some overriding messages that serve these three important purposes: 1. To help inform your financial decisions, 2. To let you feel confident in the choices you are making, and 3. That you can share this with friends and family who may not have access to a lot of this information.

Among those key messages, this year, have been the following:

- The record high volatility the stock market has experienced could be a precursor to the next major market correction, which history suggests will be a drop somewhere between 40% and 70%.
- The only reason that drop hasn't occurred yet is likely due to the unprecedented levels of artificial stimulus undertaken by the Fed following the Financial Crisis, and the fact that the markets are still being unpredictably influenced by artificial forces, much like an athlete pumped up on steroids.
- Regardless of whether that next drop occurs, the extreme uncertainty inherent in today's markets and economy makes it vital for investors who are retired or near retirement to assess their market risk and make portfolio protection their top priority.
- Finally, that in this environment of extreme uncertainty, investing for income remains a viable, practical strategy for investors over 50 whose retirement goals include having reliable, life-long income at a competitive rate of return with far less risk of spending down principle or suffering a major financial loss.

Plain Old Common Sense

Now, with all that in mind, let's talk again about plain old common sense—and let's be honest: even after your parents introduced you to the concept, odds are you've gone on to do other risky and senseless things well into adulthood. We all have. It's human nature. For example: have you ever driven 100 miles an hour in your car?

Many people haven't, but many have when they saw an opportunity. And for those who have, here's a follow-up question: Why don't you drive 100 miles an hour all the time? It was probably a thrill, and you got to where you were going a lot faster. Why not do it all the time? Well, the answer there is pretty obvious: you don't do it because it defies common sense. Common sense tells you that the risk involved (a whopping speeding ticket or, even worse, an accident) greatly outweighs the reward (saving time), and that you'd be foolish to push your luck.

Now consider that idea in relation to an artificially overvalued, highly volatile stock market that could possibly climb another 10%, but could just as easily plunge by 70%. What does common sense tell you about *that* risk-reward equation and pushing your luck?

Here's a similar analogy: If you joined a gym with a particular fitness goal in mind, would you immediately start taking steroids to help you achieve that goal? What if you knew 2% of the people in the gym were already taking steroids? What if you had a friend in his 70s who'd been taking steroids for 50 years and was still going strong with no adverse effects?

Well, I'm guessing you would still choose *not* to take steroids because you're well aware that—despite those exceptions—the odds are still against you. Plain old common sense tells you that anytime you're dealing with something artificial and unpredictable, you're taking a big risk. That same idea applies when talking about today's stock market. If you know it's artificially inflated and dangerously unpredictable, why would you push your luck and expose yourself to high risk even if there's a slight chance nothing bad will happen?

And, as already noted, it's not just a risk, it's an *unnecessary* risk if your retirement goals are—like most people's—income-based. That means you're looking to achieve maximum return with minimum risk from your investments; *not* to make a major purchase or leave an inheritance, but to provide future income you can depend on regardless of market conditions. There is a better strategy for achieving that goal—a strategy based on sound logic, good math, and plain old common sense!

Have a great holiday season!

Dave

Sound Income Strategies, LLC is an SEC Registered Investment Advisory firm. Information presented is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial advisor or tax professional about your specific financial situation before implementing any strategy discussed herein

6550 North Federal Highway
Suite 510, Fort Lauderdale, FL 33308
Phone: (888) 492-0505
Fax: (954) 337-0621
www.soundincomestrategies.com
info@soundincomestrategies.com