IT'S NEVER TIME TO HIBERNATE
WHAT A BEAR MARKET MEANS FOR RETIREES

A bear market can be a great opportunity for the long-term investor.

If you're younger and have time to invest, this could be a chance to take advantage of market conditions and buy when prices are lower. If you're recently retired or if you're thinking of retiring soon, however, a bear market can make you want to crawl into a cave until the market turns around.

While a younger person with many years to retirement can likely ride out market fluctuations, those in or near retirement could see their portfolio "fail" them when they need income the most.

Sequence of Returns

Retiring or approaching retirement in or near a bear market means that you need to think about "sequence of returns" risk – that is, the risk of experiencing losses in your portfolio just as you retire. Withdrawing money from your portfolio while it's declining in value can dramatically impact its ability to last throughout your retirement (this is especially true if you are planning for a retirement horizon that could last decades). As a result, you may be forced to change your idea of retirement to make your money last... probably not how you envisioned spending your golden years.

In the examples on the next pages, simply reversing the order of the returns creates two vastly different outcomes. The portfolio with 'early losses' is depleted by year 17 while the portfolio with 'reversed returns' lasts for 30 years and increases in value. Same returns, different order.

Bear markets can have a dramatic effect on your retirement. However, careful planning can help you manage this risk and keep you on track for a successful retirement journey.

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17 Wildale Cir, Needham Heights, MA 02494 | Phone: (617) 380-3440 | www.commonwealthguardians.com

Why the Sequence of Returns Matters

The sequence of returns may have less of an impact on the portfolio of a long-term investor who is no longer putting money in, nor taking money out. However, the relationship between an investor's rate of withdrawal and the sequence of returns can have a dramatic impact on a portfolio's ability to last during the withdrawal period (usually during retirement).

Reversing the order of the returns creates two vastly different outcomes. The portfolio with 'early losses' is depleted by year 17 while the portfolio with 'reversed returns' lasts for 30 years and increases in value. Same returns, different order.

Factors Affecting Portfolio Results Before Retirement

The Accumulation Phase

- Average Annualized Returns
- Asset Allocation
- Staying Invested

In this example:

Annual Income Withdrawals:
None

Starting Values
(one time lump sum):

Portfolio A = **$100,000**
Portfolio B = **$100,000**

Average Annual Return:

Portfolio A = **8%**
Portfolio B = **8%**

These figures are hypothetical in nature only, are not guaranteed, and do not reflect taxes of investment fees which would reduce the figures shown here.

Investing involves risk, including potential loss of principal. Insurance and annuity guarantees are backed by the financial strength and claims-paying ability of the issuing company.

AGE	ANNUAL RETURN (Portfolio A)	PORTFOLIO A (Year-End-Value)	ANNUAL RETURN (Portfolio B)	PORTFOLIO B (Year-End-Value)
41	- 12%	$87,695	29%	$129,491
42	- 21%	$69,426	18%	$152,281
43	- 14%	$59,707	25%	$189,590
44	22%	$72,984	- 6%	$178,404
45	10%	$80,136	15%	$204,272
46	4%	$83,595	8%	$221,183
47	11%	$92,707	27%	$281,124
48	3%	$95,210	- 2%	$274,939
49	-3%	$92,155	15%	$315,355
50	21%	$111,507	19%	$375,272
51	17%	$130,129	33%	$498,737
52	5%	$137,026	11%	$554,097
53	- 10%	$123,597	- 10%	$499,795
54	11%	$137,316	5%	$526,284
55	33%	$182,493	17%	$614,174
56	19%	$217,167	21%	$743,150
57	15%	$249,091	- 3%	$719,305
58	- 2%	$243,611	3%	$738,726
59	27%	$309,629	11%	$819,247
60	8%	$335,262	4%	$854,602
61	15%	$383,875	10%	$938,354
62	- 6%	$361,226	22%	$1,147,022
63	25%	$449,727	- 14%	$986,439
64	18%	$528,878	- 21%	$780,941
65	29%	$684,848	- 12%	$684,848
	8%	$684,848	8%	$684,848

Value at Age 65: Portfolio A = $684,848 Portfolio B = $684,848

You can't outrun the bear, but you can protect yourself.

Factors Affecting Portfolio Results After Retirement

The Distribution Phase

- Sequence of Returns
- Product Allocation
- Portfolio Protection

In this example:

Annual Income Withdrawals:
5% of first year value (adjusted thereafter for inflation)

Starting Values (age 65):

Portfolio A = **$684,848**
Portfolio B = **$684,848**

Average Annual Return:

Portfolio A = **8%**
Portfolio B = **8%**

These figures are hypothetical in nature only, are not guaranteed, and do not reflect taxes of investment fees which would reduce the figures shown here.

Investing involves risk, including potential loss of principal. Insurance and annuity guarantees are backed by the financial strength and claims-paying ability of the issuing company.

AGE	ANNUAL RETURN (Portfolio A)	PORTFOLIO A (Year-End-Value)	ANNUAL RETURN (Portfolio B)	PORTFOLIO B (Year-End-Value)
66	- 12%	$566,337	29%	$852, 571
67	- 21%	$413,086	18%	$967,355
68	- 14%	$318,927	25%	$1,168,029
69	22%	$352,432	- 6%	$1,061,698
70	10%	$348,431	15%	$1,177,105
71	4%	$323,772	8%	$1,234,855
72	11%	$318,176	27%	$1,528,614
73	3%	$284,653	- 2%	$1,452,871
74	-3%	$232,143	15%	$1,623,066
75	21%	$236,215	19%	$1,886,771
76	17%	$229,644	33%	$2,461,500
77	5%	$194,417	11%	$2,687,327
78	- 10%	$126,543	- 10%	$2,375,148
79	11%	$90,304	5%	$2,450,746
80	33%	$68,219	17%	$2,808,226
81	19%	$27,833	21%	$3,344,606
82	15%	$0	- 3%	$3,182,338
83	- 2%	$0	3%	$3,211,664
84	27%	$0	11%	$3,503,440
85	8%	$0	4%	$3,594,592
86	15%	$0	10%	$3,885,017
87	- 6%	$0	22%	$4,685,257
88	25%	$0	- 14%	$3,963,710
89	18%	$0	- 21%	$3,070,398
90	29%	$0	- 12%	$2,622,984
	8%	$0	8%	$2,622,984

Value at Age 90: Portfolio A = $0 Portfolio B = $2,622,984

Big Difference

You can't outrun the bear, but you can protect yourself.

What is a Bear market?

While no one can truly predict how the markets will perform, historically a bear market has occurred about once every 3.5 years and lasted an average 367 of days.1 Chances are good that you will experience a bear market at least once – and possibly more – during a retirement that lasts on average 18 years.2 This can be especially harmful because it takes an average of 3.2 years from the start of a bear market for the stock market to battle back to where it stood at the beginning.[3]

Your best bet is to ensure you have a careful strategy to help mitigate the effects of a bear market and help avoid running out of money.

Here are a few ways you can help shield your retirement against the consequences of a bear market now:

- **Lower your expenses during your initial years of retirement.** Putting off that dream vacation or not buying that vacation home for a couple of years could help bolster your retirement portfolio and increase how long your money will last. If you're considering moving, do some research to determine which locales will meet your retirement goals. AARP, US News and World Report, and Kiplinger frequently publish lists of the best, affordable places to retire.

- **Consider a second career.** There are lots of options including working as a consultant in your former line of work, a part-time job at a local business, or a paid position at a favorite charity. Some organizations recognize the value of retirees and specifically target them for temporary positions. However, some instances the Small Business Association has sought out thousands of temporary workers to help assess damage from natural disasters. The agency stated that these jobs were, "...perfect for someone who is recently retired."[4]

- **Delay retirement.** You can avoid withdrawing money when your portfolio is down and potentially keep adding funds to your nest egg. (If you're experiencing a bear market, you'll be adding to your portfolio at lower prices.) In fact, one of your primary goals should be to save more during this time.

- **Create income "buckets."** Consider creating different "buckets" of money for different purposes. For example, you can create buckets of money invested in different vehicles for different purposes. Bucket one would be your more liquid assets, such as savings or money market accounts. You can take money from this bucket for income for a few years to avoid having to sell investments when the market is declining. The other buckets are for longer term needs and often involve progressively riskier investments.

- **Take some risk off the table.** This is a good time to make sure you have a fixed income strategy in place. No one wants to rely on the ups and downs of the market for the income they need to cover their basic living expenses in retirement, so look at income sources that guarantee these needs are met. These sources could likely include social security, pensions, annuities, and other "conservative" investments such as TIPS or bonds.

- **Work with a financial professional.** According to studies by Vanguard and Morningstar, those who worked with a good financial professional had improved financial outcomes.[5] Financial professionals can help you develop and implement a retirement income strategy customized for you. This will include making the right decisions for your social security and pension benefits, helping you diversify your income-producing assets, and identifying where insurance and annuity products can help fill any income gaps.

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1 https://www.thebalance.com/u-s-stock-bear-markets-and-their-subsequent-recoveries-2388520

2 https://www.fool.com/retirement/2018/02/24/heres-the-average-length-of-retirement-will-your-m.aspx

3 https://www.marketwatch.com/story/the-dow-may-already-be-in-a-bear-market-heres-how-long-it-could-last-2018-03-27

4 https://www.aarp.org/work/job-hunting/info-2017/sba-hiring-temp-disaster-assistance-jobs-fd.html

5 https://www.forbes.com/sites/wadepfau/2015/07/21/ the-value-of-financial-advice/ #7464261b1333

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