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A DECADE IN MARKETS

INSIDE THIS ISSUE

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What do you remember about the last decade in the markets? There was an unprecedented U.S. credit rating downgrade, sovereign debt problems in Europe, and negative interest rate, the Brexit vote, and trade wars, all of which presented some uncertainty in the markets.

Despite this uncertainty, the last ten years have been very rewarding for investors. Based on the MSCI All Country World IMI Index, (which includes large and small cap stocks in developed and emerging markets), on a total return basis, global stocks more than doubled in value from 2010–2019.

The last decade can serve as a good lesson why investors should separate the underlying investment fundamentals from all the distractions in the world. Uncertainty and investing go hand in hand. Risk is the trade-off for reward. Looking back over the past ten years, those who were patient and stuck with their plan were rewarded, despite the seemingly never-ending list of concerns.

Those concerns were apparent from the get-go, as a December 2009 headline in The Wall Street Journal read: "Bull Market Shows Signs of Aging."[1] At the time, investors were still shaken from the stress of the financial crisis and skeptical of the recovery that began in March 2009. The Bull Market was in fact not aging, but just getting going. Here is what happened in the 2010's: no recessions, only one negative year in the S&P 500 Index in ten years (2018), and the first decade ever without a single S&P 500 bear market on record (defined by a 20% loss).

A Reversal of Fortune

The economy did its part, somewhat, in fueling the market returns of the 2010's. Gross Domestic Product (GDP), the value of all goods and services produced by the U.S. Economy, did not increase by more than 3% in any year throughout the decade. The economy was by no means booming, but also was without a bust. Low, slow and steady growth was the reality throughout the decade.

Much of the 2010's fortune was also related to just how bad the previous decade had been. The 2000's were bookended by two recessions and two market crashes. In fact, the same large U.S. stocks that make up the S&P 500 Index and had such strong returns in 2010's, lost money in the decade of the 2000's, as the index was down nearly 10% or 1% per year, as seen in the chart on the right. -->

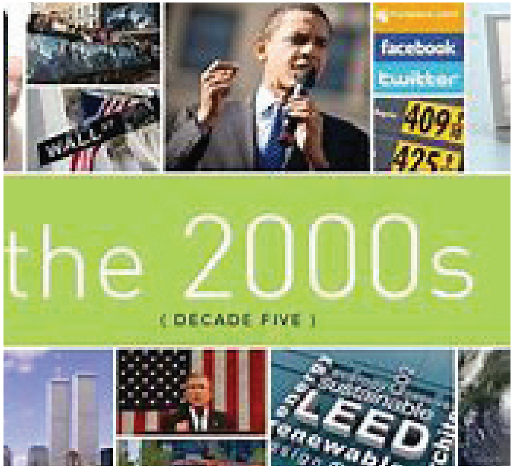
S&P 500 Index Annualized Return by Decade (1930-2019)	
1930-39	-0.05%
1940-49	9.17%
1950-59	19.35%
1960-69	7.81%
1970-79	5.86%
1980-89	17.55%
1990-99	18.21%
2000-09	- 0.95%
2010-19	13.56%

What Do You Mean, Reversion?

The fact that the S&P 500 followed one of its worst decades on record in the 2000's with one of its best in the 2010's is an excellent example of the fundamental investment concept of "mean reversion." Mean reversion predicts that historical returns will eventually return to their long-term averages. Simply put, investments that boom must bust, and those that bust may subsequently boom.

[1] "Bull Market Shows Signs of Aging," The Wall Street Journal, December 7, 2009.

A DECADE IN MARKETS (CONTINUED)



The idea of mean reversion presents challenges for investors as we contemplate the next decade. After all, would we expect another ten years of exceptional market returns, following a decade like the one we just experienced? Mean reversion suggests that if the recent returns are higher than the long-term averages (which they are for large U.S. stocks), then future returns will be lower to bring it back down to the averages.

The appropriate response to protect investments from the swing of mean reversion is diversification. After all, not every asset class behaves the same in any given period. During the "lost decade" of the 2000's, for example, investors in diversified portfolios were still able to make money in other asset classes, such as small or international companies.

Diversification can make you feel foolish. It requires patience through market extremes and can make you wish you hadn't spread your investments, but instead put "all your eggs" in the market leader. Regardless of how you might feel about diversifying your portfolio, we believe it is a great defense against market volatility and one of the best ways to manage risk in your investment portfolio.

Mean reversion predicts that historical returns will eventually return to their long-term averages. Simply put, investments that boom must bust, and those that bust may subsequently boom.

The fundamentals of successful investing endured in the 2010's, and we expect they will remain relevant in future decades:

- Diversify across markets and asset groups to manage risks and pursue higher expected returns.
- Stay disciplined and maintain a long-term perspective.
- Avoid the noise and guard against investment decisions based on fear or anxiety.
- Don't try to time the markets.
- Develop an investment plan based on a strong philosophy and specific funding goals—and stick with it.

Investors who follow these principles are likely to have a successful financial journey in any decade.

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Regardless of how old you are, the number one fear you probably have about retirement is running out of money.[1] But when it comes to worrying about your retirement nest egg, many of our thoughts turn to factors outside of our control, like a personal tragedy, market decline, or a natural disaster. While these events have the potential to wipe out your retirement savings, the real dangers to your retirement plan are the little-known and often ignored threats that could cause you to lose what you have diligently worked for. Here are some unexpected ways you could run into retirement trouble.

1. Not Estimating Your Retirement Needs

If you've managed to amass a significant nest egg, you may be proud of yourself. But even if you have half a million or a million dollars saved, it may not be enough. If you plan to retire in your early or mid-60s, your retirement savings will need to carry you through 30 years or more. Not to mention, you will encounter additional expenses along the way, such as healthcare costs, home maintenance, and taxes.

The best way to avoid financial anxiety in retirement is to work with your financial professional to map out various retirement scenarios to see what your savings can handle. Knowledge will empower you, especially in this situation. Almost half of those polled in the annual Transamerica Retirement Survey admitted that they have only guessed at how much they will need for a comfortable retirement.[2] Once you have an idea of what you'll need for your unique situation, set up contingency funds to cover the unexpected and find ways to maximize your savings to give yourself a cushion.

2. Neglecting to Create a Withdrawal Strategy

Just because you've worked hard to save for retirement and built up a nest egg doesn't mean you can rest easy. Once you start tapping into your savings, you need to develop a strategy to withdraw your funds so they last the rest of your life, however long that may be.

Since you know that stocks have historically earned an average of 8% a year, you might assume that you can afford to withdraw 8% of the initial portfolio value (plus a little more for inflation each year).[3] But in reality, to protect against the uncertainty of the market, you may have to limit your withdrawals to 4% or less.[4] Since there is no simple, one-size-fits-all plan, you need to figure out what will work for you and your unique situation, taking various factors into account, such as time horizon, risk tolerance, asset allocation, and unexpected living expenses.

3. Putting All Your Eggs in One Basket

Diversification is one of the most talked about investment strategies for a reason: it protects your investments from market volatility. While you can't eliminate risk from your portfolio entirely, you can cushion the blow if things go south. If you put too much of your money into one stock or even one sector of the economy, you put yourself in danger of losing your retirement savings.

Work with a professional to evaluate your portfolio's current allocation to determine if it needs to be rebalanced or diversified. Look at the big picture of all your accounts, including employer-sponsored ones, and ensure you are diversified across the board.

4. Forgetting to Plan For or Take Required Minimum Distributions

If you are 72, you must begin taking required minimum distributions (RMDs) from your traditional IRA and employer-sponsored retirement accounts. It doesn't matter if you need the money when you reach this age, you must still adhere to the RMD rules. What happens if you don't follow through? The IRS will charge you an excess accumulation penalty of 50%. That can significantly harm your retirement savings amount.

Perhaps more realistic than missing your RMD is to simply not plan for it. After all, a large RMD is considered taxable income, and

[1,2]https://transamericacenter.org/docs/default-source/retirement-survey-of-workers/tcrs2019_sr_what_is_retirement_by_generation.pdf
[3]http://www.simplestockinvesting.com/SP500-historical-real-total-returns.htm
[4]http://www.nytimes.com/2015/05/09/your-money/some-new-math-for-the-4-percent-retirement-rule.html?_r=0

large bumps in your tax rates in retirement can have an adverse effect on your planning. A Roth Conversion strategy can help lifelong savers minimize the eventual effects of their RMDs by systematically removing assets from an IRA in early retirement years, thereby lowering RMD requirements.

5. Premature Loss of a Spouse

Losing your spouse is devastating, regardless of when it happens. But losing a spouse during the final years of their career can be dangerous for the surviving spouse's financial plan. Furthermore, retirement and long-term care costs may increase without a spouse to share costs and provide care. Depending on pension benefits selected, a spouse's pension may not pay out to the surviving spouse in the event of his or her death. Also, if a spouse dies prior to eligibility for Social Security benefits, it may decrease the spousal Social Security benefits the surviving spouse receives.

It's critical for both spouses to be actively involved in the planning process to avoid a setback if this tragedy occurs. Take the time to consider benefits for the surviving spouse, such as life insurance. Wills, trusts, and beneficiary designations should be reviewed to ensure both spouses are protected financially. You should also create a pension and Social Security strategy to optimize the benefit for the surviving spouse. Examine multiple scenarios and make sure that you are taken care of no matter what happens.

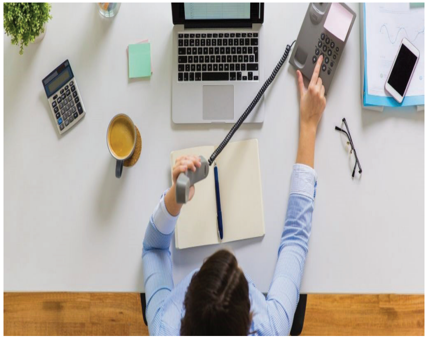
The real dangers to your retirement plan are the little-known or often ignored threats that could cause you to lose what you diligently work for.

Create an Action Plan

Retirement planning can be complicated and stressful due to the many unpredictable factors that go along with it. However, by understanding some of the risks and common roadblocks you may experience, you can plan ahead for the unexpected and reduce the chances that your retirement plan will fail.

> Once you start tapping into your savings, you need to develop a strategy to withdraw your funds so they last the rest of your life, however long that may be.

WHY SHOULD I CONTRIBUTE TO MY 401(K)? (FROM AN EMPLOYEE'S PERSPECTIVE)



Contributing to your 401(k) is not easy, that's for sure. Between student loans, a mortgage, car loans, and hungry kids, finding a way to contribute to your employer's 401(k) plan might be the last thing on your mind.

It's completely understandable. But in my opinion, it's a costly mistake. See, funding your 401(k) may seem like a struggle, but if you find a way to make it work, there's a huge financial upside.

Here are four reasons why you should start contributing to your 401(k) as soon as possible.

1. Save on Taxes

Contributing to your 401(k) can lead to significant tax savings, both now and when you retire.

Since your 401(k) contributions are deducted directly from your salary, you'll have less taxable income to report, and if you're lucky, you may even get bumped down a tax bracket.

Not only that, but when it comes time to withdraw, you'll save even more. Chances are that when you're retired, you'll be in a lower tax bracket than you are now as a full-time employee.

Why pay more taxes if you can avoid it?

2. Let Your Employer Fund Your Retirement

Retirement is getting more and more expensive (especially for the unlucky ones who won't see a dime of Social Security). In other words, you should take all the help you can get!

If your employer offers to match your contributions, why not max that out? They're literally offering you free money—all you have to do is save for retirement (something you should be doing anyway).

Even if you can't make the maximum contribution each year, you should at least try to contribute the maximum your employer is willing to match. If not, you're leaving free money on the table.

3. Exploit the Power of Compound Interest

Want to know the secret formula to a cushy retirement?

Compound Interest x Time

The magic ingredient that makes compound interest work best is time. The simple fact is that WHEN you start saving outweighs how much you save. Go ahead and click the above link which demonstrates how the math works in your favor. It's really that simple. The best way to ensure that you retire with a respectable nest egg is to give your money time to grow—earn interest on your interest, year after year after year. The earlier you start contributing, the longer your money has to snowball.

4. Set it and Forget it

We all know the feeling of making a great plan… and not executing. Things get in the way and we never get around to act. One of the best ways to form good habits is to minimize the amount of decisions you need to make to work toward a goal. Setting up a 401(k) contribution does just that: make an election one time and your savings will automatically be deducted from your paycheck, no further action needed. You probably won't even notice the money is deducted. An additional savings hack: each year increase your contribution by a few percent. A few years of adding this additional habit and you'll soon be set up to maximizing your contribution and benefits.

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