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Commerce Concepts

Market Updates, Asset Allocation, and Investment Education for Plan Participants and Individuals

How to Guard Your Nest Egg From "Sequence of Returns" Risk

Even if you've saved and invested diligently, the twists and turns of 2020 may have left you feeling less confident in your retirement planning. Risk is an unavoidable part of investing and it's tough to feel truly prepared to start drawing down a portfolio in a down market.

Sequence of Returns (SOR) risk is the possibility that a down market near your retirement date could affect your future spending power. The timing is significant because you may not have the ability or time to make up sustained losses that occur just prior to retirement. It becomes even tougher if these portfolio losses occur just after your retirement, since you no longer have the option of replenishing your assets by saving more or delaying retirement. The good news is that SOR is a risk you can manage.

Build a buffer

Investors who want to guard against SOR risk have a number of options. What's right for you will depend on your overall wealth, your asset allocation, your risk tolerance and other personal factors best discussed with your financial advisor.

It's possible to mitigate SOR risk by determining how much you need in retirement to cover essentials like mortgage payments, groceries, utilities, insurance, transportation and healthcare, and then creating a portfolio of guaranteed income. Examples of guaranteed income sources are pensions, Social Security, fixed-income assets/bond ladders, and annuity payouts. If your essential expenses are covered by a steady stream of income, you can weather zig-zagging markets by adjusting your spending on discretionary extras. You could also consider downsizing or taking on contract work.

You can further protect yourself by holding a cash cushion equal to six to 12 months of living expenses. Tap into that cushion when markets underperform and create a plan to build it back up when markets outperform.

Create flexibility

Retirees often assume they can withdraw a certain percentage of their total portfolio, increasing that amount every year to account for inflation. Under this formula, a $1 million portfolio and 4% withdrawal rate would provide pretax income of $40,000 in year one and, assuming inflation runs 3% annually, $41,200 in year two, $42,436 in year three, and upward from there. Historically speaking, this strategy has allowed people to enjoy steady income while still growing total assets.

However, because you set the rate at the beginning of retirement, it doesn't factor in some of the "what ifs" that might come along. Should your wants and needs deviate from your budget, or the market become unpredictable, your measured withdrawal plan may not keep up. Your retirement portfolio may be shrinking just as the absolute amount you are withdrawing is rising.

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WIN A $25 GIFT CARD

to your choice of Powell's or Amazon! (See page 2 for details)

Congratulations to our most recent winner:

Jennifer C. of Anthem Memory Care

Visit ***thecommco.com/commerce-concepts*** *for the answer to last issue's question.*

Indexes are unmanaged and cannot be invested in directly. Past results are not predictive of future results. Individual results will vary. The trailing returns shown include dividends. See page four for index definitions.

Source:
Raymond James Financial Services

To be entered into a drawing to win a

$25 Gift Card,

email free@thecommco.com with the answer to this question:

What is the Federal Reserve long-term goal for inflation percentage?

Market Update

Through March 31, 2021		Trailing Returns			
		3 mos	12 mos	5 yrs	10 yrs
Blue Chip US Stocks	Dow Jones Industrial Average	8.29%	53.78%	15.99%	13.09%
Large Company US Stocks	S&P 500	6.17%	56.35%	16.29%	13.91%
Small Company US Stocks	Russell 2000	12.70%	94.85%	16.35%	11.68%
Non-US Stocks	MSCI EAFE (Gross Div)	3.60%	45.15%	9.37%	6.02%
US Bonds	Barclay's Capital US Aggregate	-3.37%	0.71%	3.10%	3.44%
Cash Alternatives	ICE B of A 3 Month US Tsy Bill	0.03%	0.12%	1.19%	0.63%

Economic Snapshot

Gross Domestic Product (GDP)
Led by a recovery in consumer services, GDP growth is expected to be strong. Fiscal support will add to that and ensure the recovery remains robust into 2022.

Employment
Nonfarm payrolls are still down by about 9.5 million from where they were before the pandemic. Job growth should be strong, but there may be difficulties matching unemployed workers to available jobs.

Housing and Construction
Mortgage rates are off their lows, but demand for housing is expected to remain strong. Supply constraints will likely add to home prices.

Manufacturing
With economic strength showing up sooner than expected, manufacturers have generally struggled with supply chains. That should clear up over time.

Monetary Policy
Fed officials expect short-term interest rates to remain low through 2023. The monthly pace of asset purchases is likely to be reduced at some point, but probably not too soon.

Inflation
Year-over-year inflation should pick up in the near term, reflecting a rebound from low figures a year ago. CPI inflation is expected to rise moderately and temporarily, as the economy improves.

Investment Strategy Quarterly: Published by Raymond James and Associates, April 2021. For a complete PDF copy of the April 2021 issue of Investment Strategy Quarterly, click here or email newsletter@thecommco.com.

March Market Update

- The yield on the 10-year Treasury hit its highest level in more than a year, yet domestic equity markets managed to gain ground for both the month and the quarter, seemingly on the hope of strong economic activity the rest of the year.
- Federal Reserve policy remains accommodative and another round of fiscal stimulus has further boosted sentiment. Supply chain issues have added to cost pressures for manufacturers, and we may see some increase in inflation as the economy reopens. Inflation expectations remain firmly anchored at 2%, the Fed's long-term goal.
- The equity market has seen gains across sectors. This bodes well for intermediate-term (6-18 months) performance. Outsized gains have come from areas most aligned to an economic reopening, while last year's best performer, Technology, has largely consolidated its prior strength. Investors should not be surprised if the historically strong gains experienced over the past 12 months become more normal over the next 12 months.

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For additional asset allocation and disclosure information, please [click here] or visit the Resources section of our website at

thecommco.com

The investment profile is hypothetical, and the asset allocations are presented only as examples and are not intended as investment advice. Asset allocation and diversification do not assure a profit or protect against loss. Investing involves risk and investors may incur a profit or a loss, including the loss of all principal. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. Investing in small- and mid-cap stocks generally involves greater risks, and therefore may not be appropriate for every investor. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. High-yield bonds are not suitable for all investors. When appropriate, these bonds should only comprise a modest portion of your portfolio. Commodities and currencies are generally considered speculative because of the significant potential for investment loss. They are volatile investments and should only form a small part of a diversified portfolio. Real estate investments can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.

Strategic Asset Allocation Models

As of April 2021

Equities / Fixed Income / Cash Alternatives

	Conservative	Moderate	Balanced	Growth	Aggressive
Equity	**30%**	**50%**	**67%**	**83%**	**98%**
Equity allocation comprises:					
U.S. Large Cap Blend	20%	24%	29%	35%	41%
U.S. Large Cap Growth	0%	3%	5%	7%	8%
U.S. Large Cap Value	0%	3%	5%	7%	8%
U.S. Mid Cap Equity	4%	7%	9%	11%	13%
U.S. Small Cap Equity	1%	3%	5%	7%	8%
Non-U.S. Developed Market Equity	5%	10%	10%	12%	15%
Non-U.S. Emerging Market Equity	0%	0%	4%	4%	5%
Fixed Income	**68%**	**48%**	**31%**	**15%**	**0%**
Fixed income allocation comprises:					
Investment Grade Intermediate Maturity	45%	32%	21%	12%	0%
Investment Grade Short Maturity	13%	7%	5%	0%	0%
Non-Investment Grade (High Yield)	7%	6%	5%	3%	0%
Non-U.S. Fixed Income	3%	3%	0%	0%	0%
Multi-Sector Fixed Income	0%	0%	0%	0%	0%
Alternative Investments	**0%**	**0%**	**0%**	**0%**	**0%**
Cash & Cash Alternatives	**2%**	**2%**	**2%**	**2%**	**2%**
Totals	**100%**	**100%**	**100%**	**100%**	**100%**

These asset allocation targets are based on our changing views of the risk and return in the various asset classes, looking out over three or more years. The models assume fully allocated portfolios and do not take into account outside assets, additional cash reserves held independent of these models, or any actual investor's unique circumstances. Investors should consult their financial advisor to decide how these models might assist in the development of their individual portfolios. Material is provided for informational purposes only and does not constitute a recommendation.

Index definitions: The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The ICE BofAML 3-Month US Treasury Bill index consists of a single issue that is purchased at the beginning of the month and held for a full month. At month's end, that issue is sold and rolled into a newly selected issue, which is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date. The selected issue must have settled on or before the month-end rebalancing date.

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You can avoid some of the uncertainty by building in some flexibility. Retirees generally spend more in the early years and taper down as they accomplish their goals (e.g., traveling with family or purchasing a vacation home). Once you've identified your spending goals, revisit your withdrawal plan every three to five years to ensure it can keep pace. If it doesn't, it may be best to establish a more conservative withdrawal amount and adjust with the market. If your portfolio experiences a market boost early on, adjustments can be made upward to allow for higher withdrawals.

Another option is to set a fixed percentage based on the year-end value of your portfolio. This could mean that you'll have flush years and leaner ones, depending on the market. Alternately, you can establish a "floor" – an amount that can be withdrawn in any market environment to cover your basic needs, and adjust discretionary spending according to performance.

Lastly, consider how your income sources will perform in "normal" markets, recessions, or periods of high inflation. For example, Social Security, which generally includes a cost of living increase each year, should hold steady in a variety of economic environments. Its resilience is a great reason to maximize this income stream if you can.

Adjust as needed

The idea is to put your eggs in several baskets, since it's impossible to know what the markets will do this year or next, much less over 20 to 30 years of retirement. Even with a carefully planned withdrawal strategy, you can't account for everything. The key is to not overreact when something unexpected comes your way. Even small changes can have a big effect when compounded over the long term. When things do change, take the time to revisit your withdrawal strategy with your financial advisor.

If you're planning on retiring within the next few years and would like to speak with us about your strategy, email our office at newsletter@thecommco.com.