October 2022

THE EDUCATED INVESTOR

A GUIDE TO RETIREMENT PLANNING

How To Retire During A Bear Market

Imagine retiring in this market. A 60-year-old who owns a balanced fund—60% allocated to stocks, 40% to bonds—has seen the value of their investment drop by 18% so far this year.

Soaring prices only makes matters worse. Not only does our 60-year-old have less wealth, but also their savings don't buy what they used to. In fact, financial advisors say their clients have been more preoccupied with gas and food prices than the terrible stock market.

"Inflation is the biggest issue I've been hearing about lately," said Ashlee Walton, senior financial planner at James Investment Research Inc. "Clients don't have a lot of experience dealing with inflation this high, and they're worried about it being a longer-term scenario."

Make no mistake, inflation is the main culprit for the dismal stock market performance in 2022 so far. The Federal Reserve is hiking interest rates to quash price growth, taking cheap money away from stocks and tech companies, and it's also causing pain and suffering in the bond market.

For nearly everyone, 2022 has been almost as bad as 2008. Here are strategies for retirees and near-retirees to stay on track in a bear market.

Test Drive Your Retirement Budget

For many people, life in retirement may be pretty different than what they'd imagined. Just a quarter of respondents in a recent Employee Benefit Research Institute (EBRI) survey said that their day-to-day experience aligned with what they had expected before retiring.

One of the biggest adjustments is getting by on a fixed income. That's why Catherine Collinson, chief executive of the Transamerica Center for Retirement Studies, recommends that investors should take a "retirement test drive" before they actually hang up their spurs.

"Find out how easy or difficult it is to stay on budget," Collinson said. This will make it easier to adjust spending in times of high inflation and economic trouble.

Let's say your annual household income is $100,000, and your current retirement plan would deliver 80% of your pre-retirement income. Spend a period of time attempting to get by on your anticipated income, rather than what you currently earn.

The transition won't be easy, but that's the point of the exercise. Adopting a fixed income requires a psychological shift in intuitively understanding what you can really afford. It's best to approximate this new lifestyle before playing with live ammo."

Stick To Your Financial Plan

Folks often call their financial advisor when markets get rocky and economic news sounds bad, driven by the urge to do something to fix the short-term unpleasantness. It's understandable, but this urge is misplaced.

People with a good handle on their long-term finances generally have a written financial plan. A recent Hearts & Wallets survey found that people who wrote out a financial plan had more money, better diversification and a higher degree of confidence in their retirement.

Walton suggests retirees go back and review their financial plan when markets start looking bad. This can help them appreciate the larger arc of their post-working life. "Otherwise you don't know what you should be comparing," said Walton.

Meanwhile, the absence of a plan can be mostly keenly felt in trying times. Rather than having a bedrock to fall back on, you might try to buy or sell your way out of a bad year for your portfolio, which only creates worse problems down the road.

If you don't already have a financial plan or a retirement plan, now is the time to contact a fee-only financial planner and get to work.

Build a Cash Reserve

You can weather bear markets and investing missteps, like selling when stocks are down, early in your career. That's because you've got plenty of time to course correct. Once retirement is close at hand, you have no such luxury.

"Retirees don't have the time to wait for the market to bounce back," said Jesse Piburn, director of advisory service with Personal Capital. "If they take withdrawals from their retirement funds in a down market, they'll have fewer assets to grow when the market does recover."

A key part of retirement planning is to provide yourself with a sizable cash cushion so you don't have to sell stocks when they're down to finance your expenses. Part of your retirement plan should be funding a cash bucket that you can use to augment guaranteed income from sources like Social Security, pensions and annuities.

"Outside of your retirement portfolio, consider aiming to have six-to-12 months worth of liquid cash or cash alternatives, so you can withdraw from those if needed without touching your portfolio," said Piburn.

Optimize Your Tax Strategy

If you have to sell something, be strategic about which account you use.

Selling from a taxable brokerage account may make sense if you're able to take a capital loss, which will lower your tax bill from other sources of income.

Even if you're selling a winner, long-term capital gains tax rates may be less than your marginal tax bracket, which is what you'd pay if you took distributions from an IRA.

"It's not just what you're selling, but where you're selling from," said Walton.

Now might also be the time to consider a Roth IRA conversion. You might be able to pay less in taxes (since gains are generally down across the board), and enjoy tax-free growth once the market rebounds.

But only do so if a Roth conversion makes sense in the first place, i.e. you have enough in cash to pay what taxes you'll owe and you expect your tax rates to be higher in the future.

One of the best ways to ease your financial crunch is to take on a part-time job to add income.

While a looming recession may dent your optimism, this particular downturn will not be as hard on the labor market as recent ones. For instance, while the Federal Reserve expects the unemployment rate to increase next year to 4.4%, that's very low by historical standards. The unemployment rate in September 2009 was 9.8%.

Earning a bit of cash while you're ostensibly retired, while something of a cheat, has a few benefits.

The first is obvious: By earning income, you're taking stress off your portfolio, and reducing your need to withdraw into a bad market. A paycheck not only helps your finances now, but improves your long-term prospects, especially if you're able to delay collecting Social Security until at least your full retirement age.

Reentering the workforce may seem impossible, but it's much more manageable than you'd imagine. You're an experienced, dependable worker who isn't looking for the fringe benefits that come with full-time employees.

Moreover, a consistent gig that doesn't occupy too much of your time will help give structure to a new phase of your life, which has suddenly been upended by sky-high inflation, a terrible market and European war.

At the very least, it'll give you something different to think about.

Title: How To Retire During A Bear Market
Source: https://www.forbes.com/advisor/retirement/bear-market-retirement/
Author: Taylor Tepper

Midterms & Markets

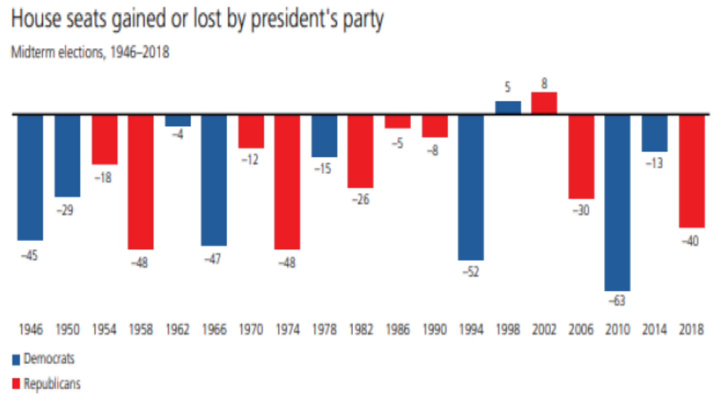
Key Points

- Historically, midterm elections have cost the incumbent presidential party seats in the House of Representatives.
- During midterm election years, market returns tend to be range-bound and volatility remains elevated compared to non-election years.
- Over the long-term, however, markets don't see red or blue but simply green and have gone up regardless of the party in power.

Midterm elections are around the corner, and the outcome will determine which party has control of the House of Representatives and the Senate. The result can also be a signal for the next presidential election. Midterm elections are important as they can have significant potential impact on policy and laws. In this edition, we look at how the balance of power has historically shifted during midterms and what, if any, impact it has had on the stock market.

How Midterms Impact the Control in Congress

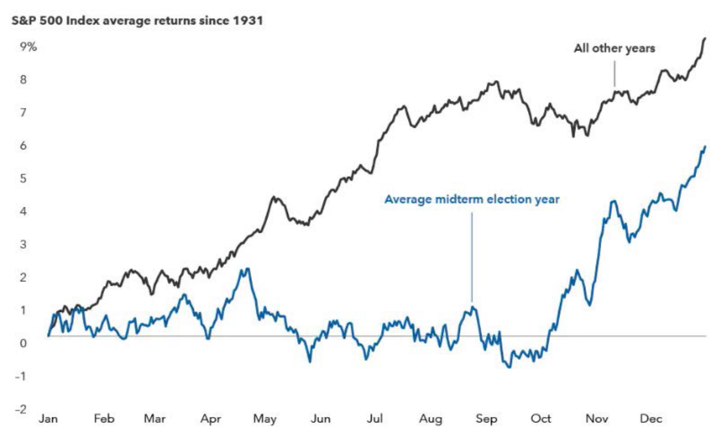
Midterm elections have historically been challenging for the incumbent president's party. The impact has been clear in the House of Representatives, while the Senate has shown mixed results. Since 1946, the president's party has lost an average of 25 seats in the House of Representatives in 17 of the 19 midterm elections[1]. The consistency in losses can be attributed to a myriad of reasons, including higher motivation for voters of the opposing party who view the midterms as a referendum on the administration and general dissatisfaction with the state of the economy. The exceptions in 1998 and 2002 were tied to unique circumstances. In 1998 a strong economy helped, while in 2002, voters rallied around the incumbent president post the 9/11 attacks. In 2022, record-high inflation and concerns about the state of the economy will likely play critical roles in the upcoming elections.



Source: UBS

Stock Market & Midterm Election

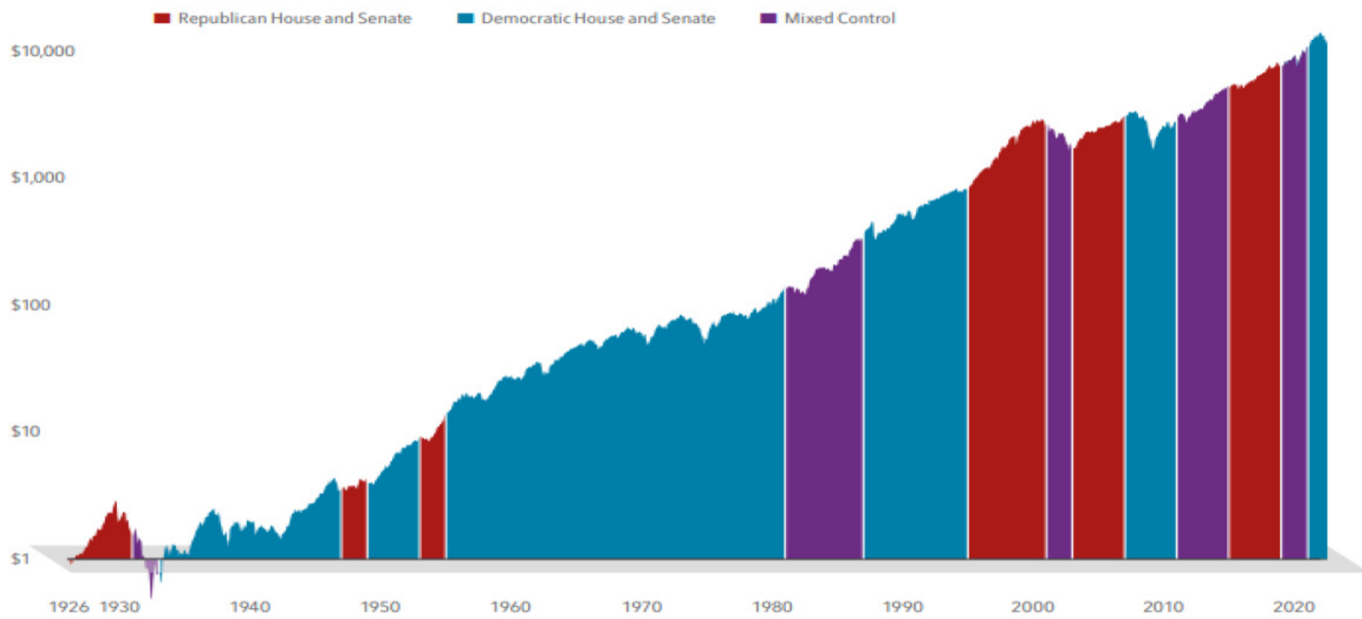
During midterm election years, market returns tend to be range-bound, and volatility remains elevated compared to non-election years[2]. While markets are impacted by a variety of forces, such as inflation, the direction of interest rates or the state of the job market, the subdued returns prior to elections and generally higher volatility are likely explained by the fact that markets don't like the uncertainty from potential policy changes.



Sources: Capital Group, RIMES, Standard & Poor's. The chart shows the average trajectory of equity returns throughout midterm election years compared to non-midterm election years. Each point on the lines represents the average year-to-date return as of that particular month and day and is calculated using daily price returns from 1/1/31-12/31/21.

Regardless of the outcome of the elections, market returns for the one year following midterms and over the long term have historically been strong. Since 1930, the average return for the 12-month period after a midterm election is 13% compared with 5.5% for other

HYPOTHETICAL GROWTH OF $1 INVESTED IN S&P 500 INDEX.



Source: Dimensional Funds. Data from 1/1/26-6/30/22

years[3]. Only in two instances did the market have negative returns for the 12-month period after midterm election years: in 1930-31 and 1938-39. Each of these periods were aligned with the economic challenges of the Great Depression and the early onset of WWII.

Finally, data over the last nearly 100 years shows that investors who remained disciplined and invested in the S&P 500 from January 1, 1926, through June 30, 2022, would have seen growth in their equity portfolio regardless of whether Democrats or Republicans controlled the House and Senate or whether control was mixed[4] as seen in the final chart.

Many may think that's all in the past, and this time is different. Indeed, there are many important issues facing our country today; however, markets don't see red or blue, only green. The factors that will dictate the markets include interest rates set by the Federal Reserve, continued innovation, and ongoing consumer spending, not simply elections. Nearly a century's worth of data has shown using elections alone to make investment decisions is likely to lead to unreliable investment results.

1 UBS. 2022 Election Watch.
2 Capital Group: Can midterm elections move markets? 5 charts to watch
3 UBS. 2022 Election Watch.
4 Dimensional Funds. What History Tells Us C22-about the Market and Control of US Congress

The Bear Market is Back, Will it Hibernate Soon?

After a summer rally, volatility is back in full swing. 2022 has challenged investors' patience as almost every investment has had negative returns, with the exception of commodities, the US dollar, and cash.

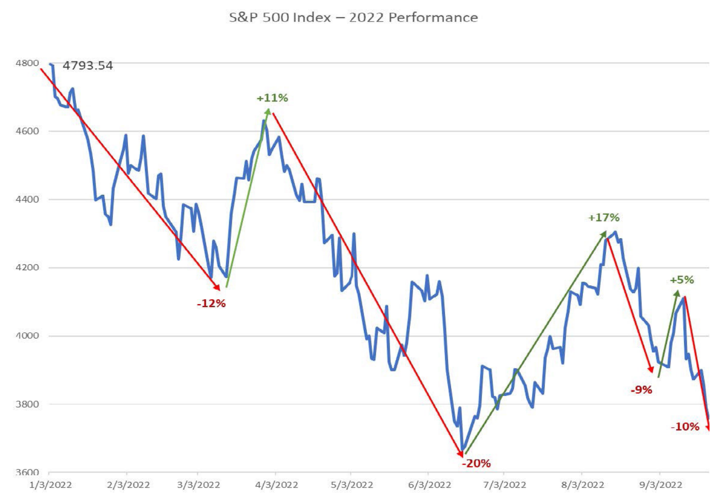
What's Happening?

It appears investors and markets have run out of patience and just want to be done with this bear market and the recession talk. Instead, they are hoping that inflation has peaked and the Federal Reserve (Fed) will soon start cutting rates just as it began raising them. This disconnect is one of the reasons why the markets have floundered this year.

Since Fed Chair Jerome Powell announced the first interest rate hike in March 2022, the stock market has hoped that rate hikes would be short-lived. This was built on the assumption that the toll from rate hikes would soon lead to an economic slowdown and that inflation would sharply retreat in the same fashion as it appeared. In fact, after each of the rate hikes in 2022, markets were disappointed when the Fed appeared more hawkish and failed to slow its path of rate hikes, and the subsequent rally in the S&P 500 index failed.

What's Next?

The million-dollar question is whether the Fed will be able to tame inflation without causing a recession. The US economy has experienced back-to-back quarters of negative growth for the first half of 2022, a sign of a technical recession. However, we believe a true recession has not yet begun. History tells us, if the economy does experience a recession, markets could fall further. Bear markets accompanied by a recession tend to be steeper than those without an economic downturn. Since 1946, the average decline for a bear market associated with a recession was 35.8% versus 27.9% on average without a recession.[1] At its low point earlier in June, the S&P 500 had dropped roughly 24% from its high on January 3. While the markets have inched closer to historical averages without a recession, the bad news is there could be further pain should a recession follow.



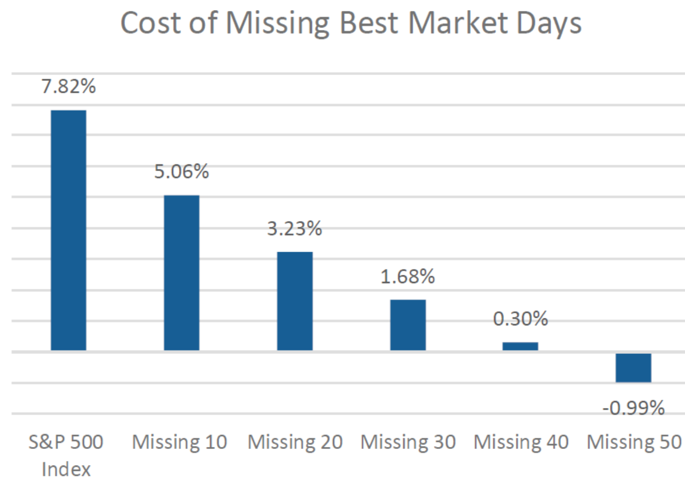
Source: FactSet. Data as of 1/3/2022-9/23/2022

While preparing for challenging markets and recessions is never easy, it is also important to understand that today's challenges are not the same as those seen during the past two recessions. The recession in 2020 was triggered by a global pandemic but ended quickly as the economy re-opened. The financial crisis in 2008-2009 was a financial crisis, which resulted in a deeper and longer-lasting recession. The current environment on the other hand is a slow deterioration in the economy caused by the Fed's fight against inflation. Neither kind of economic challenge — the deep, sharp declines or the long gradually developing ones — is easy but, at least this time around, we have the foresight to plan appropriately.

What is an Investor to do?

Bear markets, while painful, do not last forever and pale in comparison to bull markets both in length and size of gains. Looking at the history of the S&P 500 since 1942, the average bull market lasted 4.4 years with an average cumulative gain of 154.9% while the average bear market (decline of 20% from peak) lasted 11.3 months with an average cumulative loss of -32.1%.[2]

Even so, one might be tempted to exit and wait for clarity in the current environment. The problem with this strategy is that often the best days in the markets happen during the worst times in the market. Research shows that missing a handful of the best days can dramatically hurt returns compared to simply staying invested during bear markets. Over the past 30 years, missing the best 20 days in the S&P 500 cut the annual average return by over fifty percent from 7.8% per year down to 3.2%.[3] The returns become even more dramatic as you miss 40 or 50 of the best days, resulting in 0.3% or even -0.99% annualized returns. This is because the best and worst days typically happen at the same time and more importantly, they often happen around bear markets or recessions. In other words, exiting the market to avoid the worst days also makes it likely to miss the best days in the market.



Source: Data as of 9/1/92 to 8/31/22. Average annualized returns for the S&P 500 index. Wells Fargo Investment Institute

Conclusion

Bear markets test investors' emotional strength to stick to their long-term plans. The best advice during these periods is to stay calm and ensure we avoid emotional decisions, given how costly its impact can be on investors' portfolios. Finally, drawing on the old proverb, it is darkest before dawn. When market volatility seems to have no end; it's important to have a long-term perspective and make sure the portfolio is designed to be balanced enough to benefit from periods of growth, while being resilient during these inevitable periods of volatility.

1 FactSet. Data as of 1/3/2022-9/23/2022
2 First Trust. History of Bull and Bear Markets. Data as of 6/30/2022
3 Wells Fargo Investment Institute. The perils of trying to time volatile markets

Creamy Pumpkin Hummus

INGREDIENTS:

- 1 can (15 ounces) garbanzo beans or chickpeas, rinsed and drained
- 1 cup canned pumpkin
- 1/3 cup tahini
- 1/4 cup olive oil or pumpkin seed oil
- 3 tablespoons orange juice
- 1 tablespoon toasted sesame oil
- 1 teaspoon ground cumin
- 1 teaspoon minced garlic
- 1/4 teaspoon salt
- 2 tablespoons pumpkin seed oil or olive oil, optional
- 1/4 cup salted pumpkin seeds
- 1/4 cup pomegranate seeds
- Baked pita chips and sliced apples and pears

SERVINGS: 6-8

PREP TIME: 25 Min

INSTRUCTIONS:

1. In a food processor, combine the first 9 ingredients; cover and process until smooth. Transfer to a serving platter or bowl. Garnish with oil if desired; top with pumpkin seeds and pomegranate seeds. Serve with pita chips, apples and pears.

Sources:https://www.tasteofhome.com/recipes/creamy-pumpkin-hummus/; Produceforkids.com

The Sudoku Section

2	3			8	9			
			3					
	9		6	1	2			
	8							9
			1	5			3	
1		2					6	
	1	7	9					
6		5	2					
			8		5	7	1	

2	3	4	5	8	9	6	7	1
5	6	1	3	4	7	2	9	8
7	9	8	6	1	2	3	4	5
4	8	3	7	2	6	1	5	9
9	7	6	1	5	8	4	3	2
1	5	2	4	9	3	8	6	7
8	1	7	9	3	4	5	2	6
6	4	5	2	7	1	9	8	3
3	2	9	8	6	5	7	1	4

The answers

October Special Days & Holidays

(Financial Planning Month)

3rd- Child Health Day

4th- World Animal Day

5th- World Teacher's Day

7th- World Smile Day

12th- National Savings Day

15th- World Student Day

16th- World Food Day

20th- International Credit Union Day

22nd- Make a Difference Day

25th- Mother-in-Law Day

26th- Pumpkin Day

31st- Halloween

Source: http://www.printmysudoku.com