Episode 100: YouTube Live Q&A w/ Bob French (Part 2)

00:00
Bob French
The purpose of retire with Style is the first step is to discover your retirement income personality.

00:02
Bob French
To help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to Risaprofile.com Style and sign up to take the industry's first financial personality tool for retirement planning.

00:43
Bob French
I guess a good one to answer off this one is Jeff's question here about fixed indexed annuities. They sometimes get a bad reputation because of their fees commissions. I like their ability to replace bonds in a portfolio. Are there specific FIAs you prefer overall, right off the bat? Unfortunately, that last part of the question for compliance reasons, we have my chief.

01:07
Wade Pfau
Compliance officer right here with me today. No, we're not able to talk about financial products, so we can't even get into this.

01:19
Bob French
But generally we can say a little bit about fixed index annuities and using them in place of bonds and things like that though, because that can be a useful approach.

01:31
Wade Pfau
Absolutely. I've done a lot of studies along these lines. So real quick, the basic idea of a fixed index annuity is you link it to some stock index like the S and P 500. It will be linked to the price returns because it's going

to use this is getting technical. But financial derivatives that don't give you a total return, they are only linked to price returns. So that means capital gains, not the dividends from the stock market index. And then you have principal protection. If the stock index is negative, you don't lose any money. If the stock index is positive, you will share in the upside, but you won't get all the stock market upside. Usually they'll have a cap.

02:11
Wade Pfau
If the cap is, say, 8%, then that means if the SP 500 is up well between zero and 8%, you'll get whatever that is in terms of the price return. If it's up more than 8%, you're capped at 8%. But now every year you're going to get interest credited to you at somewhere between zero and 8%. And to the extent that the stock market is up, more often than not you're going to average somewhere closer to the 8% side than the 0% side. What if that number is exactly you'd have to kind of it would depend on what you're going to assume about stock market returns. But then you compare that to bonds and if you have taxable bonds, you're going to be paying taxes on the interest every year.

02:52
Wade Pfau
If you have bonds in an IRA, you get the same tax deferral benefit as the annuity provides. But then you look at it on an after tax basis. Even though the indexed annuity is linked to a stock market index, it's not an alternative to the stock market. It sometimes gets pitched as getting stock market gains without the risk of the stock market. That's not what it is. It's potentially a bond alternative for the portfolio. And that's where in the work that I've done. Yeah, I think you absolutely can look at these as part of the asset allocation mix, as a potential part of your fixed income allocation in your portfolio.

03:33
Alex Murguia
And real quick, just because there was a theme here with Bob's question and now with your question here is just in terms of annuities and recommending annuities and things like that, there needs to be a broker, in the purest sense of the word broker involved. Because these are contracts, these are significant contracts that you're essentially signing. There's no market like the New York Stock Exchange and you're buying an ETF and you put in a ticker symbol for the SP 500, SPX. Buy 1000 shares at this price and you're done. That doesn't exist. Hence, that's why even Wade said earlier, right now the way it is there has to be it. Here's a good one interlocutor. There you go. There needs to be kind of that middle person because they're contracts and so it's not just a matter of hey, what are the good?

04:33
Alex Murguia
And they change all the time. They change all the time. Whereas right now the S and P 500, the SPX ticker is going to be the same five years from now, ten years from now, et cetera. But that's not the same with the types of contracts that are issued that are annuities. And so you just have to keep that in mind. There's no

clearinghouse, if you will, for these contracts. Just wanted to say that. That's why you can't just get a line and buy one.

05:01
Wade Pfau
Yep.

05:06
Alex Murguia
I have to ask this one because this goes back to the distribution one. John Reconfoller just wrote an article on Morningstar indicating that higher bond yields now support a 4% withdrawal rate assumption is 30 year withdrawal period and a 50 portfolio.

05:24
Wade Pfau
Yeah, and I think that's consistent with the answer I gave earlier. To be clear, all I was saying was just because a 30 year Tips letter supports 4%, you can't treat that as a guarantee that a diversified portfolio would support 4%. With that being said, now all John did is Monte Carlo simulations where now that interest rates are higher, you can assume higher bond returns and then potentially with a risk premium added to that, higher stock returns. And yeah, that's going to make it much more likely that the 4% rule would work in today's interest rate environment. In terms of the math behind what that calculation is telling you, I don't disagree with it.

06:02
Bob French
There is something worth teeing off.

06:04
Alex Murguia
Look, but this is what at the larger level though, I kind of want to disabuse William for thinking like this is even important because I bet you when I read that out loud, bob and Wade's answer internally was you know who mean and we're folks, that OK, you can say I don't know what I'm talking about. That's fine, guilty, right? But you got Bob and Wade and they're very learned about this subject matter and it doesn't matter. I think we just need to move on because next year Morningstar will write something and say take the current rate, do a Monte Carlo and say hey now it's 3.6%. You're going to think, wow, this is.

06:48
Bob French
It point that I really wanted to tee off on there because you skipped over Williams paraphrase 3.3 saying it

now supports a 4% withdrawal rate as opposed to a 3.3% withdrawal rate. That's the same number. Guys, we should be talking in like big round numbers on stuff like this. 3.3 versus 4%. Expos facto here is the same number.

07:20
Alex Murguia
Is that a Harry Potter reference?

07:22
Bob French
I guess it's Latin, I don't know. But there's no precision in any of this stuff. We can calculate these numbers out to as many decimal places as you want, but it just doesn't matter. It's significant figures from like 6th grade science. You can only measure as finely as your instruments and our instruments suck in this type of context and this actually gets back. There was a question earlier about efficient frontiers as a purely theoretical idea. Great. Yes, they exist in terms of using them to build your portfolio. I hate them. They're horrible. There is no precision here. Trying to place your portfolio on the efficient frontier usually is just going to hurt you. You're going to be optimizing your portfolio in very specific ways and using those optimizers, the only thing you optimize is your errors. You're going to force yourself into a.

08:33
Alex Murguia
Weird portfolio just to talk about what you mean by that. Usually you have these things called portfolio optimizers where they take your asset classes and let's just say you have a stock bond or whatever and it comes with an expected return and standard deviation expected return and so a mean variance optimizer will sort of place them. What's the best allocation to get this on the efficient frontier? But what you'll find is you'll get some weird results. You'll get something that says I'm making it up now. But you'll get something that says large cap stocks 20%, REITs 70% and fixed income 10% and that's the best fit on the efficient frontier.

09:14
Alex Murguia
No one in their right mind is going to look at that and say that's what I'm doing, and then change it the next year based on standard deviation changes of historical stuff and returns changes. It's just not done like that. So what you do is you start putting guardrails around the optimization algorithm and your guardrails are saying effectively, yeah, I want REITs but no more than 5% and no less than 3%. I want domestic stocks but no more than 40% and no less than 30%, something like that. So what you're effectively doing is just eyeballing it anyways and putting some sort of thing that kind of makes sense. And so yeah, I guess this is like a debunking Q and A to some extent, but I really wouldn't get caught up in the efficient frontier mumbo jumbo.

10:03
Alex Murguia
I mean, it's great for academia kind of thinking conceptually about what you're trying to do, but when it comes to precisely creating an allocation, I don't know any stand up firm that does anything remotely close to clarify a little.

10:20
Wade Pfau
Bit what the question is asking about. So what you're describing is the modern portfolio theory style and where you choose some asset classes, you decide on returns, volatilities, correlations, you throw them into that optimizer and you get an asset allocation. And it's very sensitive to the assumptions and you can get some very OD looking asset allocations from that. That's not exactly what this question was getting at. I think it's more the retirement income version of it, which is just the.

10:47
Alex Murguia
Broader well, it still has I'm sorry, GMH. I'm sorry, GMH, I had that in me.

10:53
Wade Pfau
Yeah, it's usually going to stick to the broader asset. Five different bond funds that you're picking weird allocations with. It's more the stocks and bonds income annuities, and then yeah, the efficient frontier for retirement income. That's really one way to tell the story about how risk pooling allows annuities to help support retirement spending needs more efficiently than bonds do. Then they are asking about just changing the bonds to stable value funds. Yeah, I don't know that's going to necessarily overwhelm the risk pooling through annuities, but at least to the extent that you don't have risk of loss in the same manner as you would with bonds, it could tweak the efficient frontier a little bit. And then I guess we're getting back to your point of yes, what sort of tweak do you get?

11:43
Wade Pfau
It could potentially tweak it in a weird way, but I don't think it will. It's just probably stable value funds will not get to the frontier either.

11:53
Bob French
Right. It's the same problem with efficient frontiers, whether it's retirement income, whether it's purely investment portfolio. A big part of this is we're looking at historical data or we're making guesses about what the future is going to look like. We're going to be wrong in our assumptions. So we could go in and

design the perfect portfolio for the last 30 years, the perfect plan for the last 30 years, that's not going to be the perfect plan for the next 30 years. So what we need to do is sit with what makes you comfortable, what looks like it pencils out, what looks like it's a reasonable approach that you can deal with going forward, that you'll be able to deal with however the market evolves, and sit with that plan.

12:46
Bob French
If you're not able to stay disciplined, if that plan doesn't work for you, doesn't matter because you're not going to be there.

12:56
Alex Murguia
And you're right, I think I am being a little hard on GMH. It's just I saw the abode of Christian frontier, so I went off on a little soapbox tangent but yeah, I mean, ultimately, could stable value funds be considered as an alternative? And you answered that.

13:13
Wade Pfau
Sure.

13:15
Alex Murguia
And William fires back. And he's right. Annuities have a bad rap because outside of SPIA, you need to invest a lot of time to understand them. And even then, FIAs are very difficult to compare because insurers do not use common terms. I don't necessarily think they get a better rap because they're difficult to understand. Part of it, I think the pricing.

13:38
Wade Pfau
Because then there's no transparency, you can make the case.

13:41
Alex Murguia
Yeah. It's more transparent.

13:44
Wade Pfau
Yeah. It's a way to hide feed, sometimes intentionally obscures. Yeah.

13:48
Alex Murguia
And I would like you to address something here, Wade, but I would venture to say stocks, if you really get down into it, stocks, bonds, certain instruments, anything with numbers can become complex. I'm not so sure it's the complexity. I think it's just the transparency issue. Plus, I do agree, insurance do not use common terms. Even when we did our podcast Way, remember, there was like, they're not English terms. And so part of this is because they're English, but they're not used in the English definition.

14:24
Wade Pfau
And more so, every company uses a different term for the same thing, which makes it super confusing.

14:33
Alex Murguia
Yeah. And this goes back to their contracts. They're not something that there's a clearinghouse for. So every company has their own contract and so they have their own internal jargon. And so, yeah, it does make it difficult. Now, you said transparency. If it's something that I think is interesting and maybe if you can do this, it would be helpful. The difference between annuity spread expense versus an actual fee.

14:59
Wade Pfau
Sure. Right. Pretty much any fixed annuity, including fixed indexed annuities, they're spread products. And you can think of it just like a bank. When you put your money in a checking account, they might pay you an interest rate. I don't know, it may not be very high. But the idea is the bank is going to earn more by lending out your deposits than they're paying you an interest. There's plenty of fees on banking, but you could have no fee. Banking the way the bank it's not a charity, it's just it's going to earn money by lending out funds at a higher interest rate than it pays to its depositors. Same idea with a fixed index annuity. They're often marketed as not having any fees.

15:43
Wade Pfau
And yes, there's no explicit fees, but the idea is there's a spread that whatever the insurance company is able to generate internally, they're going to keep part of that for themselves and they're only going to give you part of that. And so that's where they stay in business. That's where they're able to generate revenues to maintain their company and so forth.

16:08
Alex Murguia
Got it. And Karen, I got you. Feel free to reach out to us. I mean, the last thing I would like is you're saying

you're not feeling at ease with money, financial, fitness, self employed, busy, many skills. But you're now older and suddenly faced with managing parents, money, health and death. If you need sort of a starting point and someone to point you in the right direction, just reach out to us personally and we'll make sure you at least get pointed in the right direction with that. So thank you for your message.

16:43
Bob French
If you're looking for more personal advice, please note that our show is sponsored by McLean Asset Management. Learn more@mcleanam.com. That's Mcleanam.com. McLean Asset Management is a wealth management firm where we help you design and implement the right retirement plan for you.

17:05
Wade Pfau
Yeah, there's a lot of questions coming in.

17:11
Alex Murguia
Yeah, what I'm doing just the FYI we're getting these on the chat. I'm kind of marking them off with a thumbs up as we get them in. So we know that we're kind of addressing them. Here's one, just because it's out there. My family have said the only way to truly protect against a crash in the US. Like Japan is a brokerage in another country and invest via their currency versus an international index fund. Any thoughts? Or really something worse like the US going through what Argentina has gone through. I'll give this to Bob. The other thing I would mention here, as opposed to currencies bob, again, I kind of know where you're going to go with this, but know you can buy bond funds pegged to know that kind of stuff, or international funds that are also pegged, but take it away.

17:59
Bob French
I'm not sure I'm taking it the way you're thinking there, but okay, never mind. My first take is one, a lot of these conversations, it's really people's fears that are coming out here and a lot of it and I've been on kind of an inflation kick for the past couple of months. A lot of those conversations are really political conversations in disguise. And I think this is probably one of those types of conversations. From a purely economic standpoint, if the US turned into Argentina, there's nowhere to hide. The US would take the entire world economy with.

18:48
Alex Murguia
Robert Kiyosaki was right all along.

18:53
Bob French
So from that perspective, I'm not know getting brokerage account saves you in any meaningful way.

19:04
Wade Pfau
And I think it would be riskier if you're actually talking about opening brokerage accounts in foreign countries because your opportunity to then gain access to those funds could be curtailed right now.

19:17
Bob French
That being said, I mean, if you are worried about moderately catastrophic stuff happening in the US.

19:29
Alex Murguia
Catastrophic is catastrophic.

19:31
Bob French
Well, moderately catastrophic here.

19:36
Alex Murguia
We only lost 30 states, not 20.

19:40
Bob French
I'm not talking in terms of that level of catastrophe. I'm talking about the S and P 500 sustaining negative returns like 2008 for a while.

19:51
Alex Murguia
All right.

19:53
Bob French
You can one shift out of equities into safer bonds. So US treasury bonds, maybe some Euro bonds, some big

foreign government bonds, things like that are highly unlikely to meaningfully default. And that would be one way. There was a while ago catastrophe bonds that only pay off in terms of a natural disaster, something like that. I don't hear too much about those anymore, probably, thankfully. But it's really going to come down to you need to build your portfolio with a very low level of risk. If you're worried about the financial system falling apart but still operating, you want a very low level of risk in your portfolio if you're worried about the financial system just falling apart, full stop, which is what the US looking like. Argentina means go know beans and guns.

21:04
Bob French
Because saying that you own a gold bar or shares of some commodity fund if it's not on your person doesn't mean anything. If that's the level of worry that you have, don't invest in risky assets. Don't invest in non tangible things that aren't on your physical person.

21:26
Alex Murguia
I think bitcoin solves this.

21:28
Wade Pfau
Stepping back a little from complete catastrophe. Earlier in my career, before we really get into retirement income, I was part of a study that looked at pension funds in different countries and their investment approaches and really came to appreciate the idea of international diversification. When a country experiences economic problems, there's a reasonable chance that their currency could depreciate. And so if you are exposed to currency risk, you have a nice natural hedge against some domestic market volatility. So I do like the idea of broader international diversification without necessarily removing the currency risk involved in that. And maybe that's one way to get at the same idea here.

22:12
Bob French
No, that's something I should be doing anyway.

22:16
Wade Pfau
Just don't open a brokerage. I think the Bob wouldn't end well.

22:23
Alex Murguia
We're reading it from the standpoint of I was reading it initially going where Bob, where worried was going

with it. You're taking it like catastrophe. If US falls, everything falls, that kind of thing. And you're saying, what are you going to do? Right, but I think Wade right if I'm answering this question, not just as a sort of a normal catastrophe, yeah, you should be diversifying anyways. Bob is like you should be diversified anyways, regardless if there's going to be a pending catastrophe or not. Because I think that's what you need to disabuse yourself on. There is going to be a catastrophe. There is going to be someone. There's always this wall of worry, and it's largely driven because of your political proclivities.

23:05
Alex Murguia
I think the way to look at it is just you want exposure across the globe and that will help diversify you away from anything happening in your domestic land, if you will. I'll leave it at that. And you could do the same thing with bonds internationally. All right, we're going to wade, why don't you pick out some questions? Wade I think I've been kind of dealing myself.

23:29
Wade Pfau
Okay. I did see one that was about building a Social Security ladder. I'm trying to find where that one went.

23:37
Bob French
Social Security bridges that's where did it.

23:39
Wade Pfau
Alan oh, yeah, there it is.

23:42
Alex Murguia
Okay, I got it. While I like the concept of building a bond ladder for a Social Security bridge, doing so would require selling equity holdings, generating substantial gains. While I have not yet modeled this in detail, my gut feel is that a total return approach might be more effective in this situation. Thoughts? And in parentheses. Don't let Bob answer.

24:07
Wade Pfau
Yeah, sure. We need a scenario for this. Let's say you're 62 years old and you're retiring. You've decided to defer Social Security to 70. What that means is for these next eight years, you're going to have a much higher distribution need from your investments. And then once Social Security starts in eight years, you'll still have to probably take a distribution from your investments, but it's going to be much smaller because

you're going to get a 77% inflation adjusted increase in your Social Security by waiting for that period. So how do you fill that gap? And the issue with the total returns portfolio is that increases sequence risk. If I have to use a higher withdrawal rate for the first eight years and then a lower withdrawal rate afterwards, I'm exposed to a lot more sequence risk.

24:55
Wade Pfau
A downturn can really derail that portfolio more dramatically. So the reason why the term Social Security delay bridge exists is to try to move away from that idea of just using the diversified portfolio total returns approach to cover that much larger distribution need before Social Security starts. Now, if it does require generating a lot of taxes to build a bridge, that's certainly a consideration. But maybe as part of a tax planning situation, if you're retired and this is all long term capital gains, you've got a pretty big runway, at least before you actually start to get into that 15% preferential income bracket. So there could be some opportunities there. But more generally as well, if you're not at the stage yet where you need to build this bridge, you could start layering it out. Oftentimes.

25:44
Wade Pfau
The way we describe building a bond ladder for retirement is if you have the runway for it. If I say I want to have a ten year bond ladder at the time I retire, and I'm ten years away from retirement each year, instead of investing in bond funds, I build a layer, buy a ten year bond that will mature ten years later. And then by the time I get to retirement, I now have a ten year bond ladder in place without having to build it out all at once. And so to the extent that it's possible, you might think about something similar with how you approach building a Social Security to lay bridge.

26:22
Bob French
Yeah, and I think that actually answers Leeward's question there at the same time about really kind of the same question. I'm an income need matcher more time segmented than non and open to pull from equities versus fixed income in good market years and also use guardrails until Social Security at 70. That's really kind of that same sort of thought process. Obviously not exactly the same, but that same sort of thought process into how to build that level of reliable income to bridge that gap into Social Security.

26:59
Alex Murguia
Yeah.

26:59
Wade Pfau
And it's building a lot of the different pieces that we talk about as all being part of viable strategies. Of

course, we can't really comment directly on your personal situation there, but at least the building blocks are there for something that sounds reasonable.

27:15
Alex Murguia
We kind of missed this from Lee just as we're knocking these out. And it seems guys, we're going to have to probably at some point stop. We'll get a few minutes here. But maybe this is good for like a reoccurring theme because it seems to.

27:31
Wade Pfau
Be we have a nice participation still. So yeah, we could make this a more regular thing with the blog and the podcast.

27:38
Alex Murguia
I mean, yeah, this question I get, but I don't it says for safety first, folks, my outlay needs in the future think about a $30,000 roof in ten years. Have me drawing at that time. However, I have this element of hate. I have this element of I hate the thought of the big draw. How do I reconcile?

28:01
Wade Pfau
I think this question may be imagination.

28:05
Alex Murguia
I have no idea.

28:06
Wade Pfau
Well, if every ten years you need to take out $30,000, you want to somehow amortize that and take out $3,000 every year. And behaviorally, maybe it sounds better, put it in some I don't know how you can plan ahead for that. And if you're more safety first, it's back to this idea of the total return portfolio. You don't necessarily want to take that big distribution out from a total return portfolio where you have to take it that year. And if you get a bad market downturn right before that, you're taking a pretty big distribution at an inopportune time. Maybe you do layer in a fixed income holding that will mature. And if, you know, although I guess with a roof it's kind of estimating ten years versus knowing exactly in ten years that you need to replace it.

28:54
Wade Pfau
But yeah, layering in some sort of bond holding to do that so that you're not as exposed to a big distribution all in one year.

29:03
Bob French
And I think this really comes down to you need to make sure you have a big enough pool of reserves, those reserve assets that are not earmarked to specific spending and usually not in substantially risky assets. They might be in short term bonds or something, but they're not in the.

29:23
Wade Pfau
Stock market type thing. Yeah.

29:25
Alex Murguia
And this is where the Risa could be helpful to help determine true versus technical liquidity and identifying a strategy that may be more tailor made for Lee. But I do agree if you're having trouble cutting a check for $30,000. And that could sort of dent your distribution, especially of in Year eight, the market goes to hell in the handbasket and you have to take a distribution then. Yeah, just do it over time and put it in some interest bearing account that matures at that could be used.

29:54
Wade Pfau
For, like, a quasi buffer asset where you do have some reserve asset that if markets are doing fine in ten years, you'll take the distribution from your portfolio. But you've got a backup where if, you know, you need to take that.

30:05
Alex Murguia
Distribution, you have some other a we need, like a Dave Ramsey Chat GPT. I'm sure we'd get a good answer here.

30:20
Wade Pfau
All right.

30:25
Alex Murguia
So we got here you want me to continue here? Do you agree that the benefits of using an FIA versus a bond portfolio is that the FIAs have no interest rate risk, credit risk, market risk, and risk of depletion in terms of outliving your income? So the FIA is a panacea for everything bad in the world versus having a bond portfolio?

30:50
Wade Pfau
The way that statement is expressed does sound a bit like a marketing angle on the mean. There is interest rate risk to the extent that you have each term, you renew the terms of the contract. And so if interest rates decrease, the cap may have to come down. There is credit risk because you are relying on the insurance company to support what it says it will support. There's less market risk to the extent that you have principal protection. But, yeah, with the risk of assets. I'm not sure what to make of that exactly. Are we now adding a living benefit to the FIA? I do think the research that I've done speaks positively about the potential role for annuities, especially with lifetime income protections as part of a retirement income strategy.

31:47
Wade Pfau
But, yeah, it's not a complete panacea or panacea, I should say, for every kind of risk out there at the same time.

31:58
Alex Murguia
No, you're right.

31:59
Wade Pfau
Panacea, panacia, panacea. Right. I don't know. I said it wrong, but, yeah, it.

32:11
Alex Murguia
Does seem markety, the way that question was asked. Williams giving you props, Wade, for yes. A lack of transparency about agree. I mean, and yeah, it is unfortunate because I think many people just walk because they don't even know. It's just one of these mental shortcuts that you take annuities bad, markets are good and they move on. And that's actually quite unfortunate because as we've seen with ERISA, look, two thirds of the people want some role of contractual income for retirement income. That's just what we

see repeatedly. Not a value statement, just an observation there. You want me to read the next one? I am an income need matcher more time from Leeward.

32:57
Bob French
We kind of touched on in that.

32:59
Alex Murguia
Broader oh, that's right. When you combine yeah. Sorry. Let me see here. Thoughts on using okay, we. Thought about this earlier. It came up in a write in question too. Thoughts on using bond funds with different durations to use instead of bond ladders. Pros and cons. And how does distribution yield and reinvestment risk play into this?

33:24
Wade Pfau
In an accumulation world, there's something called duration matching that it doesn't matter if you have the bond fund with the right duration, you're not going to be exposed to interest rate risk. Now, at the same time, that does exist with retirement income, but it is extremely you're going to have to explain duration Wade, I'm sorry.

33:43
Alex Murguia
Just because people aren't going to know.

33:45
Wade Pfau
Well, the nontechnical version of it, the basic without getting into any weird aspects of it's the approximate time to maturity for the bond and the longer term maturity for bonds, they're more exposed to interest rate risk. If interest rates go up, a longer term bond is going to have a bigger drop in value than a shorter term bond. So if you have a bond with the same duration or a bond fund with the same duration as your expense you're trying to fund, you can avoid interest rate risk. And with that argument, you can say it doesn't matter whether you use a bond fund or an individual bond in retirement income. That's still true. It's just the duration of your liability in retirement gets a lot more complicated. And so it's much more difficult to use bond funds without creating interest rate risk for yourself.

34:41
Wade Pfau
It's not impossible. And there are a few commercial enterprises that have developed solutions, but they're

uncommon because it is so complicated. And that's why I think it's much easier to think about bond funds instead of somehow duration matching your bond funds. When we talk about generating income in those short term buckets.

35:08
Bob French
The way to think about it is generally the bond funds are going to be in part of your risky asset as just part of your investments. You use them to moderate the level of risk in your portfolio. Individual bonds are more on the reliable income side. The one complication we always get this one is those defined maturity bond funds, where it will be a fund that will own only bonds maturing in 2027 to pick a year because they want.

35:41
Alex Murguia
To do the work for you. They want to do the work, exactly. They just figure we'll just buy them ourselves in the open market, as opposed to you needing to do that and you buy it in the ticket symbol and you're home.

35:50
Wade Pfau
Right.

35:50
Bob French
And those can be useful tools if you're building a bond ladder or matching specific spending or something like that. But you're paying for convenience. Those have an expense ratio. And there's nothing wrong with paying for convenience. We do it all the time, every day. But it's just important to recognize you are paying for that.

36:19
Wade Pfau
Great.

36:20
Bob French
Yep.

36:22
Wade Pfau
Maybe we'll wrap it up with one more question from Karen. It is a complicated so with my book. And

probably the best kind of starting book to think about would be the Retirement Planning Guidebook. But is it appropriate for beginners in terms of using it for a book club? Because the members of that club have so many retirement or financial questions. So I do get a little hesitant to suggest the book for pure beginners because it's a complicated book. It's definitely for people who have some basic that it's not like math or anything. It's just there's a lot of complexity and sometimes the reviews on Amazon do tend to suggest that the book is too complicated. So I'd be a little hesitant to suggest it for pure beginners.

37:17
Wade Pfau
However, if there is somebody who can guide the book club and who is able to answer questions or make sense of what everyone's reading, it could be possible. I don't know of a better option to suggest, but at the same time, I wouldn't want you to have everyone get the book for the book club and then everyone just tells you that they can't understand anything the book is talking about. So that would be my only caveat.

37:45
Alex Murguia
You know, the way I would think about it here is the book is not a book to read from the first page to the last page in a sitting. It's a resource handbook guidebook, better said, hence the title. To me, it's what you put on the shelf and you go back to when you're like, oh, I have Social Security in my head. Let me see what the state of play is. Or I'm thinking about long term care, let me see what the state of play is, that kind of thing. That's really what it gets at. So to read that from COVID to cover takes tenacity, takes ambition, and takes visine. It's one of those things that no, it is what it is. Right. You'd get more out of it. I think if you read the first Isaac Book Club, read the first chapter.

38:39
Wade Pfau
Or the last, take the Risa and.

38:41
Alex Murguia
Then discuss or the last chapter. You're right. Or the last chapter, take the Risa and discuss that experience, and then you have the book. And if it's something that you do decide to do as a book club, let us know. We'd love to help you out. We think it's kind of fun.

39:00
Wade Pfau
Right? And with that being said, I think we probably should wrap things up for the day. But we've gotten so many great questions and I don't think well, we did answer most of the ones that came in live, maybe not all them. Something might have snuck through the cracks there. We still had some questions too, that came in beforehand, so we should do this on a more regular basis. I think it's a great opportunity to interact with

everyone and thank you for listening for 100 episodes, or if we end up putting this into two now, it's episode 101 as well. So thanks to everyone for being part of Retire with Style. Thank you, Bob, for joining us today. Thanks to Brie and Amber for all the work you do behind the scenes.

39:38
Wade Pfau
And thank you to you as well, Alex, for being a great co host.

39:43
Alex Murguia
Wait, no. The thanks goes to you. You just make it easy. You make my job so easy. I just say wait and off you go.

39:54
Wade Pfau
All right.

39:56
Alex Murguia
All right, everyone, thank you so much. To 100. Thank you. And Robert. Any parting?

40:18
Bob French
I just I'm really glad I was wrong and we kept at it. And like you said, to 100 more.

40:26
Alex Murguia
Yeah. YouTube channel.

40:29
Bob French
That's right.

40:29
Alex Murguia
All right, everyone, thank you so much.

40:32

Bob French

Wade and Alex are both principals of McLean Asset Management and retirement researcher. Both are SEC registered investment advisors located in Tysons, Virginia. The opinions expressed in this program are for general informational and educational purposes only and are not intended to provide specific advice or recommendations for any individual or on any specific securities. To determine which investments may be appropriate for you, consult your financial advisor. Past performance does not guarantee future results.