Episode 102: Practical Implementation of Time Segmentation with Rob Cordeau

00:00
Bob French
The purpose of Retire With Style is 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. Alex and Wade are heading metaphorically to the Granite State this week to seek practical insights from Rob Cordeaux at McLean Asset Management. Will Rob impress Alex and Wade to become a repeat guest? Let's find out.

00:54
Wade Pfau
Hi, everyone. Welcome to retire with style. I'm Wade. I'm joined by my co host Alex and trusty sidekick. And we're continuing our series this week with part three on the topic of time segmentation or bucketing for retirement. But we're moving away from theory into real world application. Today we have a special guest, rob Cordo from McLean Asset Management. And in terms of talking with advisors from McLean, rob joins a distinguished list of past guests have included Brian Bass, Jason Riscala, Stephen Pomonti, Jessica Wonder and Alana Light. So, number six on the list, it's been too long, but Rob, you do represent the New Hampshire contingent of McLean Asset Management and we're very happy to have you on the show. So welcome.

01:38
Rob Cordeau
Thanks. Good to be here.

01:40
Alex Murguia
Yeah, Rob, thank you. We wanted to catch you before skiing season started because then we lose you getting close.

01:48
Rob Cordeau
Although this week it's up in the 70s up here in New Hampshire, so we're excited about that.

01:53
Alex Murguia
Yeah, it's going to be warm here in the Mid Atlantic at least this weekend, as right.

02:01
Rob Cordeau
What is it?

02:01
Alex Murguia
Is it motorcycling instead?

02:03
Rob Cordeau
No, I got rid of the motorcycle this year, so no more motorcycling for really? Come ask me again next spring. I'll probably have another one.

02:13
Alex Murguia
Was it a conversation between you and your busy? That's all, I'm messing with you.

02:24
Wade Pfau
But yeah, I think just to get started, Rob, if you could tell us a little bit about your background. And I know you've got a number of designations, so just on the professional side, but also on the personal side, who is Rob Cordeau?

02:37
Rob Cordeau
Sure, yeah. I've been doing financial planning for 27 years or so since the mid 90s. We have an office up here in New Hampshire, so basically a satellite office of McLean in Bedford, New Hampshire. So it's three of us that work out of that office. Certified Financial Planner, RICP ChFC. So on the personal side, just my wife and I don't have any kids. We love to borrow other people's kids and hang out, and then we can give them back at the end of the day, we can spoil them and like grandparents, but no, my wife and I love to be outdoors, biking, hiking, camping. We're big outdoors people. So that's kind of me on the personal side. But on the professional side, we love to get really deep and in depth in financial planning with clients.

03:27

Rob Cordeau
We like to do a lot of tax planning. So we're very tax centric in the way we look at our allocations and the way we look at planning and try to just really be holistic in depth planners when we sit down with clients. So that's sort of the overall approach that we try to great.

03:47
Wade Pfau
Yeah. I think you and I have that same sort of background of really being more interested on the numbers side of the financial planning world. And when Alex and I were talking about who could we bring in to talk about the real world application of time segmentation, your name came up because you have had the opportunity to work with clients. Now, it's not necessarily the go to strategy that you use, but when someone takes ERISA and identifies as time segmentation, you've had the opportunity to build some real world practical experience with how to actually then implement a time segmentation strategy in real life. And so we're excited to have you on the show to talk about that.

04:27
Rob Cordeau
Sure. Yeah, as you mentioned, it isn't really what we go out pushing. I listened to your prior podcast on just the general concept, and I think I would agree with that in essence, it's a behavioral approach, but when we find somebody whose risa their personality fits this type of strategy, it can be a perfect solution for them. So there are cases, not a lot, but we have a few where we've implemented time segmentation strategies.

05:01
Wade Pfau
Great. And what kind of walk through or go ahead, Alex.

05:05
Alex Murguia
No, I was just going to say no, it's fine. I need that medicine, to be honest with you. But what makes it this sort of behavioral approach in your mind? Because yeah, we said it in the last podcast, it's not something that's a better optimized outcome on an Excel sheet relative to the other strategies. I think that's a misconception by some folks. It really isn't to me. It's more of a framing thing. But what in your mind makes it more palatable for some folks?

05:42
Rob Cordeau
As we discussed mathematically, if I take a multi bucket portfolio that has in aggregate a 60 40 allocation and I compare it to a single bucket traditional portfolio, that's a 60 40 from a risk return profile, they're going to look the same, right? The math is the math. So it's hard to say that this is superior than a non bucketing strategy, but I think it can help clients to be able to cope with loss sometimes a little bit better

certain clients. I'll give you an example. Imagine that Alex, you were my client, you retired next year and you had a $2 million portfolio, and we put you in a 60 40 portfolio. So 1.2 million is in stocks and 800,000 in some sort of bond or fixed income approach. And then we have another 2008 2009 meltdown. Stocks lose 50%.

06:45
Rob Cordeau
At the end of twelve months, we meet you've lost 600,000 you're at 1.4 million. I think it's hard for any retiree who just started, and they're a year into it for them to take that sort of hit on their nest egg, and they're viewing it as one lump sum, a nest egg. So their one bucket lost 30%, 600,000. And that can be hard for us to take, whether you're a savvy investor and very sophisticated or not, either way, that's kind of a panic inducing moment, I would guess, even for the two of you, what you know about sequence of returns risk, that you would be feeling quite stressed out at that point, right?

07:33
Alex Murguia
Knowing that I never stress. I never stress. Wade maybe me, never.

07:39
Rob Cordeau
But knowing that from a sequence of returns risk standpoint, that was the worst possible outcome year one, we had one of those type of years. And what I think the bucketing strategy does is it allows us to place assets mentally. Again, it's a mental framework for placing assets in different buckets so that we can help delineate some of the things. So the longer term assets are somewhat distanced from me if I place them in another bucket. And I'm focused on my short term bucket, which is covering my next three years, five years, whatever length I've picked, and somehow that is easier to swallow for a lot of humans. I think the human brain takes a look at a portfolio that has a lot of different functions. Think about our portfolio. It has a function of providing short term income.

08:36
Rob Cordeau
It has to provide long term growth. It has to keep up with inflation. It might have to provide legacy goals. It's got all these functions. If we can separate them in buckets for some people, that allows them to say, you know what, I'm not too worried about that long term piece that's for years eleven and beyond. I'm not going touch that for a while. I'm not worried about it. I'm not going to change my allocation. And that's kind of the key for me, is for certain people. It keeps them in their seat, keeps them from doing something they might regret from an asset allocation standpoint. So I find it to be very valuable as a psychological tool if you think of from that standpoint.

09:20

Wade Pfau
Yeah, that's a great point. And actually, in the last episode we did, alex asked me about the true liquidity aspects of bucketing, and I think you just gave a much better answer about that than I did in the previous episode. That with the idea of true liquidity. It's about earmarking different buckets or different assets for different goals. And really, I think what I heard you say was that short term bucket is earmarked to short term goals. But then that's really helping with that true liquidity thought process, because now this other bucket, we know we're not going to have to tap into it. It's for these long term goals, and it's maybe the same concept, but I really did like the way you expressed it, that it has time to recover. When we have that true liquidity mindset.

10:10
Wade Pfau
We're now not as panicked by keeping things in different buckets because we're not having to see in the same bucket as everything else, this big loss. It's easier to maybe mentally articulate in your mind. No, this is going to be okay because markets do go up over time, and this is a separate bucket I don't have to be worried about right now, because I'm not going to need it until year eleven or whatever the case may be.

10:35
Rob Cordeau
No, think of it too like an actual bucket. If I have a bucket that has a spigot on the bottle and it's open on the top, if that bucket is on a diving board and it's bouncing around to represent a volatile market scenario and I'm opening up the spigot to take some money out of it. That's sort of the one bucket approach that's unnerving to a client. To say the same bucket that I'm pulling money out of, I'm also losing 30% of it out the top of the bucket. But if I have three buckets on the diving board, and one of them is down near the pivot point, and that bucket has a cover on it, that's my short term. No matter how much we shake the diving board, nothing's going to come out. That's the one with the spigot.

11:18
Rob Cordeau
The other two buckets don't even have spigots on them. It just helps the client to just feel a little bit better about taking money out of a portfolio when they've segregated those buckets in their mind, if that makes sense.

11:33
Alex Murguia
Wade, I do have a question for Wade. Wade, didn't I tell you Rob would.

11:38
Wade Pfau
Be yeah, he's convinced me. He's like a natural my style. He's convincing me to do time segmentation now.

11:46
Rob Cordeau
Well, people have always told me, a lot of people have told me I'm a face for radio.

11:51
Alex Murguia
Yeah. Hey, that's our line. Come on now. No, it's great. I never heard that from the standpoint of the trampoline. It's a good little story, but you're right. I mean, if you really think about it, if you have one big bucket and water comes off the top, you're thinking, I'm losing water. But if you have the same amount of water across three buckets but let's say two of them have covers on them, one of them doesn't. And you know that it'll rain eventually, but you know that you're going to take water from the one of the spigot has the COVID on it. You know you're going to take water from that one. There's something comforting knowing that, hey, this is where I'm taking water from, so everything's copacetic, even though at the end of the day, it's the same amount of water.

12:36
Rob Cordeau
Right? And sometimes we talk about these sort of psychological or behavioral benefits, and sometimes we're very much numbers people here. So we sometimes sort of poo it and we say, well, there's no there to the numbers. But I think of it this way. I just recently got an Ebike, right? So I've had a regular bicycle for years, and I use it maybe once a year. So this year I get an E bike, and my wife and I both have them, and we are going crazy riding the E bikes several times a week. And everybody told me, oh, Rob, you're a sellout an E bike. Oh, I can't believe know you're going to go fat and you're just know, forget. But it's acceptance.

13:20
Wade Pfau
Accepting pushups.

13:21
Rob Cordeau
Exactly. But, you know, from a pure mathematical standpoint, I'm going to burn more calories on a traditional bicycle, no question. But it's not fun for me. I'm just not going to get on the bike. Whereas the Ebike is so much fun. We've done some 50 miles days. We did a back to back 250 miles days. We did 100 miles in two days. Just seeing incredible parts of the country, and we're loving it. So it's keeping me in my seat. Right. I'm in the saddle because it's fun. Does it burn more calories? Is it better numerically than the pedal bike? No, it's worse. But it works for me.

14:02

Alex Murguia
Right, and it got you off a more dangerous motorcycle.

14:05
Rob Cordeau
Yeah, that's right.

14:07
Alex Murguia
Which you didn't want to admit at the beginning. Now, I know there's no motorcycle.

14:11
Rob Cordeau
That's pretty much it. Yeah. No time. But I feel like that's what Bucketing or time segmentation is like for a lot of people, that it just works for them, keeps them in their seat. It may not be any better than, say, a total return portfolio, but if it keeps them in their seat, keeps them from making a big allocation mistake, and keeps them invested, then more power to them.

14:36
Alex Murguia
No, I think that's a valid point. And you speak of when an advisor is engaging in a relationship, it's not just about providing the advice that you feel is in, like the best that can provide them the best possibility of having a good outcome. It's also providing advice on something that they will stick to. Because sometimes as an advisor, I'm sure you've done the mental calculation where you're like, I could present this one, and you may very well do. You may just present three, that kind of thing. And whatever you pick, whichever one right, you give this sense of choice. But I'm sure there's sometimes where you may not even bring something up because you know that even though it's an Efficacious approach, you know that this person will not be able to withstand the slings and arrows of the market volatility.

15:31
Alex Murguia
And so you just kind of present something that you know they will follow through on, because many times that's just as important.

15:39
Rob Cordeau
Agreed. Yeah.

15:41

Bob French
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16:05
Alex Murguia
The tail. All right, someone comes up with when it's determined. Okay, time segmentation is an approach for this person. How do you go about then determining the strategy, if you will? Maybe I should have done the, Wade. You may want to lay out a couple of strategies or whatnot since we did that last time, for people that may not have listened, just so they may know what strategies are there that advisors choose from.

16:33
Wade Pfau
You're talking about for replenishing the buckets.

16:36
Alex Murguia
Yeah, we did it last time.

16:38
Wade Pfau
That'll come later. But Rob, let's addendum to the question, though. Let's talk about someone comes in and they're still say, five or ten years away from retirement. We could maybe talk about that first and then a second scenario. Someone comes in and they're at retirement. How would you approach both of those cases if their style is time segmentation?

16:59
Rob Cordeau
Right. I often bring this back and sometimes the client brings it up. The whole concept of sequence of returns risk and sort of tying that into this asset allocation discussion and the bucketing discussion. And of course, it's so critical the few years prior to retirement and at retirement, if a client is genuinely concerned about sequence of returns risk, we might choose the length of the first bucket based on trying to mitigate sequence of returns risk. So rather than maybe someone who might be looking at just a one year or three year, we might be looking to go out to five, six, seven years into retirement to try to sort of lop off that chart that you put together. Wade that shows the years and how much impact each year has on retirement outcomes in terms of sequence of returns risk.

17:57

Rob Cordeau
So we sort of look at the length based on several factors. One, risk and how much we want to reduce it. But also sometimes we're tying that in with other income sources. For example, I met with a client a couple of months ago and they very much wanted this sort of consistent income coming in. And they were in their early 60s, they had pensions coming in their late 60s. They were starting Social Security at age 70, and they were looking for some sort of fixed solution for about eight years. So we worked in this strategy of a CD and bond ladder or sort of a hybrid, where we covered income for them for about eight years, and that was their short term bucket, but it also simultaneously gave them a smoother floor, if you will, of guaranteed income.

18:53
Rob Cordeau
That helped with at least one of them wanted more of a guarantee from their Risa score. So it's sort of a multipronged approach. We're looking at risk, we're looking at other guaranteed income sources, trying to find what's an appropriate length for the first bucket to try to work it in that way, if that makes sense.

19:17
Wade Pfau
Yeah. And then specifically, you said partly CDs, partly fixed income. How are you going about actually selecting what would be used for that bucket?

19:30
Rob Cordeau
I definitely believe that first short term bucket should be about as guaranteed as we can get it. So, again, I'm not looking for bond funds, I'm not looking for individual corporates. So it would either be US Treasuries or it would be FDIC insured CDs, or it would be a guaranteed annuity, like a MYGA, something that could allow us to rely on that income. Getting back to our illustration, that bucket's got to have a cover on it's not going to pop off. And that's the idea behind that. So lately, with interest rates higher, we can put together a five, six, seven year bond ladder or CD ladder, where the average yield is north of 5%, and the clients like that works well. It would have been tougher to accomplish this ten years ago when interest rates were a lot lower.

20:28
Rob Cordeau
It would have been a harder sell. I think it was harder sell. I remember talking to people ten years ago about bond ladders and the interest rates were so low that some of the clients just said, no way, I just can't embrace that sort of low interest rate.

20:47
Wade Pfau

Yeah. And in that case, I guess so, that they just end up investing more aggressively because they didn't see any point in any sort of fixed income.

20:56
Rob Cordeau
Yeah, it's interesting, I met with one of those clients just last week and we had talked about this approach maybe six years ago, and I presented it and they felt that the rates were just too low. We spoke about it again last week and they agreed, yes, let's do it. And the only difference was now we're talking about a CD ladder, a bond ladder that was yielding 5% versus 1% some years back, and that was enough for them. And in their mind, they wanted to lock in sort of a period of time. And they're not necessarily, and I've found this with a number of people, they haven't necessarily embraced bucketing as a permanent strategy. So they're not planning to keep this in place for the next 20 or 30 years. They simply want to get past a period of time.

21:52
Rob Cordeau
In my first example, it was get them to age 70 when their pensions and Social Security started, or it might be just to get them past the first few years sequence of returns risk. So for some clients, they don't really have this idea that, well, we're going to keep replenishing it. It's going to be a rolling bucket strategy where we're pouring money from bucket three to bucket two and two to one. I think that varies quite a bit. I think that's the part that I found the most challenging about this is every client is unique. It's hard to come up with a rock solid model like, oh, here's what my bucketing strategy looks like. It looks like this here's the length of bucket one, the length of bucket two, three, and here's how we replenish, here's how we do these intra bucket rebalancings.

22:45
Rob Cordeau
It's just hard to do that because every client has so many unique things going on in terms of other guaranteed income or concerns or trying to bridge a gap. So that part is tough. It's tough to come up with a model per se.

23:01
Wade Pfau
That's an interesting point, too, because I frame time segmentation as you're always going to be rolling out or replenishing those short term buckets. But maybe another kind of compromised style time segmentation is to help manage that sequence of returns risk in early retirement. You set up your short term bucket and then you just see how things go well in the context of a Social Security delay bridge. You maybe already intended not to extend that bucket, but in some of these other cases you're describing, it maybe you were kind of thinking to use a time segmentation approach, but then ultimately you decided not to replenish the short term buckets.

23:38
Wade Pfau
Once you got through that early part of retirement, you transition into more of a total returns approach at that point, which in terms of the Risa styles, that could be somebody who's near the dividing line, or it could be for a couple. One spouse is more time segmentation, the other is more total returns. Interesting way of getting it, a compromiser.

24:00
Alex Murguia
Agreed. Rob and so it is that more of a bridging kind of thing. We were touching upon a bond a tent strategy previously, but for client well, not how do you view but how do clients react when they have this earmarked for the investment part of their portfolio? What are the give and takes? And what I'm trying to get at is there sensitivity with regards to their willingness to take on more investment risk because they have this in place? Is there the same sensitivity as if they didn't have this in place? Is there less, et cetera. What do you find?

24:37
Rob Cordeau
That's another example where it's different with every client.

24:41
Alex Murguia
No, I get it. What's the context of what makes it different?

24:44
Rob Cordeau
Yeah, I think some clients want to place sort of this locked in bucket as part of their bond allocation, if you will, fixed income allocation, and they want to incorporate it as such. Others say, I want this to be completely separate. Maybe like someone might view an emergency fund. They don't even want to count it in with the allocation, so they just want the initial bucket to be completely separate from the rest of the allocation. And again, you talk about a psychological benefit. If you're doing this when someone first retires, in a way, it's almost like extending their paycheck. Right. Their paycheck, whether they were w two employee or self employed. It was fairly consistent, it was reliable, they didn't worry that it was going to disappear in most cases.

25:33
Rob Cordeau
So this bucket approach helps them to sort of ease into the risk of retirement, to go from accumulation phase to deccumulation phase. Right. The first few years or whatever length we choose, allows them to

continue getting a paycheck. And it's like, just like when we're in this accumulation phase, we can stomach volatility a little bit better because we're like, well, I'm not touching that money for a while. And that's sort of the approach that kicks in. So, yeah. I'm not sure if I'm answering your question correctly, Alex.

26:09
Alex Murguia
No, obviously, effectively, results vary. Some people don't consider it as part of the bond allocation. So if they were happy with a 60 40 portfolio, if a 60 40 portfolio was psychologically appropriate previous to the ladder strategy, they would still want that with the laddered strategy in place. You're also saying some folks are recognizing that, look, at the end of the day, it's one big bucket per se, no matter how I partition it. And because I have already this allocation to fixed income, I'm willing to take a little bit more risk on the equity side, especially if it's five years plus on the extension. That's kind of what I'm hearing, yeah. Does that make sense?

26:59
Rob Cordeau
Agreed. And I had one client who brought it up. He liked the whole idea of the first period that was guaranteed. This is the client who wanted to bridge that gap from 62 to 70. And he said, so since we're doing that, I would think that I should be able to take more risk on the rest of the portfolio. Right. So he brought that up and went into that discussion and we did, we increased his risk on the sort of total return side a little bit more to accommodate that. And getting back to your point earlier, about in the prior podcast about this being like a rising equity glide path, if you don't replenish and you're just pulling from that short term bucket every year, you're having a higher and higher percentage of stocks. Right.

27:49
Rob Cordeau
So that, I think, works really well for the folks who want to mitigate sequence of returns risk. That risk is sloping down over time from year one in retirement. And what's happening is their equity allocation is sloping up over time as they're pulling from the short term bucket. So it sort of has this natural way of killing two birds of 1 st. I can address the psychological piece and I can mitigate some sequence of returns risk and I can steadily move into a rising equity glide path, which gets them back to where I would like them to be, to have a better mathematical chance of getting a higher rate of return, better outcome.

28:31
Alex Murguia
It gives them a sort of scaffolding during the fragile decade.

28:36
Rob Cordeau
Yeah, exactly.

28:38
Wade Pfau
Wade, thoughts that's great. And yeah, back to the question you were asking earlier as well. So part of this is maybe one of the answers is people decide not to extend the bucket. But if you are working with a client who is thinking to have more of a rolling bond ladder approach where they're going to replenish their short term bucket, how do you approach deciding when it's appropriate to refill or replenish your short term bucket?

29:08
Rob Cordeau
It usually comes where we address it annually, so we might be rebalancing for asset allocation purposes more frequently. But in terms of the whatever you want to call it, intra bucket rebalancing or replenishing buckets, we usually visit that only once a year so that we don't have to just be constantly addressing it. And most clients have been okay with a discretionary approach where we get to the end of the year and we look at what's happening and we run a financial plan, we see how they're doing in terms of hitting their goals, and then we assess whether so let's say equities have done well in the year. We might look at it and say, well, we could rebalance move some money from the long term bucket over into something shorter, and we could extend basically another year.

30:00
Rob Cordeau
So if our first short term bucket was seven years in length, we're a year into it now. It's only six. We could push it out to make it seven again, or we could make an adjustment to the allocation, or maybe the client's spending a little more than they thought they would and maybe we increase their payout and we keep it at six years. We don't extend it to seven, but we bump up the payout. So once again, it gets back to it's different for every client. I think that's the toughest thing as an advisor, that the biggest complaint I have against it is it's a little complicated to implement because I have to customize it. I can't just create a cookie cutter. It's so hard to create just a simple model that's easy to replicate.

30:47
Alex Murguia
No, I think what I'm hearing here, and I said in the last podcast, there's echoes of, to me, total return distribution decisions. And what I mean by that is there's all these sustainable withdrawal rate strategies right there's, all these rules with regards to distribution. And Wade, remember in the podcast, one of my things was in reality, there is not an advisor that practices well, maybe there is, but a great majority of advisors do not read like Begnan's book and implement these withdrawal strategies to the know, tailored to the book because it's just not how the world works. But in the investment literature, especially the media driven literature, it's all kind of trying to horse collar you into these strategies that no one really does because it's just too damn robotic.

31:49
Alex Murguia
And I think it's the same thing with deciding when to replenish buckets and the like. We talked about three basic strategies, but we spoke about them. Not from the standpoint of you can do you should do this or that, but just in a general sense, this is how levers are, this is how levers get pulled. But we truly believe you say it's up to the client, but I would say maybe. I think we're saying the same thing, but I'll say it differently. The financial plan kind of helps determine what you should do next. Forget any hard and fast rules.

32:25
Alex Murguia
Those kind of go out the window other than, like, from a framework perspective, we're trying to achieve something like this, but it's going to change because we're going to run the plan and we're going to be path independent and we're going to make whatever decision makes the most sense for you at that moment. From a financial plan. Now, I realize, Wade, and maybe when you're writing these books, I don't know what goes through your head, but I realize not everyone has the luxury of having an advisor to, hey, run a financial plan for know. And it's not a matter of running the numbers or knowing the numbers. It's also a matter of sitting down, having the time, and crunching it out. And so that's when rules maybe are somewhat more helpful. From a directional standpoint. That's my takeaway from listening to Rob, right?

33:11
Wade Pfau
The rules are more putting some sort of structure around seeing what's feasible. And if you're going to simulate with Monte Carlo, you have to have clear rules about what you're going to do when it can't be ad hoc in the research, but no, in real life, there's flexibility. I think Rob's answer, you reflected that. We talked in the last episode about when to extend the ladder, and we said the approach that at least I tended to favor in the research was a slide path approach, where if you're above your target, you extend. If you're below the target, you don't extend. And I heard that in your answer with, you run the financial plan if there's still a high probability of success, that's another way of saying you're above the glide path. So that's when you might think about extending.

33:51
Wade Pfau
We also talked about market based rules, where it was the one example I used was if markets were up in the previous year, you think about extending. Or if you're doing it at the end of the year, you could say, if the markets were up this year, extend. If the markets were down, maybe hold off. And so I'm hearing kind of in the real world, it's sort of taking these concepts and then using them in a more discretionary manner rather than strictly applying a rule where if the market was up zero 1%, you extend. If the market was down zero 1%, you don't extend.

34:23

Wade Pfau
There's more discretion to it, but it's guided by that sort of sense of, here's what we should be doing but let's actually just see what we're actually comfortable doing and if there are any tweaks or adjustments we're making with the spending goals and so forth at the same time.

34:39
Rob Cordeau
Yep, I think you summed it up well. That's exactly it.

34:43
Bob French
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34:57
Wade Pfau
And learn about when you might want.

34:58
Bob French
To do a Roth conversion and when you might not. Just head over to Mcleanam.com slash Roth to download your free ebook today.

35:09
Alex Murguia
That's great. And are there any clients that have started with a sustainable withdrawal rate? There's market volatility. They say, I want out of the market. And you say, hey, hang on, why don't we try this approach? Has that occurred as a way to kind of like don't hit the reset button because this is when mistakes are made getting out of the market. Why don't you do something like that?

35:37
Rob Cordeau
Yeah, I met with a client probably a month ago and she came to me from another advisor.

35:43
Alex Murguia
You had a hell of a month, it seems.

35:45
Rob Cordeau
Yeah. She said, I've never been a fan of bonds, always hated bonds. My last advisor talked me into bonds. Hate bonds.

35:57
Alex Murguia
Wait, you're an advisor?

35:59
Rob Cordeau
Yeah. No, that's what she said to me. But she has not been happy with her bond portfolio. She was trying to do something conservative.

36:11
Alex Murguia
Is it bond funds or individual bonds?

36:13
Rob Cordeau
They are bond funds. So they took beating, right. In the past couple of years, she's down on the bond side, she's probably down 20%. So she's like, this was supposed to be kind of the less volatile side of my portfolio and I'm getting killed here. So we talked about incorporating something like this, just coming up with a ladder approach of something that was fixed. And we ended up taking about half of her bond portfolio and putting it into a ladder. She loves the idea that it's guaranteed, so it's a CD ladder and she's ecstatic that we made the adjustment. She wasn't keen on doing it. I didn't even recommend doing it with her whole portfolio. If there's a bond recovery, I want her to be there for that. I want some of what happens with bonds.

37:10
Rob Cordeau
But she sort of liked that hybrid approach that she could feel better about the fixed income side. It was more reliable and we didn't even really talk about whether or not we're going to extend it. Like I said, I haven't even been through a year with her on this one yet, but we're going to address that at the end of the year as to whether or not it makes sense to extend it or not. And we'll use that approach of looking at performance financial plan and seeing if it fits.

37:40

Alex Murguia
That's great. I guess the other piece and look, we have a trading desk where we do all of that, in fact, on retirement. Researcher Wade, we had no of you remember, but Jason Dye actually did a whole workshop on okay, you want a bond ladder, pick up the phone, dial this number. You know what I mean? Like direct gov. Direct what's? The bondstite for you, whatever. Direct like TreasuryDirect gov. We went through the whole kind of step one through step 20 kind of thing. What are the administrative calisthenics needed to sort of set this up? Because I think it's a little different. I think folks could be listening to us thinking, okay, I want to do this. And they don't have an advisor. They're going to do this themselves. But they're like, okay, I know how to buy a mutual fund.

38:28
Alex Murguia
I go to Schwab and I just put in a ticker symbol and off I go and I hit buy or something like that. Right. How different is that to set up a bond ladder?

38:38
Rob Cordeau
Yeah, I think it is different. I think it's so critical for clients not or investors not to conflate a bond fund with a bond, not to mix the two. Right. There's a huge difference between something that's guaranteed and of course, that's what we're trying to accomplish with this. We want that first bucket to be as liquid as cash, like, as possible. Right. So we need something that's guaranteed, so staying away from bonds, lining up maturities the way you want it. I don't know that it's rocket science, but it takes more work than just ho. Here's a bond fund, and they have to figure out what's a good fit.

39:22
Alex Murguia
No, I agree. Do any of the folks that you've recommended this to, do you use the target maturity funds or anything like that? Or is it you just straight up you call actually the bond trading desk over at Schwab and you say, this is what I'm looking for. What do you have in your sort of inventory, et cetera?

39:42
Rob Cordeau
Yeah, it's the ladder. We're looking for something ladder. L-A-T-T-E-R. We're looking for something that's guaranteed. So we call the trade desk, we find out what's inventory, and that's why we sometimes end up with these hybrid approaches. We might be looking for a CD ladder that's seven years in length. And we came across this and I don't know, I think it was five of those years we could get CDs, but the other two we couldn't. So we grabbed US Treasuries for those two. So now we have guaranteed income for all seven or eight years. But it's a mix between the two. But I just find it just feels like the whole thing would backfire if I had something that was variable in that first bucket. In fact, I agree. I've seen some so called bucket approaches come into us.

40:32
Rob Cordeau
Clients who came to us, and the advisor had used an 80 20 model for the long term bucket and a 28 for the short term bucket and it just sort of defeated the whole purpose of it. It just backfired. And so I am not a fan of that short bucket having any volatility associated with it.

40:55
Alex Murguia
No, that's just kind of a lazy person's version of doing it. I mean, it is what it is. Since we have you and you have great expertise on the tax side and we will be doing an arc on tax distributions and tax efficiencies and all of that stuff and we'll have you on. But one of the biggest mistakes that I've seen folks make when they pick up individual bonds is in the muni world, they have this sense of you can get in the habit of chasing yield and it's a creep, it doesn't happen all at once. It creeps up on you. Before you know it, you lost sight of the fact that this was a bond ladder for income, steady, reliable income, and you're trying to just chase yield. And even on CNBC, it's always like yield, yield, right?

41:47
Alex Murguia
And so you can go crazy on that. But where I saw that folks made a lot of mistakes when I was looking at statements and then making proposals off of that was just the alternative minimum tax on munis and know they become subject to it. And then at the end of the day, even on an after tax basis, they were just kind of like you didn't know what you were doing. You effectively got sold these bonds and when they're not appropriate to then sell them in the open market if need be. Munis can be very illiquid and such. So just in an overview, what are some issues of potential pitfalls? If someone wants to build us up with just munis could be very appropriate when appropriate, but take it from there.

42:28
Rob Cordeau
Yeah, I think you hit the nail on the head not wanting to we don't want to let the tax tail wag the investment dog, right, or the tax tail wag the allocation dog. So from a risk perspective, that's always sort of superior. I'm looking at risk first and then taxes. We're going to want to optimize to the degree we can, but we're not going to ignore risk to do it. And I've seen the same thing with muni portfolios. I've seen clients come in where they lived in a certain state that had some fiscal difficulties and because it's more favorable to get munis in that state, that's what they did. They loaded up and they were concentrated one state's, municipal bond issues and that state had some financial difficulties and the munis tanked.

43:20
Rob Cordeau
And so they were so focused on the tax piece that they were forgetting that they just made a massive concentration mistake. So that's one mistake I've seen, especially if someone lives in a state where it's a

high tax state, but there aren't a lot of issues there's some smaller states with smaller concentrations of people. I think of Maine or there's not a lot of cities. There's not as many municipalities as, like, a New York or a Know. So I think depending on the state you live in, you might need to spread out a bit more and not just concentrate on the one state, just from a diversification standpoint. So that's one consideration that I look at for sure.

44:06
Alex Murguia
And again, mine has been like, they didn't look at the after tax sort of yield. They're so focused on the before tax yield, and then they load up on it so much, and before you know it, they have a problem. But again, that was a little side note on bond ladders. When you're looking at it, you can say, okay, munis are in corporates, and they're somewhat secured, and sure, I've diversified across regions and they're rated as such, but you have to look at the after tax yield, and I've seen folks just make terrible mistakes off of that.

44:37
Rob Cordeau
Yeah. And it just adds another layer of risk. So now we have to assess that state or that municipality's financial stability to be able to assess whether how much credit risk there is. Just, again, from my mind, simplicity. Let's focus on U. S. Treasuries, where I don't have to worry about credit risk. Let's focus on FDIC insured CDs where I don't have to worry about it. So it's just easier that way, and the clients tend to appreciate it.

45:11
Wade Pfau
Okay, I think we have covered a lot of important questions in the episode. Alex, do you have any last questions?

45:22
Alex Murguia
No. I went for the munis. That was my song.

45:26
Wade Pfau
And with Retire With Style, don't forget that your tax free interest on Munis does get added to determine how much of your Social Security and Medicare premiums are impacted by additional taxes or surcharges.

45:40
Alex Murguia
Boy, that's going to be a fun arc.

45:41
Wade Pfau
I can tell already.

45:45
Alex Murguia
Oh, my Lord.

45:47
Wade Pfau
Yeah.

45:50
Alex Murguia
Between you and Rob on taxes.

45:54
Rob Cordeau
It'S.

45:54
Alex Murguia
Going right to the Smithsonian.

45:55
Rob Cordeau
Those episodes good to help people with insomnia. Listen to this.

46:02
Alex Murguia
All right. Hey, thanks a rob. Really, really appreciate it, man.

46:05
Rob Cordeau
Thanks for having me. Appreciate it.

46:07
Alex Murguia
Can I say you're the best. All right, everyone, thank you for listening, and we'll catch you next week on Retire with Style. There we go, Rob. Yeah. Rob. Did you notice a little rhythm that he had in the intonation?

46:22
Rob Cordeau
Very nice. Very impressive. Yeah.

46:26
Wade Pfau
Retire with style.

46:29
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. All investing comes with a risk, including risk of loss, past performance, does not guarantee future results.