# Episode 20: Talking with a Financial Advisor About Market Downturns and Retirement, Pt 2

**Bob French** 00:00
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. Looks like we didn't scare him off after last week. Brian Bass, one of the advisors from McLean Asset Management is back to share the different ways that he helps his clients put what's going on in the markets in context.

**Alex Murguia** 00:53
Hey, everybody, welcome to retire with style. I'm Alex. And I'm here with Bob. And Brian. And I guess next time I could be more explicit before we talk for

**Bob French** 01:10
a while our old machine here,

**Alex Murguia** 01:13
exactly, exactly. Off the cuff. But, you know, this is the second episode in a row that we're having. We had Brian and Bob on the last one. So if you want to know a little bit more about their Avengers origin story, check out the last episode, although Bob, we've had previous to that as well. And we wanted to create these episodes simply because, you know, there's, there's during the course of the year, that's roughly six inflection points that give investors pause for concern, if you will. And so it's always good to stand in front of it. As I said, previously, Wade, couldn't make it today. As of this recording, it was an it was an impromptu session, because we wanted to really get out there. But, you know, Wade, and I are, you know, we'll be back next week. But for now, you know, we got good information with Brian and Bob. And it's a continuation of the last episode, which was about what are the current client conversations looking like right now, in light of what's happening, since at this point, to borrow Bob's phrase, we've gotten a good slug, of client meetings already, you know, since the start of this downturn. So I thought it'd be great to just listen in. Brian, you want to take it away?

**Brian Bass** 02:28
Yeah, sure. So I guess, to kind of structure this, there's really been three types of people, as we've really kind of had all these conversations across, you know, all of our clients. And, you know, it really has become obvious that there are people in the right places, there are some people that were in the wrong strategies for their retirement income. So I thought it might be helpful just to kind of lay out what these people look like, and kind of the, where they fall on the risk spectrum of retirement income, you know, obviously,

**Alex Murguia** 03:00
on the risk spectrum, or on their risa profile,

**Brian Bass** 03:03
kind of born in the same I guess, so the risk spectrum. So as far as how much risk we're taking the retirement income plan, right. So on the far left side of the continuum is your full on protected income, we're going to annuitize all of it, there's no risk. On the far other side of the spectrum is your total return people that have no protections, it's, it's kind of pedal to the metal, we're going to take some upside, we're gonna take some downside, and we understand the risks around that. And we're okay with those risks.

**Alex Murguia** 03:29
And then up or down is the optionality component, the optionality,

**Brian Bass** 03:33
so we have some people that are that are, you know, in the time segmentation especially, is a really cool place to be, there's a lot of different ways to do that. But there's also, you know, a flooring approach where we have a floor, and then we have the total return on top of that. So we kind of created a cool hybrid with, you know, an overlay of however much risk we want to take on. But I guess just starting with the total return folk, because that's, that's a majority of the people and not majority, I guess your numbers are, I think 35% of the people falling. Yeah, they're

**Alex Murguia** 03:58
split pretty evenly between income protection and, and, and total return.

**Brian Bass** 04:05
Right. So the total return people, this is really kind of a gut check moment for them. This is really, you know, we've had, you know, 2000 2008, so some of the people live through that, and but most of them were in the accumulation phase at that point. So it was really almost, you know, an uncomfortable buying opportunity at that point for them. But now as they've gotten either close to retirement or are in retirement, really getting into the conversations of is this right for me? Can I can I sustain this over the long haul for my retirement, as is something that I want to continue to do? So, you know, you're looking at your 6065 year old people that, you know, typically, one of our client relationships is a man and a woman that had been super successful each in their own right over the years, and both were very high earners. Both were really really good savings rates, put away a ton of money and so now They're in retirement. And they're both kind of running into a scenario where they're creating a paycheck, you know, from a set a set asset allocation, which is very foreign for a lot of people, you know, we go from human capital to financial capital in a lot of times, it's, it's a rude awakening, as far as how does that work? And how does that actually look for us? And so we, as we get into those conversations, where are we doing the right thing? Did we do this right, we really kind of tee it back up to well, let's go back to the reset, let's use the Reset, and figure out, you know, what you really feel now, because to Bob's point in the last episode, you know, times change, and our emotions change, and our views on things

change. So, you know, something that we may have set up 10 years ago or five years ago, may not be right anymore.

**Alex Murguia** 05:49
But let me add to that, Brian, in terms of before, admittedly, a McLean Asset Management, which in that's where Brian is a lead advisor at, up until we really started doing this research, Wade, and I, we were essentially a total return firm, the traditional total return firm, and we do plan. But that was that the hammer and the nail kind of thing. And whenever anyone expressed an interest in an annuity or something structured, we kind of didn't pay as much attention to it as we should have guilty as charged. That's not good or bad. It's just how it was. And so frankly, those folks maybe didn't even become clients, they were prospects, but or we would just refer it out to somebody, an insurance person that can help out, we get everything ready and referred out. And so as we got started in this research, it actually made us think, how do we want to run the firm in which, you know, has the practical application of all this research? And so about a year and a half ago, we really started doing everything in house. And so some of those clients that we've had, we've had clients for 20 plus years. And so some of those clients that have been 20 plus years, 10 plus years, there is a calibration to be had, I wouldn't, I wouldn't say they change how they were 10 years ago, 20 years ago, it was really more we weren't as in tuned as we should have been, in terms of picking up their styles. Because the Risa you know, that's where your retirement income style award is profile, well identify how you want to source retirement income maps to strategy, what that's pretty consistent. We've seen in the research, what's not consistent or risk tolerance questionnaires. You like how well you can sleep at night, you know, with an aggressive portfolio versus a conservative portfolio, that kind of stuff. And those are the three questions that put you in some sort of model portfolios that always assume a total return approach that I do have issues with, because they are transient, since we're not going to play to inflation anymore, a whole flight to risk tolerance. That's more transient. And so that those should be revisited. Because at the end of the day, there's a role for investments in everything. And so you should be in tune to it. Sorry, Brian, I wanted to just lay the groundwork a little bit.

**Brian Bass** 08:00
Yeah. But to your point, also, that when you're in accumulation, and markets are down 20 or 30%, you tend not to care as much simply because you know, you don't you don't know funny, but you don't need the money, you don't know, you know, you're 20 Whatever years away from retirement, so it's not that big a deal. But it's a very different scenario, when you're in retirement, you know, this is the only money I'm gonna have the rest of my life. Great. It creates a different set of emotions. So I might push back a little bit on that people don't change, I think people's as the situation change. And as they do get into retirement, I do believe that emotions can change. And these people now are having a different conversation around, you know, what is what is risk really mean to me at this point?

**Alex Murguia** 08:40
Yeah. And to be more specific, I'm referring to the way they want to source retirement income. Sure, seems very steady seems more trade like and you know, those people where those people are going to be people that maybe if they're working, they're working for the government getting a pension right now. They're kind of doing that right now. So yeah, I

**Bob French** 08:58
mean, the other thing is good market returns cover up a lot of sins. You know, when the markets going up, everyone's real happy. It's only when the market starts coming down, people start getting a little worried.

**Alex Murguia** 09:09
Okay, so take us through some of those conversations, I'd like to get out of this, the ability for our listeners to kind of paint themselves in, in kind of like the situation that you're presenting, because in a way they can then sort of this is a sounding board episode for them, which sure what I could value.

**Brian Bass** 09:28
And a lot of times, that's, that's, you know, how we start conversations with with new clients and people who are coming to us from other firms is they come to us with a portfolio of stocks and bonds, or the hottest mutual funds or whatever, you know, whatever their quote unquote, advisor was doing at the time, and it is total return and people have not really been maybe educated as much as they should have been on what that entails and what that looks like in a spin down scenario. And so what we really tried to do is lay out, lay out the options what does it mean if this goes wrong, like what are the what are the level the levers that we have to start to pull, if markets don't cooperate, and they don't do the things that we expect them to do, and that's, you know, obviously, the first one that we go to is probably gonna have to spend less money. You know, is that something that you're, you're comfortable with doing? Is there? Is there even in the realm of conversations between you and your spouse? Is there? You know, is there an option to say, hey, you know, we're gonna spend $20,000 less this year, or 30, or 40, or $50,000 less this year? Because markets are bad? And if the answer there is no, that's crazy, I can never do that, then we need to start talking about how do we get out of this total return and get into something that's more palatable, that can create a more a smoother ride, as we start to generate your income, because total return is, you know, ultimately, the downside risk there is, you do have to make some concessions on how much money you're gonna spend sometimes.

**Alex Murguia** 10:47
So there's that there's two points. One is more FYI. And Wade brought this to my attention. And so did a gentleman by the name of David Lau, who isn't us, you know, well known within the industry. Sure. Bangun, who created the 4% rule, who, you know, whatever, that implies that you're going to take, you know, 4%, the initial year, and then not is that you have that nominal amount, you adjusted for inflation going forward. And I forget the exact number, but something like he would say, Don't deviate below while he was creating this. You don't want to deviate, deviate below, I'm gonna make it up, but I'm not too far off 50% equity allocation, you want to keep it at least that much or higher article came out in the New York Times, I want to say, three, four weeks ago, where he himself is applying this, but he was hesitant of the market effectively, he contracts with a market timing strategist. And he's now at 20%. equities. It's kind of like the, the the irony is the person that created the 4% rule. Can't really follow it. Yeah. And so to some extent, this, I think goes to your point about how it's, you know, everyone has a plan, right? But, you know, when you get hit, it's different.

**Brian Bass** 12:02

That's exactly right. That's exactly right. And it is, you don't know, you know, to Bob's point that you don't know how you're going to react until things go wrong. I mean, in a raging bull market, you know, the returns eliminate, as you said, a lot of sins. So there's no real urgency when everything is going up, stocks are up, bonds are up, cash is up, everything is going in the same direction. It's easy that anyone could do this job is is in a bull market, right? It's times like this, when we're down 20. When bonds are down 10-15 It's now is when you really figure out was this right for me? And those are the conversations we need to be having, you know, 18 months ago, when markets are up is that's the time when we figure out what is your retirement income style? How do we source this income? And let's talk about what this is really going to feel like at 30% down? You know, are you going to be okay with this? And a lot and a lot of the people that have have bitten off the total return and continue to go down that road, understand it and are okay. Either we've you know, built in a buffer into their savings, goal spending goals, whatever. And they're okay with this. So, you know, that's, that's okay. And it's not a it's not a bad place to be if you're okay with having volatile spending.

**Alex Murguia** 13:14
Yeah, and do you find there's there's two types of people that this can be okay with or not okay with it. I think he's gonna go either way. And I'm gonna borrow a theme from a, you know, one of the guys very credible. His name is Brian Portnoy, not to be confused with the mean, Portnoy guy, this is another gentleman, and he's come up, and he's come up with the term funded contentment. And I love that term. I mean, what it effectively is, and this goes to your point, I think about total return, when when is it? Where's that balance, right, of how much risk how much not risk to take. I don't even know if I said that correctly. But you know, there's that balance. And finding contentment implies that as it stands, you know, with what you want to do with your life, you're in good shape your content, you're funded to be in good shape, and uses that to make this separation between what's wealthy and a rich mindset. A wealth mindset sort of says contextualize everything, and comes out with Listen, unfunded contently. I'm good, you know, regardless of the market drops, 2%, whatever, I'm good, yes, we do the Monte Carlo. But even if the Monte Carlo percent of success drops from making it up 95% to 85%, which is still healthy, in my opinion, but let's just say that they're not of that opinion. Well, you do have a magnitude of failure, you know, and a magnitude of failure is, you run a Monte Carlo, you do 1000 scenarios, like, like Bob said, and one of them is short by $1. By the time of death, that's a failure. You know, and so realistically, no one really cares about that. And so I think, figuring out where they are on this funding contentment scale, and mixing that in with This magnitude of failure score, which I like better than the MonteCarlo itself, I think it's I think I put it up to you, since I really haven't seen clients in 10 plus years at this point. But I think it's it's something that, you know, I'd love to hear about what what those conversations look like that with that specific dynamic?

**Brian Bass** 15:20
Yeah, it's, that's part of every conversation we have. So we show our retirement plan. And at the very bottom, once we get through the success rate, we'll show the shortfall analysis. And what we'll do is we'll look at that exact point. So if we're running our plan out to age 100, and the shortfall analysis says, you know, the median shortfall was $8,000, at age 99. You know, that? Yes, the plans did ultimately, quote unquote, fail, but they were by $8,000, at age 99. Right, so we were one year away from our total goal. And we only failed it by a very small number, assuming that all things were equal in the sprint goal is much, much higher than that. Right. So what that that's a great point is, you know, we can start to try

to mitigate the downside of these plans by using things like annuities to guarantee lifetime income and these things. So it does, it's been amazing, you show a total return person, a plan that includes an annuity, whatever size however big you want to go with it. And the downfall goes from, say age age to age 82. I just bought you two more years and got you two peers closer to your forecasted age of death. Right. So whatever year we're quoting, you're

**Alex Murguia** 16:31
like the Grim Reaper.

**Brian Bass** 16:33
Right? And the Grim Reaper, I'm gonna tell you exactly how much money you know, but to your point, I mean, is the Monte Carlo, like you said, is your $1 short and it's a failure? So it's, it's not a it's not a precise instrument? It's not a you know, something that can it's not a crystal ball that's going to show is this going to work? Is it not going to work? The more important analysis is that shortfall of you know, what does adding guaranteed income do to this plan? And what does it do to the, the, you know, the smoothness of your spending, if you will, like, maybe we don't have to take those massive cuts to our to our discretionary spending every year? Because we have a larger slug of guaranteed income? It

**Alex Murguia** 17:14
makes perfect sense. And do you always need to show clients the numbers right now? Because it's such an emotional trigger? I, the last two months have been not within normal limits, you know, to some extent, and so is it a matter of running numbers? Or can you just sort of allay their concerns by just speaking to them about certain topics?

**Brian Bass** 17:38
The numbers we try to to avoid a little bit, you know, we're gonna show them we're gonna tell you, hey, look, this is the real, this is the real picture. But ultimately, if we can tie that back to their retirement income, ultimately, it's, that's what people care about is can I can I live the retirement that in my head, I'm envisioning going forward? I know, I want to do X, Y, and Z, can I still do those things and be okay, you know, that's, that's where we try to take the conversation of, look, your income plan is still solid. Yes, your overall performance sucks, right now the markets are getting, they're doing their thing, like, they're not good. It's not great. But ultimately, listen, here's our plan, here's where we are looking for from day one. And you're going to be okay, by doing your, these are the things that you told me you wanted to do? Here are the numbers that we have in the portfolio, and everything's gonna be okay, within a range of outcomes. And, you know, let's take a step back. And let's take a deep breath, look at what's important. Where are the levers that we need to pull that, you know, worst comes to worst? What are we going to cut out of this? And a lot of times, it's stuff that they're okay cutting out of? But,

**Bob French** 18:41
yeah, no, and I think an interesting part of this conversation is no, there, there are definitely those people who are Okay, with that total return approach and everything that it implies. And we've kind of danced around the subject a little bit, there's a lot of people, for whatever reason, you know, very legitimately they've been guilty saving for retirement, and everyone kind of has the same bait, very underlying basic approach during the accumulation phase, which is just throw money at your portfolio,

you know, at the asset allocation you're comfortable with. But as we get towards retirement, you know, we do start paying more attention to retirement income style. So, you know, in a situation like this, you know, when you start talking to someone who maybe is in a portfolio that looks like a total or is a total return style portfolio, but they're not quite on that total return side of things. They're either time segmentation or income protection or whatever else they might be, you know, what did those conversations look like? Let's take a moment to let the audience know that this show is sponsored by retirement researcher. You can learn more about retirement researcher at retire I'm a researcher.com and subscribe to our newsletter, where You'll receive weekly actionable information for your retirement planning benefit. Retirement Researcher is an online community devoted to helping you create the retirement income plan geared towards your goals.

**Brian Bass** 20:17
So as we transition away from that total return, it really becomes when people want to get away from total return, it really becomes downside mitigation, like how are we going to reduce the risks of this portfolio to still achieve our goals and get us down the road where we need to go. So from there, if we're going to go to something like a time segmentation, a lot of times we don't end up going from total return all the way to income protection, just because that's a that's a

**Alex Murguia** 20:42
real quick, real quick, this is the time segmentation. What that effectively implies, is, is a bucketing approach. You know, you're matching, you're matching near term expenses with protected contractual income, be it cash, you know, CDs, individual bonds, mic us, you know, very set. So that's time segmentation, and then you're going to replenish those buckets. Because the market is going to, you know, potentially, you know, the expectation is the market will be able to grow and you'll be able to take money from the markets and put it in new buckets as they're depleted. That's the time segmentation approach, a bucketing approach. But I wanted to throw that in?

**Brian Bass** 21:26
No, that's great. That's a great segue into what time segmentation is and how it works. I mean, ultimately, what you're trying to do there is avoid the sequence, whereas you're avoiding that the really bad runner returns right around retirement. So I mean, the math says that the five years before and the five years after the most crucial parts of the retirement sequence in relation to the markets, right. So we had bad market returns during those 10 years, you know, the outcomes are not as great as they would have been had we had normal or positive market returns. So when we talk about taking money from a total return approach, and moving it into a bucketing approach, the idea there is we have years worth of income set aside. So we don't have to touch the portfolio when markets are down, right. So ultimately, in D cumulation, the more we spend down in a down market, the less capital we have to rebound. So if we have other assets, you know, even buffer assets, so using, if we had a long term whole life policy with cash value in it, that we've had for 2030 years, we can tap that instead of touching our portfolio. So there's, there's a whole bunch of really cool ways to kind of design time segmentation doesn't necessarily have to be, hey, we have, you know, three bonds that are representative of three years of cash flow. There's, there's a million ways to create that hybrid approach to the bucketing. But ultimately, you're right the the idea there is we know where our cash is, we know where our spending is going to come from, we know we have this volatile portfolio on the side that ultimately is going to drive it. But if

we can leave it alone in times like now and use our other sources of cash, then we're probably going to be okay with that portfolio.

**Alex Murguia** 22:59
I agree that a couple of caveats, mathematically, a time segmentation strategy is probably the least superior to all the others, but it serves a great mental accounting kind of purpose. It really feeds into the psychology of nerves. And that's ultimately what's important. So, yeah, that's where that is. And but what is it gonna say, in terms of the time segmentation? What are your thoughts around that one?

**Bob French** 23:29
Yeah, I mean, I think it's actually really interesting in that, you know, you're you're absolutely right, from just a straight math poor perspective, time segmentation is the least efficient way to generate retirement income. But the thing is, that doesn't matter. Because if that's the way that you're going to be able to stay disciplined. That's how you should do it. You know, total return is the most efficient way, you know, on average, over the long term. But if you can't stay disciplined for that long term, if that's something that makes you wildly uncomfortable, then it's gonna end up being the least efficient way

**Alex Murguia** 24:11
I don't agree with. And it's okay, Bob, and I and Brian, and we were always we're still friends, everybody. I don't agree with the assumption that total return is the most efficient, whatever efficient means because you didn't define it

**Bob French** 24:26
has the highest upside. It has the highest average expected value.

**Alex Murguia** 24:30
If you think of it in terms of retirement income. You can make a strong case that if you have a floor of annuities to represent some portion of the bonds within a portfolio, it's actually a more optimal way to do it from a pure numbers perspective. But wait is not here. So I'll let him I'll let him kick you around later.

**Bob French** 24:55
I got my biases going here.

**Alex Murguia** 24:59
But it just FYI. I mean, for instance, where does it fit me? But the larger question you're right, is the larger point that you're making is correct. So

**Bob French** 25:09
we wanted to make sure everyone knew you thought I was wrong.

**Brian Bass** 25:14
But, you know, I think it goes back to the goals like what is the goal? If the goal is to have the highest portfolio value when I did, that's great. Total Return is absolutely the way to go. Yeah, which equity this

thing is possible. And let's let it run. Right. So if the goal is to create a comfortable retirement that meets the spending goals, that gets me into my lifestyle that I want to lead to retirement, then let's figure out how to do that by taking on the least amount of risk possible.

**Alex Murguia** 25:40
100%, and I'll say this another and it came up, we we had a podcast with Michael Fink, a previously and I think he brought it up and he's right. We're not trying to be with all these other strategies, be intolerant, no one is trying to sort of jam somebody in something that's suboptimal, the reality is, is that if you're gonna total return, you're most likely going to hold back on what you can spend during retirement, because there's always this overhang. There's always this just in case overhang that you can't kick, you really can't. Whereas if you're an income protection, which income protection is you get on the floor, you get an income floor for the entirety of your retirement, be it an annuity that you purchased, being a pension, that you happen to work at the World Bank or something like that, or social security that's covering a significant amount of your overall wealth, right. And so, to the degree that you're exposed to that you're able to actually spend proportionately speaking more in retirement because you have that security. And I think I think, Brian, you see this a lot with our clients that are in total return, they kind of some of the conversations you're having with him is not, hey, you have to spend down, it's you have to you should spend more, because you're okay, on many levels. And so as advisors, I think sometimes it's framed as what you can't do, you know, to the client, the reality is, we spent as much if not more time trying to get them to spend these assets, because they're their total return kind of runs a little counter to that, because of that apprehension of that just in case. Brian, you want to get it right that I get it wrong in between.

**Brian Bass** 27:21
That's 100%, right. You know, we have, we have several clients that that we've had multiple conversations, they listen to your, you have the capacity to spend another 234 $1,000 A year and be perfectly fine. But to your point, they're terrified of the thought of of ramping up their lifestyle, and then having it go wrong. You know, the lifestyle creep is real, right. So once once that genie gets out of the bottle, it's very hard to put it back in. And people in a total return that don't have a lot of guaranteed income, are very apprehensive about doing that. And it turns into, you know, what kind of lifestyle and again, some people, they're very happy with their lifestyle, and they don't, they don't care about spending another whatever, X dollars a year, that doesn't matter to them. But there are there are several instances. And recently we've had these very conversations of, you know, what are we doing? There's no, you know, a cut from the one that pops into my head that they don't have children, there's no, you know, there's no real legacy goal in place. And, you know, we're forecasting them to have multiple, multiple 10s of millions of dollars at the end. At that point, like

**Alex Murguia** 28:25
you can see above them.

**Brian Bass** 28:32
But to your point, it really is it's figuring out what their lifestyle, what lifestyle Do you want to leave in retirement? And is it going to work? I mean, ultimately, that's that's all that matters in this equation. It's not a math problem anymore. It's it's how do we live our lives? How do we, how do we put this together

so that you can live the life you want and put your head on the pillow and not have to worry about any of this stuff? At the end of the day?

**Alex Murguia** 28:51
Yes. kind of goes to that fun to contentment. Yeah. Phrase?

**Bob French** 28:56
Yeah. Yeah. And actually, I think it is worth calling out that, you know, if you have not done done the reset, and kind of looked at where you fall on this, you know, we're gonna have a retirement income challenge on the Retirement Researcher side of the fence relatively shortly in the next few months. And that's a really, really great way of kind of diving into some of these questions start and starting to figure out, you know, how you might actually want to be able to do that. So you'll be doing the RISA obviously, you'll also be doing a funded ratio plan. And really kind of thinking through a lot of exactly what it is that we're talking about here, what you want your retirement to look like and how you feel comfortable funding that. So I think we'll put some of that in the show notes for if you're

**Alex Murguia** 29:44
Yeah, retirementresearcher.com. Go there. And we'll have something there's a pop up to be on the waiting list, I believe I'm not sure or is this just one of these times Bob or I spoke up without confirming? Well, we'll do that But no, it's good. The other piece, Brian is how often, it seems to me from listening to this, because before these episodes, I thought it'd be great that we could talk about the markets and the conversations about the markets that you're actually having with clients. I'm getting the sense from your condo from these last two episodes that we really don't talk about the markets all that much when client meetings come in. Is that a true assessment on my part? Or no, I'm, you just haven't mentioned it?

**Brian Bass** 30:34
No, I mean, there are there are a small subset of clients that do enjoy, you know, getting into the weeds of markets, and really popping the hood on on different equity indices and kind of getting into the weeds there. Those are, those are conversations we definitely have. But for the most part, you know, people just want to know that they have the right portfolio to have the right engine in their car, and that's gonna get them to their endpoint. I mean, you know, a lot of our clients, it's been beaten into them over the years, don't look at the markets, don't look at the markets, you know, even even in 2021, when things were amazing,

**Alex Murguia** 31:06
is being done in and the nicest of ways, of course,

**Brian Bass** 31:11
massaged into the conversation, right, yeah. But even I mean, you look at 2021, the people had monster years in their portfolios. And at the end of the day, I mean, at the end of Q4, last year, we're having our client meetings for year end planning stuff, a lot of them were like, you know, this was really fun. But, you know, we know this isn't real, like, it's not going to continue this. It's, we know, this isn't an average return a normal return. And they already kind of knew, like, something bad's gonna happen at

some point. It is, it's, it's Yep. I don't mean, if you lean on your financial plan really is it's all that matters is Do I have the right engine to get me where I need to go?

**Alex Murguia** 31:53
No, that's great. Actually, that's a great analogy. I think you're right. 100%. I mean, I start, I start thinking myself a, you know, macro level, right? I'm not, you know, it's not I'm not the client. I'm not the advisor. But if I just look at it, the last real downturn we had was in Oh, wait. I mean, we're do I mean, you get these bear markets once every, I don't know, four or five years, right. I'm not saying we're due tomorrow, but you can see it happening, right? It's, you know, eventually it's gonna hit. I think Bob is looking at me, like, don't forecast this and that, but the hell with him? No, I mean, it's healthy. It's healthy to have these draw downs, because it brings risk back into the equation.

**Bob French** 32:37
Absolutely. I mean, it's, we've been, we've had one of the longest bull markets in market history, markets. Markets go up and down. And frankly, I mean, to a certain extent, you're absolutely right, people have, you know, I intellectually, I don't think people are forgotten that markets go up and down, we have enough bad weeks, months quarters, you know, we've had a couple bad years. But Emotionally, I think people have gotten used to it over the past, call it 10-15 ish years, markets go up, and you know, it's, they're safe to some degree. That's not true. You know, they go up and they go down, and they can go down a lot. And it's, it's really important to keep that in mind. They're really, really great tools. And they're tools with a place and I think most people's retirement income plans. But you got to be careful with with how you use them. They're their power tools. They can do great things, but they can also chop off your foot pretty quick.

**Alex Murguia** 33:49
Great visual thing. There you go. You just see the movie Saw.

**Bob French** 33:58
Now I'm thinking back to one of my actual investment courses, we did a while back, I had this great image of a guy that looks like at a county fair, using a chainsaw barefoot, like doing some like chainsaw carving, like three inches from his foot. And, you know, that was that was one of the images I use for deciding on your asset allocation. But watch yourself.

**Alex Murguia** 34:29
So Brian, what has been your your favorite and least favorite conversations that you've had this year? Except for the current one, except for this one,

**Brian Bass** 34:39
obviously, clearly. The favorite one is the effects.

**Alex Murguia** 34:44
In terms of playing conversations, what I don't know which one comes to mind that oh, this is a good one. Or hey, look, this is not a good fit.

**Brian Bass** 34:54
I think the my favorite ones have been a couple recently that I really dove into the eye bonds, right? I mean, it was it was, I'm hard, I'm selling equities, I have to buy bonds, like, the world is going to end, this is kind of a thing. And so our conversations around that were, hey, let's explain what these ions actually do, how the how the, you know, the interest rate component on those things work, and really show them kind of the breakeven of how those things are projecting, assuming the markets are correct. And their pricing, you know, what the interest is actually going to do over the next three to five years, and then bring that back into their their risk tolerance and their financial plan of, you know, equities for the long haul, right. I mean, that's, that's historically been the driver of returns is the equities, right? So getting, getting that message across and having people buy into those ideas, and really, you know, take a step back and look at why we're investing in the first place. And then listening to the advice, those are the best conversations. Just, again, it all goes back to the financial planning, you take a whole bunch more, a whole bunch more bonds, and now all of a sudden, the overall asset allocation comes down. And now we're in a different spot than we were before.

**Alex Murguia** 36:03
Something that something that we did on an extreme days, I agree with you, it's almost like your benchmark is not the s&p, your benchmark is your personal situation. And when we create an incident, we actually trademark the results to be called personal benchmark analysis. Because that's what we're trying to drive home. Now, when we say this, and these are all nice things to say. But not everyone can agree, I'm sure you have some people that are like, Hey, this is a bunch of BS, you're just trying to distract me from the fact that, that you're not a very good advisor from an investment standpoint, honest question, because we're doing nothing the market has dropped. And here we are, the best thing you're telling me is to rebalance? Well, what would you say to that?

**Brian Bass** 36:49
I mean, there are people that will have multiple advisors in place and have money at different shops, and are very actively comparing returns. I mean, ultimately, it's it's, we build a very specific asset allocation for individual investors. And, you know, it's may or may not look like anything else that's out there. So it really is just going back to, here's why we did what we did in the first place. This is why we built it, this is how we built it. And this is the result that we need to drive your financial plan forward. So you know, you're always gonna get into a pissing match with returns, right? There's always someone that's going to tell higher returns, or better this or whatever the case may be. That's, that's how salespeople do their work, right? I mean, there's always going to be that. So ultimately, it's, if you're with us, and you're using us for our advice, listen to the advice, because it's coming from a place where we listen to you, we know exactly what you want, where you're going, where you know, the things that we need to put in place to get there. And those are the things that we're going to deliver for you.

**Alex Murguia** 37:50
Yeah, and I can, there's two types of clients, there's, there's the delegators, which are folks that kind of really outsource all that to you, because they're just interested in what time it is, right? They want to enjoy their retirement fully. They don't like the numbers or whatnot. And those are good relationships, as long as they're involved, because those are the ones that every two years, you can barely get them in for a meeting. But when you do, it could be two year intervals. And they just look real quick at a

statement and say, What the hell am I doing kind of thing. So there's double edged sword there. Collaborators is kind of what I think you're talking about where you're working actively with the client, you know, that you're the financial planning lead, but they're the ones that are kind of the general manager or whatnot. They're the ones that, you know, kind of want to chime in with their ideas and the like, which is great, because then it's a, it's a nice back and forth, especially it for us, we're kind of like data nerds. So we love talking about that. But even for those folks that are these collaborators that really want to get involved in co-leading the plan, you know, it's a team approach, etc. How much of that is what the problem there is wisdom, not knowledge, right? Where you have a sample size of whatever 500 individuals you can draw from within the firm, whereas they're just a sample size of one. Correct? Right. And so they don't have the wisdom of realizing I read that in a book, but they come up to you with something that they read in a book. But, you know, sometimes the answer is, yeah, but that's just one way to do it. There's a million others, you know, because of because of what we know about your situation, we want to tell this way instead, because that's what we've seen. Does that make sense? What I've just said,

**Brian Bass** 39:30
No, that's exactly right. And a lot of the problem is, when you read something, you're looking at one individual problem in a silo and you don't realize that maybe that problem solving it the way that you think you need to solve it is going to affect three other parts of the financial plan negatively. And so our goal is to say look, we we don't ever make any decision that silo we're gonna we're gonna plug everything back into the plan anything you know, the collaborators very much always have different ideas and come to you with different things and I want to do this or I want to do that. How does that how does that effectively in the plant, and that's great. Sometimes the things work, and sometimes they don't necessarily work. But ultimately we're going to, we're going to show them, you know, I don't wanna say mathematically, but we're gonna show them the reasoning behind why it works or why it doesn't work. And ultimately, you know, it's, it's kind of them leaning on us to make sure that we're doing the right thing across the entire picture.

**Alex Murguia** 40:21
I got you. Yeah, so. So I think what I'm hearing because at the start of these, we thought it'd be great to have these client conversations, what are they about? It seems to me, in spite of what's happening in the markets, the Ukraine supply shocks, this administration versus that administration, sort of comments, the Fed inflation, etc, etc. Clients kind of want us to know that we know what's going on, in terms of just current events kind of thing. But I don't get the sense that, yes, there are some in the fringes, but I don't get the sense. People are trying to recalibrate the entirety of their plan, because of what's happening now. It seems they've gotten the joke for lack of a better word. And they've realized that this at the end of the day, it's context that matters. And let's make sure that context still applies. Is

**Brian Bass** 41:16
That's exactly right. I mean, the people that really want to take deep dives into inflation or the politics, they just want to know that we're, I mean, to your point, exactly, they just want to know that we know what we're doing. Right? It's, it's not that, you know, we have the the best answer of how inflation is going to affect market pricing in the next three days. We don't have a crystal ball, nobody has a crystal ball, right? It's just, we're paying attention, we know what's going on, we have an idea of why things are

happening in the portfolios, and what the kind of macro events on are going on that are affecting things. And then ultimately, are we going to be okay, through this? Can we make it through this? Is this going to be the end of us? Are we going to be okay, that's the biggest? That's the big question. At the end of the day, are we going to be okay?

**Alex Murguia** 41:55
Yeah, you're right, because we can we can get into this and Bob, correct me if I'm wrong, but okay, you're having a conversation with a client on inflation and the markets dropping? And the easy answer is, well, the markets are dropping, because the change in the risk free rate causes everyone's valuation model to correct. And when unexpected inflation. You know, they tend to recalibrate pretty quickly into you saw what we had this week. And last week. Yeah, that's the answer. Now, Bob, I don't want to say that. No,

**Bob French** 42:25
that's that's absolutely right. I mean, the markets react very fast to this stuff. And one of the things to keep in mind and actually wrote an article. Last time the Fed was was raising rates a few years back, looking at how changes in the federal funds rates affect the markets and the outside of real short term periods a couple days, not by a huge amount, you don't see a big impact one way or the other when the Fed raises or lowers interest rates. And it's also important to keep in mind, we often often talk about how markets move based on how events square with market expectations. Well, market expectations, we often talk about them as kind of, hey, this is what the market thinks will happen. It's really more of, hey, here's the the weighted average of everything that the market thinks will happen, here's that it looks at things probabilistically. You know, it's, Hey, there's this chance that the federal raise rates by this amount, there's this chance that it'll raise by by that amount, you know, or whatever, whatever is relevant. You know, it's it's a very kind of, it's a cloud of probability, if you will. And as we collapse, and something specific happens, the market will adjust for that. And, you know, as Alex said, it does it very quickly.

**Alex Murguia** 43:58
And you can't guess you can't stay ahead of that, because why these events happen randomly. Yeah, exactly. You've had,

**Bob French** 44:05
Its what happens next? Yeah, and how that, again, how that squares with that probabilistic guess, that the markets making, and we just we don't have that crystal ball, as Brian said,

**Alex Murguia** 44:19
and Brian, how do you deal with a client or a prospect that comes in and says, Hey, look, I you know, inflation is not gonna stop until it's three more years. And so I want to do such and such for three years, I get the whole plan context or whatever. But you know, what, I need to change things up because I'm looking at three or fliegende. I can just feel it in my bones, if you will. What do you say because it's a balance between, you know, the answer is no, you're wrong, you know, that kind of thing, or the answer is, well, you know, how do you how do you address that?

**Brian Bass** 44:51
So my response is typically, you know, if you know something that the 1000s and 1000s of analysts and market participants don't know then, you know, good for you, if it's kind of one of those deals where, you know, if you feel like you're smarter than the market, and you know, again, there's 1000s of eyeballs on every single piece of data that comes out, and every company report and all the things that are going on in the markets, and the computers, if you can beat them on their, you know, how fast the their trading and how fast everything is moving, then, you know, place your bets. But ultimately, that's what you're doing, you're putting money on a roulette table, you're picking a number or color and you're spinning the wheel. You know, that's historically typically why active management doesn't always work is because people are ultimately trying to out think markets out guess markets. And sometimes you win, and sometimes you lose, but more times than not, you know, that's why casinos are have the big fancy

**Alex Murguia** 45:43
inflation, because Inflation affects pricing. Now, what, what is the reaction that you get from folks, when you say something like that?

**Brian Bass** 45:52
Sometimes it's positive, sometimes it's not so positive. You know, it's,

**Alex Murguia** 45:56
it's fine. I find it fascinating. That's why I'm asking,

**Brian Bass** 46:00
ya know, it's, I mean, it's never, it's never fun or easy to be told, You're wrong. And you try to make that as ginger a conversation as possible. And you tread lightly. And, you know, you're obviously not trying to make anyone feel dumb or stupid or anything like that. But, you know, ultimately, our view is, the market pricing is the collection of 1000s of great minds. And the only way you can really beat that is if you know, something that everyone else doesn't know.

**Alex Murguia** 46:27
Yeah. And going back to this just to make sure people don't think we're being severe. When Brian said, You're wrong, as that's what we tell clients. It's not that it's not that we know what right, but we have a framework in which we make our decisions on it doesn't reconcile. And, you know, it is what it is from that vantage point.

**Brian Bass** 46:47
Sure. I mean, if you believe in efficient markets and fair market participation, then you know, the balance of a stock price or bond price, or whatever it is, is the combination of all the sellers and all the buyers and kind of where that equilibrium lands is the price of the asset. So, you know, again, it's do you know, something that everyone else doesn't know, or are we just making bets?

**Alex Murguia** 47:09

Yeah. What about Pelosi? Husband? No, I'm just kidding. Bob Allen, Alex went out of the screen for a little bit. Senator from Georgia that way we pick Democrat and Republican that was all right. All right. Anything else you want to add to that? We're 45 minutes in?

**Bob French** 47:36
No, I think a good way of kind of summing this up is it really will come down to, you know, making sure that your retirement income plan actually is aligned with how you should be building that plan and making sure that it's aligned with your retirement income style. And that, you know, that's never a panacea. You know, even if you are a total return person, and you're in a total return portfolio, you're still going to be nervous, and that's okay. You know, but it's really trying to align these things with, with how you approach the world and how you report approach your retirement income plan, and your retirement income. So, you know, if you get that that solves at least a good chunk of the problem, not all of it, but a good chunk. And then you can work from there, and really being focused on that long term plan.

**Alex Murguia** 48:30
Okay, I think that's, I think that's nice. All right. I think that's all we have. Thank you, everyone, for listening to today's podcast. We'll have shownotes with lots of links. For McLean, for Retirement Researcher, we mentioned that we mentioned in this episode, the retirement income challenge

**Bob French** 48:49
we did. I'll call it out again, since you brought it up. But if you do want to take part, the retirement income challenges, you know, a pretty intensive four day challenge walking you through, taking the resetting the funded ratio, and really kind of putting you in the place where you know, you're coming out of that with a reasonably solid idea of how you should be approaching your retirement, what your retirement plan should look like, and giving you the tools to really kind of dive in on that. You know, it's a lot of fun, but good amount of work, but you come out of it with a lot of really, really good information.

**Alex Murguia** 49:26
And we'll have a show notes linked to that. So you can sign up, you're gonna be on the waiting list. And this gets to what Brian was saying the very beginning. It all depends on the context. If you get the context of why you're investing, everything kind of like falls into place afterwards. All right, thank you so much, Brian, for chipping in here. During this week. No, of course and Bob Wood who invited you about Nah.

**Bob French** 49:52
I just show up every once in a while.

**Alex Murguia** 49:55
Bob, thanks, man. I really appreciate you helping us out.

**Bob French** 49:59
Wade and Alex are Are both principals in McLean Asset Management and Retirement Researcher. Both are SEC registered investment advisors located in Tyson's Virginia. The opinions expressed in

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