Episode 7: Smile, It's the RISA® Framework - Blending Your Retirement Income Personality with Strategies that Resonate

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. Whether you take the blue pill, or the red pill, you're always in the RISA matrix, our hosts Wade and Alex.

Alex Murguia 00:52
Hey, everybody. Welcome to this edition of retire with style. I'm Alex Murguia.

Wade Pfau 00:59
And I'm Wade Pfau. And we're happy you're joining us for episode of the week here in terms of we're going to be really starting to dig into what we call the RISA matrix, which is how we take the preferences that we've been talking about in past episodes, and put them together to really think about retirement styles and to begin the conversation around retirement strategies. And how your preferences lead to a way to source retirement income in a way that will resonate with you and that you will feel better about and more comfortable with as you go through retirement.

Alex Murguia 01:31
Hey, Wade, I got a question to ask you. When you said welcome to episode, and then there was slight pause. It's just Yeah. Are you debating? Do you say a number

Wade Pfau 01:42
to say a number and then I remembered we have to keep that evergreen?

Alex Murguia 01:47
Something gets a slight hesitation.

Wade Pfau 01:50
I was planning to say the number.

Alex Murguia 01:52
No that's fine. Yeah, this is our seventh recording.

Wade Pfau 01:59
Yes. the episodes may play out of order.

Alex Murguia 02:01
Yeah, but no, no, this is an exciting episode. This is kind of where we tie it all together really. And, you know, Wade swore me not to do a big long review beforehand. And I won't, we'll make it quick. But just so this episode, again, ties it all together in the sense of the logical flow that, that we've been presenting, at least we hope it's been a logical flow. And the first thought out there is retirement is different. You know, there are new risks now that need to be accounted for in retirement, longevity, liquidity spending shocks, you know, etc. And so once you have this, this new paradigm upon us upon you, you come to realize, well, these new risks, how do you want to? How do you want to address them? And really the starting point? Well, before that, there's the idea that there's no singular best retirement approach. There's no number one strategy that works for everyone. There's many types of credible strategies. So with these new risks comes many types of credible strategies. And the reality is the starting point depends on your style. Wade, you want to continue that from there.

Wade Pfau 03:16
Yeah. And so to remind everyone very briefly, in case you are binging through the episodes, what we have been talking about in the past here is, we have these two primary factors. And they're gonna play a big role today as we put them together to explain the strategies associated with them. But that was, am I probability based, which means I'm comfortable relying on market growth to fund my essential retirement spending? Or am I safety first, which means to it would I rather really have some sort of contractual protection to support the spending in a way that though, may not be 100% safe, because nothing is, at least a contractual protection implies a greater degree of certainty, then relying on the idea that the stock market or whatever risky asset I'm looking at is going to outperform a bonds and be able to fund more expenses in retirement? And then the other set of factors, that's the optionality and commitment. optionality orientation is I really want to keep my options open to be able to make changes and to respond to new developments, versus I'm comfortable committing to a strategy that I know will solve for a lifetime need, and that I can just kind of relax and check that off my to do list and have something that I know will meet my retirement expenses.

Alex Murguia 04:33
Yeah. And, and again, there are other factors that are involved, but and you can catch previous episodes to check them out. But these factors, what's interesting is that they're quite distinct. They each they they tell a very distinct story, but they work extremely well together. And if you and we, we provided hints of this and previous episodes as well, but if you put them together and form a matrix, you can begin to really do some pretty cool things from a retirement income standpoint, but also from an identification of this is how I want to source my retirement income. Wade do you want to kick us off on the quadrants you're much more eloquent than I am. So I think you can be less less confusing that if I tried to do one of these, imagine a matrix.

Wade Pfau 05:23

Yeah, well, that's what I, what we need to do at this point is to imagine a matrix. So you remember, way back and in geometry, you've got an x axis and a Y axis. So you've got horizontally, How do you fall in the spectrum between being safety first and probability based? So if you're on the left safety first on the right, probability based, and then vertically up and down, if you're at the top, it's more of that optionality orientation. And on the bottom, it's more of that commitment, orientation. And so right in the middle would be that 3.5 score we've talked about right at the midpoint between safety first and optionality right at the midpoint between optionality and commitment. And I might have said something wrong there. But safety first and probability based or optionality and commitment. And then so around that you have these four quadrants, and those will be the four retirement styles. So if we want to work through that we can start in the upper right hand direction there. And so that's the quadrant, where you have a probability based a preference relying on market growth. And then optionality preference, wanting to keep your options open. So Alex, what is that quadrant called?

Alex Murguia 06:39
That would be a total return quadrant. And we'll get to, we'll get to why in a little bit. A couple of questions that comes up when you're thinking about the matrix, it could be, why did you decide to put probability on the left hand side and safety? I mean, yeah, probability on the right hand side and safety first, on the left hand side, why did you do this? Why did you order them like that? There's no particular order other than clustering, probability safety first together, and optionality and commitment together, whether it's horizontal or vertical, it's just how we chose to do it. And to Wade's point, top right, which is probability and optionality, that's one if but if you continue to clockwise through it, then you you know, you move in the bottom right would be probability commitment, orientation, bottom left safety, first commitment, orientation, and now top left safety first and optionality. And so that's that those those are really the four quadrants that begin to shape retirement income styles. And what's interesting here, and Wade was sort of leading me to it, and we'll get to it right now, is that not only do they identify styles, but they also identify strategies that complement those those retirement income preferences, because what you're really saying here is I want to I want to pursue a probability, a probability based approach with optionality to source retirement income, or the flipside is I want to pursue probability based approach with a commitment orientation, or I want to pursue a safety first approach with a commitment orientation, or I want to pursue safety first approach with a optionality bent. And so all of those lead to strategies they they also, and this is where we didn't I didn't really realize this until we started looking at the, the outputs from the stats is that, yeah, not only are we defining here, profiles of how somebody wants to source retirement income, in an uncanny manner, these two factors also identify retirement income strategies. And that's where we were we really had this aha moment. Because these are strategies and that were effectively implicitly matched with folks or men that were dependent on external factors. And so this provided for the first time, at least in our view, the opportunity to really see how these quadrants match two strategies. And, you know, yeah, if you really think about the first one that we talked about here, there's probability and optionality that defines you asked me, I said total return, but you know, Wade, what you what's the quick definition here for a total return?

Wade Pfau 09:29
So relying on market growth, wanting to keep options open, that's really this kind of what the starting point for so much of the conversation on retirement is build that diversified investment portfolio and take a sustainable distribution from it on an ongoing basis throughout retirement. Probably the easiest way

to explain the total returns quadrant is to just go back to the beginning of building guns 4% rule that things have evolved and there's other ways you can define a spending from retirement and flexible spending strategies and so forth. But his basic idea really defines the total return quadrant, it's, he did this analysis. And so he said, suppose a 65 year old couple plans to live to 95. So they manage longevity risk by just assuming a longer than average life expectancy. And then based on historical US market data, if we look at this historical data and say that retiree if they hold 50 to 75% stocks, so they keep a fairly aggressive portfolio, but a diversified portfolio, then judging by the historical data 4% As an initial distribution rate, so I've got this 50 to 75% stock portfolio and planning over 30 years, I take out 4% of the portfolio in year one. And then that gives me a level of spending that I adjust for inflation in subsequent years. And based on historical data, I can anticipate my money lasting me for at least 30 years in retirement. And that's what a return strategy.

Alex Murguia 11:01
And I would add to that there's is there's iterations off of that, and we'll get into this, we'll really flesh this out in future episodes. But yeah, the reality is that's, that's, that's what you have, and, and there's 4%, but it's really 4%, just the initial year, that determines the nominal amount, then that nominal amount is, is adjusted for inflation. There's some folks that uses literally 4% a year. The good news is you can probably do that for a long time. The bad news is, you know, nominally that amount may be significantly less over time. So nonetheless, there's there's many ways to, to execute, if you will, a total return strategy. But you can really see how probability based and optionality really fit the bill for just on face value alone, for for that strategy. In fact, remember, when when we were following up with other studies, we wanted to determine what are some outcome outcome variables that help actually predict the strategy and we kept on landing in the same place, which is at face value alone? It kind of indicates that strategy. So it kind of is what it is, if you will,

Wade Pfau 12:18
Right, right, it's pretty clear that because there's going back to some of those secondary factors that we aren't getting into as much today. But that's also in the world of technical liquidity. So you have that brokerage account, you have that diversified portfolio, and you view it as providing you plenty of options. So you get the optionality plus Bill Bank and said don't call 150% stocks, it is different from a lot of the like, target date funds, and 401 K plans and so forth. But it is a strategy, therefore, that very much relies on the markets to outperform. And to support a higher level of spending. And to just be clear, and all bond portfolio these days cannot support anything close to a 4% inflation adjusted spending strategy. So you really do need to rely on market growth to be able to spend at that 4% rate in this low interest rate environment. But that's where you rely on market growth, you want to keep your options open, you go with that aggressive diversified investment portfolio, and you're comfortable with it. If that resonates with you. You are a total return investor and can proceed with your retirement plan in that sort of way.

Alex Murguia 13:26
Yeah, and the other ones that you mentioned it, there's a strong here push towards, if you're here, there's that accumulation mindset. And from that, I mean, you really don't want to sacrifice that growth and you're willing to accept a lumpy or income stream, you know, in exchange for that growth potential. Wait, as we, you know, go down the tour of the Risa quadrant. We got probability and commitment

orientation weighed refers to that. And I think it's held up pretty well as risk wrap strategy. What risk is being wrapped in the strategy now?

Wade Pfau 14:06
Yeah, and in some ways, it can make sense to talk about the income protection first. But since we're taking this tour, through the quandrants

Alex Murguia 14:15
wrap it over. I mean, it's fine. We want your income protection.

Wade Pfau 14:21
No, no risk wraps, fine. It's okay. We're still on the right hand side of the matrix. So we're still comfortable relying on market growth. However, we're now in the bottom half of the matrix so that we are comfortable also committing to a strategy. And so how do we think about this, I think a very important secondary factor. Well, then, from secondary factors, we're also still in a technical liquidity world. And we're also now in a backloading world that total returns was in the front loading world of I also want to maximize my lifestyle as much as I can in the early retirement years. Now in the lower right hand quadrant, this risk quadrant we have individuals, who are backloading they're worried about outliving their money. They view technical liquidity, but But ultimately, with these two main factors, they're comfortable relying on the market, but also comfortable committing to a strategy. So it's really it becomes a matter of I think the easiest way to say it is, they're comfortable relying on the market, but not so overly comfortable. Because they have these other concerns. They are worried about outliving their money, they are comfortable coming into a strategy, they want some sort of guardrail around what they're doing. 100%

Alex Murguia 15:32
What I would say Wade, though, just because you're saying committing to the strategy, and there's always somebody that could be listening to get well total return, I'm committing to the strategy I'm all in, I'm not gonna get nervous when the markets go down, I'm gonna stick with this strategy. And that's not necessarily what you mean, when you're saying, committing to a strategy. There's, there's contractual stuff that not contractual stuff. But when you bring in, you know, some sort of structured outcome, there are some commitments that you need to make.

Wade Pfau 16:03
Yeah, you're moving away from the bell shaped curve distribution for returns, and either looking at some sort of contract, which reduces your exposure to losses, but also eats some of your exposure to gains at the same time. Or we're talking also about a world of and that's where this is kind of the more complicated annuities fit into the risk rep quadrant, where you still have the ability to invest, and but you're going to commit to you pay for this lifetime protection that as long as

Alex Murguia 16:36
that's exactly the what I that's at least that's where I that's what written, that's what goes ding, ding. For me, it's that you're paying for these protections. And so once you're paying for it, you know,

Wade Pfau 16:49
right? Well, you can you have the flexibility to give up the protection, but once you're paying for it, and if your contract is, quote, unquote, in the money, which means the level of protected income you have at that point is high compared to your remaining asset base, you may be in a position where you really don't want to give that up. And so that's where you are getting into this. You are committing to a strategy. Yes, you you don't have it doesn't have to be a lifetime commitment. But to get the protections that you're paying for you are committing to a lifetime strategy to solve your lifetime retirement income need to know what the worst case downside scenario is in a way that you don't get with a pure total return approach.

Alex Murguia 17:28
I think that's the nuance sometimes that's just could be overlooked. And, and I, you know, like I said, I'm trying to put myself in the seat of somebody listening in, and I want to disabuse the total return person from thinking, hey, I'm committed, you know, I'm not, I'm not wishy washy in terms of my allocation or timing the market or whatever, that's not what we're, what we're getting at. continue the tour and you you continue, and now we're, we go to the left hand side, and we're in the world of safety first, and commitment, orientation. And real quick, just just, we're saying, you know, that there's a strong demarcations The reality is, is that this is on a spectrum, right? It's all different degrees. It's the you know, there's no magical line that you cross and all of a sudden, there you are, right. But, you know, as you move across, the reality is, is that as you move, you're still down now and you're further left on the quadrant, you're in the safety first world, and commitment orientation. And here, this is really a good dichotomy with total return. Because here is safety first commandment orientation. So world of income protection. Wade,

Wade Pfau 18:45
yeah, it's the opposite of total returns because we're now in that lower left hand quadrant. It's that I want contractual protections to to guide by retirement spending, and I'm comfortable committing to a strategy.

Bob French 18:59
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Wade Pfau 19:23
So what kind of retirement tool offers a contractual protection as well as a true lifetime commitment? That's the world of like a simple income annuity where you you pay a lump sum premium. It's really an irrevocable irreversible decision in most cases. But you do that because then contractually, you're insured that for the rest of your life, you'll receive that known paycheck every month, no matter how long you live, and that can solve for the lifetime income need by earmarking that that premium to cover that lifetime spending need or at least that portion The lifetime spending need that I'm willing to pay for. And so I build a floor of lifetime income through this income protection strategy. And that generally will

hopefully not require my entire asset base, or else I may not have the the appropriate funding for this. But on top of that, then then I can invest and I can invest in a way that I can feel more comfortable about. Because I know that even if the stock market doesn't do well, I still have this protected lifetime income through this contract that I have. And so that that resonates, then if I'm income protection, I value sourcing my retirement income in this way that I feel better about and that I don't have to stay up worrying about what's the stock market going to do tomorrow. Is this downturn in the stock market, something that will reverse itself and recover? Or are we in for a prolonged market downturn? These are questions I don't have to worry as much about about because I have contractually protected lifetime income. And that's the income protection quadrant.

Alex Murguia 21:00
Yeah, and here, what I would add to that, and you, you know, chime in Wade, but this also fits very well with with secondary factors. And so you're getting these, you know, things begin to rhyme, you know, and they arrive in an intuitive manner. When they do that it really does become interesting. You know, why, why, why do we even have the right to make these conclusions that we're talking here with regards to how profile leads to strategy? Well, if you really take take a look at where people land on this, as they as they worry about their concerns, what you find is people here, in this quadrant, have strong longevity concerns. What that means is that they're really worried about outliving their money. And so it really begins to make good sense. Why why they're they're, there, you know, they, but with regards to secondary factors to folks that are here have a high high back loading, you know, like Wade said, you know, you're still in that lower quarter. So they're still in that back loading world, to a large extent. But more importantly, there is, you know, when it comes to accumulation distribution, there's a strong sort of distribution vibe here, where there, they don't, you know, if the markets and the markets great, but I don't care, I you know, it's not a matter of not understanding the logic behind it, it's more a matter of, listen, I want to consistent income stream for my essential expenses. And keep in mind, we, you know, we're implicitly talking about funding for essential expenses, within this strategy. And then with the discretionary, fine, you know, you have now room to be in the market, if you will, because it's not as essential if you know, for your spending, but it matches very well with this, if you will, distribution sort of mindset.

Wade Pfau 22:55
And we're also from those secondary factors in the world of perpetual flora is desired with income protection versus time segmented. And also, we're now on the the true liquidity side. So we do think about true liquidity versus technical liquidity, which means we may value more that concept of earmarking assets through a contractual protection framework, that then frees up other assets to be a source of true liquidity for the financial plan,

Alex Murguia 23:26
and Wade something. And if it takes us off, then, you know, feel free to veto this question. But something you've been saying and I kind of like I like a lot is there's there's this, there's this decision that you're making here, you're you're you're fine with, you know, if your total return, it's a it's a market premium kind of idea, right and market premium is the market has a return premium over a risk free rate, because you're taking on risk, etc. So there's this market premium reward to be had, when you're

talking in the income protection bracket, you know, quadrant better said, there's a effectively a risk pooling premium. And I think that's a that's a cool concept. And that's a cool way to look at things.

Wade Pfau 24:16
Right. So I don't think any of these four styles are viable. And so it's really a matter of what you prefer. Now, a lot of the consumer media is based out of the total returns world. And so the statements coming out of that would be along the lines of the power of the risk premium of the stock market is so great that you don't need contractual protections, you just you can get these outsized returns from the markets. And a lot of the research I've done is to say, wait a second, hold on, actually, the power of risk pooling as a way to spend more than than fixed income or bonds alone. It's actually competitive with the power of the risk premium of the stock market to spend more than And then fixed income or bonds alone. Okay, so their approach can work. And they're not, It's not that one's obviously better than the other. It's really what do you feel more comfortable with?

Alex Murguia 25:10
But what does risk pooling mean? Because that's a term that we, what does risk pooling mean? So we, you know, we, there's always a danger that we get into jargon. So I apologize if that's the case, but so that I know that you know, but what is it?

Wade Pfau 25:26
three basic ways you could fund a lifetime spending goal, the first is simply just using bonds. And that can be very expensive in a low interest rate environment. So usually, we the styles go beyond just bonds by themselves. And then the other options are, well, I can go for the risk premium from the stock market. And that's that total returns world, or I can go from the risk pooling element of the annuity. And that's the income protection world. And so the way risk pooling works as you pay a premium to the insurance company, they effectively invest that in bonds, but you're able to spend more than bonds alone, because they're able to know that if I was on my loan on my own, I might be worried because I do have backloading preferences in the income protection world, I might be worried that I'm going to live to 95, or 100. And that would require spending a lot less than what the insurance company can do is saying, Well, we know some people will live to 95, or 100. But some people are only going to live to 70, or 75. And so some of the premium paid by those who don't live as long, well then subsidize the payments to those who live longer. And so now everyone in the risk pool can be paid like they're going to live to their life expectancies, because they know that they have this contractual protection that if they live longer than that, they'll receive this additional risk pooled income, that will support them no matter how long they live. And that's in contrast to otherwise, if I have to self manage that risk, and I don't have risk pooling, I just have to spend less, because I'm worried I might live to 95, or 100. So for people who live longer than average, this risk pooling is just subsidies you're receiving from the other individuals in the risk pool who didn't live as long. And that becomes, again, competitive with the stock market as a way to fund retirement spending. And then for those who end up not living as long, you know, in hindsight, maybe they didn't want the income annuity, but they didn't know that in advance, plus a good news and why they're alive. While they're alive, they get to enjoy a higher standard of living from their assets, and would have been comfortable with because they didn't know how long they're going to live.

Alex Murguia 27:36
And to be clear Wade to just to make it obvious. It's not like a dead pool that somebody gets a check when they're eating an extra check. Because that's

Wade Pfau 27:45
the television version of time

Alex Murguia 27:48
like that it's all baked in. No, and, and we're taking time with this, not because we're promoting it, but just we want to give it equal shine, you know, relative relative to other strategies, which, you know, I think they're, you know, not all of these strategies are equally weighted in terms of how they're presented to the public. And I think that's important here. Okay?

Wade Pfau 28:15
yeah, absolutely. Because we do think any of these strategies are valuable. And so I do get some pushback from people who, who are more vehement that there's only one better strategy. And so what they'll say is insurance, risk pooling, it's too expensive. And it's unnecessary, because the stock market will work great. And ultimately, if you're comfortable with that line of thinking, fine, but I don't think everyone's comfortable with that. And to have that push to somehow being the best strategy for everyone. We just strongly disagree with that we think any of these strategies are viable and also competitive. And so again, it's what do you feel comfortable with? Yeah, and it's with you.

Alex Murguia 28:52
And it's the same point with, you know, folks that say, everyone should be in the income protection bracket for their essential expenses. Personally, I subscribe to that, like for my own situation for, and my spouse, but I can, you know, different strokes for different folks. Um, I can see why somebody wouldn't be though. And that's fine.

Wade Pfau 29:12
And there are people who would argue that everyone should be income protection, but they don't usually get the same sort of platform to promote their views, as the people who say that everyone should be in the total returns quadrant. But yeah, there are people who, who just really, and there's also then the next strategy we'll talk about too, there's a lot of people who say everyone should be time segmentation. Don't pick a platform as the total returns.

Alex Murguia 29:36
Wade, Wade, don't go out of order, man. Don't go out of order here. We're doing this very measured right now. Yeah, the next one. You remember we're now we're on the left side safety first, but we're popping up. So it's optionality safety first and optionality, drumroll time segmentation, and then otherwise known as you know, a bucketing approach that kind of thing. Wade you want us and you're doing the the Wikipedia version of

Wade Pfau 30:06

so time segmentation, you want contractual protections, but you also want optionality. And in that quadrant, there's a tenant, you have this true liquidity view also, and you have a front loading preference. And so how do you get all that in one convenient package? That's where time segment time segmentation evolved. It's kind of a hybrid strategy of let's get contractual protections by using bonds. Not I mean, it's a backup for a moment total returns, uses bonds as a way to reduce portfolio volatility.

Alex Murguia 30:41
Oh, real quick, I think this, I have to say this, because it comes up quite a bit. Bond Funds, we, you know, we're in a total return, you know, there's a place for bond funds, because we're looking at bond funds to provide that ballasts, you know, from the equity volatility, you know, from that standpoint, and I guess you could use individual bonds, but you know, it's probably more efficient, frankly, to go with bond funds. And then that way, because there's another sort of argument, bond funds versus bonds, right. And so in total return, we're really talking there about bond funds, because within a diversified portfolio, you want to diversify away any credit risk maturity and etc, etc. Time segmentation is a little different.

Wade Pfau 31:25
Yeah, yeah, I'm in total returns, it's the same story as pre retirement, which, like modern portfolio theory tells us, The risk premium is there. So invest as aggressively as you can subject to your ability to stomach short term market volatility. And that's where bonds are treated as a less volatile version of stocks to say, Okay, I'm not comfortable with 100%, stocks, whatever I am comfortable with, that's my asset allocation. Time segmentation says no, let's not use bonds as a way to reduce portfolio volatility, let's use bonds for what they were really designed to be, which the another name for bonds is fixed income. And that's if you hold a bond to maturity, you know exactly what you're gonna get assuming the, the provider of the bond does not default. But that aside, you get these fixed coupon payments that are defined in the contract or in the bond, and then you'll get the face value back at maturity. And so you set up a ladder of bonds to cover short term spending. And the more worried you are about what the markets might do, the longer you might want that bond ladder to be, which just means you have a higher bond allocation. But you use the bonds to cover the short term expenses, it could be three years, it could be five years, it could be seven years, you've got some flexibility there. But you use the bonds to fund that. And then everything else goes into your growth portfolio, you can have I mean, buckets, it's easiest to just explain with two buckets, or two time segments, but you can have I've seen people explain it with six buckets, and so on and so forth. But

Alex Murguia 32:58
there's a is there a correlation Wade in which people that were in the mathematical sciences as a profession, and the number of layers, the number of buckets, yeah, the number of buckets they have, it's almost like a hobby.

Wade Pfau 33:13
Could be actually, I think the the more mathematical versions of these just keep the two buckets, because at some point, you're just making things sophisticated for the fun of it.

Alex Murguia 33:24
That's what we see a lot with engineer types.

Wade Pfau 33:29
But the second bucket, the long term bucket, the growth bucket, that's where the more volatile, riskier investments like stocks would go. And then this does rely on the idea that it's explained in a behavioral way to that. Okay, if I know I've got five years of bonds covered, my next five years of spending are protected and covered, then I don't have to be as worried about a stock market downturn, because when I look at the historical data, I can say to myself, always, if the stock market goes down, it will recover before I get into a position that I need to sell stock.

Alex Murguia 34:05
Yeah. And Wade, just to pull that sort of cane on the stage a little bit yet where it's a great preview for the next episode in which we really get into how these styles play off each other. Right? Where two of these styles represent these natural correlations. And two of these styles represent more behavior, sort of approaches to a retirement income strategy. Wouldn't you say?

Wade Pfau 34:32
Yeah, yeah. And that's where when we are talking about these things, I don't know how much you want to save for the next episode. In this episode, but it's it's behavior time segmentation has always been described in behavioral terms. I mean, there are sometimes people will say it's a better way to invest. But for the most part, I don't see a lot of people arguing that it's more there. This is where it for the people for the segment of the world that says time segmentation is a superior strategy. What they say is, no one can handle total returns, no one can handle being in this aggressive portfolio in retirement. And so they're not going to follow the assumption that you never panic and sell your stocks after a market downturn. And time segmentation provides a weird real world way for people to actually use a higher stock allocation. And it's because they just know mentally, they've got this bucket that covers them for the next several years. And they have time to wait out any sort of data.

Alex Murguia 35:31
In this, the only thing I would add to here before sort of going to the the next episode, you know, before dealing with this in greater detail next episode, is that a comment I made about things being on a spectrum, if you notice, there's echoes here of of potentially, you know, market, there's a market component to it. So is this a little probability based, you know, that kind of vibe, which is kind of original thinking, even from Wade? And what you find here is think of it like, okay, for your essential expenses, that contractual peace, short term, etc, bonds or what have you, there's also structured products that can do that. But you're relying on this regression towards a mean, from a time diversification standpoint, for the market. Unfortunately, you know, what is that known? Mean? You don't know. And so there's a little bit of a, of a bet, if you will, that that will come back, but I, I think we're at 35 minutes in Wade, why don't we? Why don't we stop here, so we can really get into so we don't have one of these, you know, unedited director's cut version of a podcast. And we'll discuss in the next episode, really, how these play off each other, the natural, the more natural kind of correlation ones and the two that represent, again, more behavior strategies, which in and of itself, that statement has significant

implications, I feel simply to be able to explicitly sort of bring up how the, you know, strategies have been created to accommodate behavioral sort of issues.

Wade Pfau 37:10
Yeah, I think that's a good place to leave things to everyone. Next,

Alex Murguia 37:15
Alright. So we'll catch you in the next episode, everyone, thank you very much.

Wade Pfau 37:19
Thank you.

Bob French 37:22
Wade and Alex 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 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.