Episode 161: Retire with Style Live (not really) Q&A: Part 5

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SUMMARY KEYWORDS

Retirement income, financial personality, inflation, market swings, pickleball strategy, buffer asset, whole life insurance, reverse mortgage, sequence of returns risk, taxable investments, funded ratio, asset allocation, tax efficiency, human capital, investment strategy.

SPEAKERS

Alex Murguia, Wade Pfau, Bob French, Briana Corbin

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.

Briana Corbin 00:41
The retirement questions keep rolling in, and we're here with more answers. In this episode, Wade and Alex tackle everything from inflation to market swings, and if you're nice, maybe even squeeze in a little pickleball strategy.

Alex Murguia 00:56
Hey everyone, welcome to retire with style. I'm Alex, and I'm here with Wade, and today we have your questions that want some answers, right? Wade, that's right, we are continuing with our question and answer series. We've got a lot of great questions, and we're even recording these a little bit in advance. I do believe, for everyone listening, it's now the 2025 at this point. We did record this in advance, so we, we're not predicting the future anything, but hopefully everyone's doing well. So hi, future Wade. How are you? What is past Wade up to what was passed away, up to at, you know, getting near Thanksgiving.

Wade Pfau 01:24
Yeah, I was just telling Alex, don't talk about Thanksgiving, because this isn't, I but gearing up with a lot of a lot of plans to become a pickleball master and to take your cold plunges every day. So how, how's that all going?

Alex Murguia 01:54
Yeah, yes, as we've same thing we did last year. I'm in DC. I mean, effectively, Alexandria, Virginia, which is greater DC. Unlike in Dallas, what Wades in. Although I don't know if you could do this in Dallas, I just get a horse trough that I put out in the backyard. I took it from Marlene. That's my mother in law. I put in the backyard. I fill it with water, put a little chlorine, or

whatever that is, hard water tablets or the like. And I use it for like, a week at a time, and every morning, I jump in, and shortly thereafter, I jump out regardless. And last year, wait, remember, I did it from I run November through April, I think, till it stopped getting cold. And so I'm about so far. I'm about a week into it. So, so far so good. We'll see how that works on the inflammation. And yes, Wade, I'm gonna need that because we've got a pickleball thing. 2025 will be Pickleball for retire with style, right way. Are you ready? I've been convincing Wade, so by the time this comes out, he should be a pickleball expert. Wade and I are going to be doing, we're going to try to do a tour. We're gonna take, uh, we have a pretty big following on retirement researcher, and we're going to try and anchor where some main cities are, and, you know, visit as many as we can and set up some pickleball tournaments around us to see who can take who can take down Wade and myself in pickleball. What do you think? Way? Yeah, it sounds pretty fun. And at this point, I have not played Pickleball.

Wade Pfau 03:25
I'm pretty good at ping pong, so, and I've heard that the skills translate, so we'll see how that goes.

Alex Murguia 03:32
All right, all right. More of a SOCCER GUY, but I've been playing this feverishly since the summer, and I I think I've got somewhat of an act for it, but who knows, right? There's always a ring or somewhere. But yeah, I think it'd be fun. We'll go out there and we'll do this by retire, retirement researcher. And, yeah, well, we'll tap into the community and, you know, interact with them. And I think it'd be fun.

Wade Pfau 03:58
I know I've got some pickleball courts in my community, and I know they're actually building a 22,000 square foot facility that's about a 10 minute drive away. So

Alex Murguia 04:09
in Dallas, they had the World Championships. I don't know if

Wade Pfau 04:16
I read The Dallas Morning News on Sundays. I didn't see anything about I also didn't realize that Jake, Paul, Mike Tyson fight was in town until after it already happened. So, yeah, well, I'm missing this stuff.

Alex Murguia 04:28
Wade, don't worry, don't worry, he's much more up to date with pickleball than he is with social events. So it'll be a challenge. Yeah, I think in Dallas, in Texas, you have Dallas and Austin are huge pickleballs. I'm sure there's others, I don't know, but those are the ones that come across a lot. You have Arizona, Utah, of all places, obviously Washington, Washington, the state now, big pickleball, but Kansas City is another big one. You get. You have these pockets, South Carolina. Obviously, Florida.

Wade Pfau 05:00
Yeah, but yeah, when I guess Florida started more as a sport for retirees, but it's really expanded into everyone at this point, right?

Alex Murguia 05:09
Oh yeah, when I go there, I think I told you I dropped my kids off. I was at Virginia Tech, and the courts there were, I want to say, maybe 15 courts, tennis courts, because they repaint them. They use half of a tennis court for a whole pickleball court. And so I want to say 10 of them were painted for pickleball, and they were all full and with a line with about 20 people in in waiting. It's kind of a hipster. It seemed to me to be like a hipster thing for the younger people. But no, it's I'm 51 if I go to an open park where there's open play, I'm by no means, am I youngest? I'm on literally the bottom 25% when it comes to age of everyone there. So yeah, it's pretty interesting, but that's for another show, I guess. But more to follow. Folks like I said in we're gonna do a US tour, pickleball, tour, Wade and myself take on all comers. So bring it on, right? Wade,

Wade Pfau 06:06
that's right. We have to start that in in San Diego, because we're going to both be there in March.

Alex Murguia 06:12
There you go. San Diego would be awesome. Yeah, there it is. First one San Diego. Maybe we show up early for that conference. You're talking about the American College conference, right?

Wade Pfau 06:20
Yeah, the American College conference since the beginning of March, that'd be good book it Dano,

Alex Murguia 06:25
that's it. It's in the record. So, so far, Southern California crew, we coming. We coming. All right, all right. Now we're doing, we've been doing a lot of Q and A's to wind down the year and to spruce up the knee here. And so here we go, with some more questions, and you want me to break the ice here. Wait. All right, sounds good. All right. So Wade, there's the two parter. The first parter is, can you explain how the whole life products? Parentheses, mm, I assume mass mutual or something like that. I think so in that context. All right, can you explain, I don't know what else mm would stand for. Can you explain how the whole life products area, I'm sorry. Can you explain how the whole life products are a leg on the stool to retirement planning to provide stability in market downturns.

Wade Pfau 07:29
And I did group that with a second question, because they were asking on it's the same general theme.

Alex Murguia 07:35
You want me to ask the second part? Yeah, we can do he's saying his situation, I enjoy your show. As a newly retired, 62 year old, I am looking for software that incorporates some of Wade's logic for reverse mortgages. I am looking to quantify the benefits of using the reverse mortgage and dining to avoid drawdowns of my IRA fitting in low into lower tax brackets, etc. I need to justify the 22,000 initial cost. Thanks.

Wade Pfau 08:07
Okay, so yeah, both of these questions are getting at the idea of the buffer asset. So I talk about how there's four broad ways to manage sequence of returns risk you can spend less be variable

or flexible with your spending, reduce portfolio volatility. Or, number four, the buffer asset, having this asset held outside the portfolio. The asset is not correlated or particularly, usually there's some sort of growth involved, but no decreases. So if markets are down, this buffer assets not going to decrease in value, and then it provides a temporary spending resource to cover your spending needs in retirement during times that you've defined that your portfolio looks to be in trouble, to give your portfolio an opportunity to recover, and then at some point, resume taking distributions from your portfolio again. So that's the buffer asset concept. And there's really only three buffer assets out there. And these questions touched upon two of them. The one not mentioned was just cash. You have a big pile of cash sitting on the sidelines. You don't treat it as part of your portfolio. It's more just there as a spending resource during times of market volatility, you've got the cash value of whole life insurance, which was the first question here, where you structure policy loans from the cash value as that temporary spending resource, or you have the growing line of credit on a Home Equity Conversion Mortgage, AKA a reverse mortgage, which is also proceeds From a loan. So really works in a very similar manner as whole life insurance would do for that. And indeed, I've sequence of returns risk works in really funny or odd or strange ways that

Alex Murguia 09:53
Do you want to really quickly, just because I'm not sure everyone knows. And it's used a lot, and it could be one of these words that's used.Lot, but no one really understands it to some extent real quick.

Wade Pfau 10:03
Yeah, the idea of sequence of returns risk, it's what one of the key drivers of what makes retirement different from pre retirement. If you're having to sell from your portfolio to cover spending needs, a market downturn has a bigger impact on you, because if the market goes down, you have to sell more shares to meet your expenses, that leaves less in your portfolio, so that even if the overall market recovers, your portfolio won't enjoy the full market recovery. And what it effectively does is it amplifies the impacts of investment volatility, because it makes those early retirement years disproportionately very important you need to get those good market returns in a short period of time in early retirement, or if you get a bad sequence of returns early in retirement, it can be very problematic, but a really powerful way to manage that risk is okay, just don't have to sell from your portfolio during market downturns, and that's what the other things are getting at the spend Less you're less likely to get into that downward spiral of having to sell more and more of what's left variable spending. If you can cut your expenses after a market downturn, you don't have to spend as much. It helps manage the risk, reducing portfolio volatility that well, then then you're not as exposed to market downturns, and then this buffer asset idea, having this alternative resource to draw from on a temporary basis, lets you meet your spending needs with a resource that actually doesn't get added to your adjusted gross income. So it can also help with taxes as well, to give you that opportunity to let your portfolio recover, so that you're not locking in losses. You're getting that chance for portfolio recovery. And indeed, both of these can work quite effectively in that regard. So if you've got a permanent life insurance policy, might be something you consider. It's the volatility buffer, buffer asset concept. The second question, it was thinking about using a reverse mortgage for that sort of opportunity. And then in terms of rules about, well, when do I draw from it? I looked at a number of different rules, and there's a lot of research out there about different decision rules. When do I spend for my investments? When do I spend for my buffer asset? I found that an easy one that works just as well as anything more complicated. You kind of write down your

investment balance on your retirement date, and just keep that number in mind. And if your investments at any point are worth more than that, when you want a distribution, take it from your investments. If the investment balance has fallen short of where it started, at the beginning of retirement, and you don't even have to worry about adjusting for inflation, just that that number the value at the start of retirement. Well, if it's below that value cover your spending needs through your buffer asset, and that's a really powerful way to help give greater long term growth opportunities to the investment portfolio, which can more than offset the costs of the buffer asset. And there's can be significant costs for the life insurance, for the reverse mortgage, but none of those costs the research can really suggest that this is very powerful, and you'll have a bigger net legacy at the end of retirement, even after paying for the costs, paying off the loan balance for either of those buffer assets.

Alex Murguia 13:13
What I would add to that Wade is i, and this goes back to, you know, when we do the retirement income challenge and we spend the first day just talking about frameworks, something that I like about that why you were saying it and made me think about it, because there's no magic for you saying, if your statement is above the day you retired or below the day they retired, you could have said $10 above or $100 above, or $1,000 above or below, or whatnot. The most important part, folks, to me, is that he's given him set weight. Is providing objective rules based, an objective rules based framework for you to make that decision when you're not troubled by the heat of the moment, if you will. And I think that's what's that's an that's an important fact, when not fact. But that's an important, important dynamic. When you're thinking about, is this rule interesting or not? It becomes interesting to me when you when you do things to to reduce human judgment at the moment of anxiety, right? And so if you don't have like, a rule like this, you tend to then say, ah, you know what? But the market's going to come around. So I'm going to take from my investments, or the market's not going to come around. You know what? This election, I can see this thing happening already. The inauguration is probably right around the time of this podcast release. You know what? I don't like this is going I'm not taking from my investments, because it's going to go down. And lo and behold, it was, you know, that kind of thing. And so the more you remove yourself from that, and you give yourself a rules based system that's based on rational thought, that's that becomes very interesting to me, both as a planner who's providing advice to folks, but also as an individual, because I you know, know thyself, right? And that's something I think we all need. And so I just wanted to point that Wade.

Wade Pfau 15:02
Look at you flexing those behavioral muscles, psychology, human psychology.

Alex Murguia 15:08
That's me, Mr. Softy,

Wade Pfau 15:12
and I'm Mr. Quantitative

Alex Murguia 15:15
element, behavioral element, behavioral benefits from having that buffer asset. Yeah, helps you great weather, market volatility. behavioral Well, I'll say you didn't say another way could it save you from a $22,000 mistake? Absolutely could save you from a $2 million mistake. And we've

seen those. You know, just as we've seen, we've seen acts of omission as much as acts of commission in this way in this game. And so you both of them are just as nefarious,

Wade Pfau 15:47
yeah? So if drawing from that buffer asset also helps you, like as a side benefit, avoid panicking and selling off after a downturn, yeah, that's where you could have that even bigger benefit that we're Yeah, I'm just assuming they stick to the asset allocation being modeled for them. But once you start, once you start going off the once you start going off track, it's a slippery slope.

Alex Murguia 16:14
I initially, I said slippery soap. It's like slow.

Wade Pfau 16:21
I was like, Oh my God, and there's no way I'm going to be able to read this next one. But you want to try. You want me to try it? Just yeah, the next one is about the length of war and peace. So

Alex Murguia 16:32
I was thinking the brothers karamazo, but that's

16:37
fine, all right. Those

Alex Murguia 16:40
are books everyone loves to point out, but I don't know how many people have read.

Bob French 16:47
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 retirement 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.

Alex Murguia 17:14
Here we go. Hi, Alex and Wade. I really appreciate all of the advice and materials you have made available. I have learned a lot from the podcast and Wade's book. I am still 20 years from retirement, and have what I think is a solid accumulation phase plan, saving more than 25% of income each year. Now he's showing off right way. No congratulations. My recent results for implementation have me in the self directed plus, no advisor, lowest right box, wait, he put that in bold like he really wanted you to know that. Now I'm kidding. No advisor, lowest right box, I am very comfortable making calculations even coding in Excel, but have fundamental questions about assumptions in my projections. Specifically, I am a con. I am using a conservative assumption of after inflation return of only 3% per year, an 8020 broad portfolio, by the way, 80% being equities, I would assume, with this rate applied to each end of year balance and my yearly contributions added, after compounding, I calculate wealth 20 greater than 25 times our yearly spending by age 65 when they say that yearly more than 25 times. That's another way of saying, distributing less than 12 4% I'm sorry, distributing less than 12% a year, he's just backing, yeah, 4% he's just back, yeah, sorry, he's back, backing into the distribution rate. So

obviously 100 divided by 425, continuing the projections in this way, we can comfortably delay Social Security to 70 and make Roth conversions in those five years, all the while covering our current level of spending. But I realize this is all modeled in 20 $24 essentially ignoring inflation. Is this fundamentally flawed? My thinking is that our nominal spending will likely double by retirement. Dollar value will be half in 2020 44 with 3% inflation per year. But that would mean, that would mean, by retirement, I need twice the target amount of wealth accumulation to cover those inflated spending rates. This seems like an exorbitant amount, which in parentheses would equate to 50 times spending, which is a 2% safe withdrawal rate, which is hard to process, but I realize in 20 years, each dollar will be worth half as much so if I assume the total market return matches my assumption of 3% real return plus inflation and in parentheses, and that is a sufficiently conservative estimate to ignore. Sequence of returns as well, end of parentheses, and assuming our yearly spending increases less than or equal to inflation, is there a fundamental flaw in making projections to retirement age using today's dollars question? So that's the second like question, question, if so, in parentheses, and I still want to build this myself without more complicated software. End of parentheses, what assumption for yearly rates of return and inflation should be built into each year's row? To make the projections more robust, using conservative assumptions, I want to save aggressively, such that we can weather poor returns between non retirement and hope to be pleasantly surprised many years with more than 3% real return. I hope this isn't too long and makes sense. Thank you for your help. You guys are awesome. I've read that you've been able to comprehend it better than I do, because I'm just trying to pronunciate. I'm just myself. My initial reading is, I'm all over the place, and I didn't want to read this before this. I just wanted to, you know, assimilate it. I'm confused with real, nominal rates and then the returns. But the returns are real. And then, like, I'm like, like, I said, an apples. Was it apples and apples throughout? Or did he mix, or he or she mix it up in between the inflation and real returns and all that kind of stuff. I don't know. I'd throw it again, but you, you've, you've heard it now,

Wade Pfau 21:33
yeah, that part got a little confusing, but the the answer is ultimately going to be, as long as you're consistent, there's no problem. And so let me expand upon that a little bit. Actually. This isn't all far away from what I do for my own personal financial modeling. I use, Don't encourage him. Wait, Don't encourage him. I'm a little more conservative. I use a two and a half percent real return, and actually two and a half percent inflation, which I guess, is more aggressive, the higher inflation would be more conservative. So 5% nominal return, he's at, believe he right? Yeah, 3% real with 3% inflation, 6% nominal return, that's a still relatively on the conservative side, at least with, Oh, you have to, you have to also adjust for his advisory fee. Please do it yourself yet. Here we are.

Alex Murguia 22:35
I saw, hey, I'm just playing. I play with everyone and go on, wait,

Wade Pfau 22:41
uh huh, did this is my track? I thought a little

22:47
bit, but

Wade Pfau 22:49

so he's, well, oh. Like, if you, if you're using a Monte Carlo plan, like you're targeting a high probability of success that will correspond to a low fixed rate of return assumption. And so like, what I, I, what I like to do, it's related to our funded ratio. And what he likes to do is just work from a conservative rate of return assumption. This, in his case, 3% real, 3% inflation, 6% nominal. Okay, that's backdrop to then the question is, all your future spending, you tend to want to increase with inflation. Now you've got options. You've got two options here. You can either do everything in real terms. So all your spending is in today, 2025, now dollars and then, okay, 30 years from now, I want to spend $60,000 in 20 $25 the real purchasing power today. You can set up everything that way, but then just use the 3% real rate of return for looking at the portfolio growth. If everything's in real terms, you're fine. Real spending for the future, real rate of return on investments alternatively, and it's probably easier to define your spending in today's dollars, but then, as you build the spreadsheet, you can then just apply the inflation rate and all that spending for the future, but then so that will make the spending grow, but it's completely offset by the fact that your investment return in that scenario would include inflation, so you get to Use the 6% return instead of the 3% return, and either way, you'll get the same answers, other than a few minor kind of details that might be relevant, which are a few of the numbers in the tax code. Do not adjust for inflation, assuming you're calculating your taxes, like if you're just going to say, I'm going to pay tax on 85% of my Social Security, you don't have to worry about that issue. The net investment income tax kicks in at numbers that don't adjust for inflation as well. But other than that, as long as you're consistent increasing your spending by inflation and then using that nominal in this case, 6% rate of return, you'll get the same answer. Sir, is if you assume all your future spending is in today's purchasing power, and then applying the 3% real rate of return, they're equivalent to each other, because with the nominal spending growth for inflation, the investments include inflation, I could just factor the inflation out of everything, and then I'm left with everything in real terms. The spending is in real terms, and then the investments grow at a 3% real return.

Alex Murguia 25:29
I just as an aside weight, I've noticed when we do plans for clients and the like,

Wade Pfau 25:36
they appreciate it all in today's dollars. Like, it's a lot, yeah? Because if I, if you say I'm gonna spend

25:46
a million dollars a semester for Virginia Tech in 30 years, it's almost like unconscionable. Well, you can't wrap your head around what it does. Yeah, exactly because of the compounding power. Like with three he noted, with 3% inflation, it actually takes 23 years for the cost of living to double. So if we're talking about spending 40 years from now, well, what is that exactly? It's going to be somewhere. It's always hard to I always like to see it in today's dollars, because it's just more

Wade Pfau 26:16
it's it's just more tangible for me that way. Yeah, think about all your budgeting in today's dollars,

26:24
and then in your spreadsheet, you could apply the inflation to it and then use the nominal rate of return, or just keep it all in today's dollars and use the real rate of return. As long as you're being

consistent, everything's in real terms, or everything's in nominal terms, it'll work fine. You'll get the same answer, and you'll be okay. To be clear too. Wait, I don't have an issue one way or the other. It's consistency. That's why I was reading the question. And I was just wondering I would have to reread it to make sure that it was apples and apples. If it's apples and apples, I don't really it doesn't matter. It's whatever you like. But I wanted to add that point that I just think people tend to have the aha moment easier when they see it in today's dollars,

27:03
because sometimes you do plans and they're 40 years out, and you're telling somebody that you're gonna have $40 million who cares and where you would make a mistake is if you had everything in today's dollars, but then you use that 6% investment return, because that's a nominal return, that's where your husband's gonna be growing too fast and you'd be missing out on the inflation adjustments for your spending. That's what hit me in the question that I wanted to read over, because I was like, maybe, just because we've seen that go sideways, this also, I'm going to take a little pause so we can maybe edit it for another question. But just to go off the Reser, you know, to go off here a little bit from a Q, A, this is a question I've now developed as you were answering that, and

Alex Murguia 27:45
let me try to ask it formally. Wait, a lot of folks seem to ask you, what returns do you use for this? What softwares do you use for that? And for folks that are very meticulous and analytical, they love to create their own software, while they also shop around for consumer softwares. You've done some research behind this. I'd love to get your thoughts directionally. I know this was going to be a big project, but then ultimately it was like, There's nothing there, there. So what direction did you find? And what's the best advice you can give to somebody that's creating their own excel in terms of when you did it? What were like the two or three things you may have wished you knew a little earlier that would have saved you time to like, oh man, why didn't I start from a one instead of a two? I don't know, I'm being silly, but what are the what are some things you can help them? So it's a two parter, directionally, people that want to find things themselves because they don't want to use an advisor. And obviously we think an advisor adds value, but we're not here to make that argument. We're assuming, okay, not a chance. And there's no way this person will see an advisor. They either want to find the software themselves somewhere, this El Dorado software, or they want to create it themselves.

Wade Pfau 29:05
Well, we have the funded ratio tool with retirement researcher, and that it's not that hard to build a funded ratio tool. It can be done relatively easy in a spreadsheet, except for taxes. By far, like 95% of the work of the funded ratio is building in the taxes. And it's not effective tax rate. It's an actual and that's using conventional wisdom as a spend down strategy. Yeah, then trying to overlay Roth conversions would be another doubling the amount of work. But if you leave the tax calculations aside, the funded ratio isn't that big of a project, and I think that's what any time you're building a spreadsheet where you're using an assumed rate of return on the investments and assumed spending for the distributions, it's kind of of that's a cousin of the funded ratio. They're going to be pretty similar in terms. Of the fundamental underlying calculations. It's just treating the approach slightly differently. And so then when you compare that to all the commercial consumer software that's out there. Yeah, I was planning to do a big project really digging into all the different consumer software, but I was mostly interested in looking at the Roth conversion modules and I, I was not impressed with what's out there, and ultimately, didn't

really see it wasn't interesting to to dig in deeper. So I kind of dropped that idea of doing a massive review of all these different online calculators. What would you say then to follow up? What are the biggest sort of, hey,

Alex Murguia 30:44
this is a hurdle that you're gonna hit, and this is how I would scale it as you're building this out. What are one or two tips you can give somebody that you know that is an engineer, frankly, an analytical engineer that loves this, breathes this stuff, and really just wants to get in the weeds for another reason, that they love numbers and so what? What advice would you give them? You know, so they do not like go into some sort of rabbit hole when you're thinking about creating this

Wade Pfau 31:14
well to realize that the taxes would be the hardest part. But a simple workaround is assume some sort of like average tax rate on whatever I'm going to spend in a given year. Let me assume I have to add on another 10% to that to cover the tax bill, and in retirement, like a 10% that might be a conservative number, unless you've got 10s of millions of dollars that you're working with. So that could be a very simple workaround to deal with taxes. And tonight, I have 10s of millions of 10s of millions of dollars that I am working with. Then you may have very interesting for me. So please, please take your time. But I even just for people, folks who have less than a million dollars, you might even be able to use, like a 5% effective tax rate, just whatever your spending goal is, add another five to 10% to cover the taxes and add that as an additional expense in your funded ratio, and you're good. And yeah, I guess the rabbit hole to try to avoid falling down is if you want to build in the tax calculations, that's where 95% of the work is going to be. You can get a very nice funded ratio. It's going to work pretty well with a very simple estimate of your taxes. And give you something that you'll be 90% of the right answer before you add that extra 95% of the work to calculate the taxes.

32:40
Okay, and this, my friends, is why there aren't that many consumer softwares that are high level for these kind of things, because they would require such specificity around the tax codes that they can't it's hard to support it on a mass consumer scale. That's the only thing I can think of. And we've discussed this before, but just yeah, that there's, there's good software for advisors, because the advisors can can scale better. They can pay a higher price for the software. Consumers can buy the advisor software, it's just expensive because it's designed to use with all your clients. And so there's the economy is a scale that as an advisor, if I can use this with 50 different clients, maybe I can justify the expense? Yeah, exactly. And it's safe to assume an advisor has a level of knowledge that they're already informed. They're not going to have as many questions, so they're easier to support, etc, etc. That's That's my conclusion. It's just my own anecdotal observation of why there isn't more. But I think economically, the product market fit just isn't there to do one that's that's serviceable for the people that would want to do it themselves. And there it is. Are you getting close to or are you in retirement? Well, investing during retirement is a little bit different than during your working years. Your investments are there to help you pay for retirement, and now is when they need to earn their keep to make sure you're on the right track. Download retirement researchers eight tips to becoming a retirement income investor by heading over to retirement researcher.com/eight

Bob French 34:15

tips again. Get retirement researchers eight tips becoming a retirement income investor by going to retirement researcher.com/eight tips. That's the number eight tips.

Wade Pfau 34:29
There it is. So I guess I've got a question for you, and after the long question, we've got a short one. All right, okay, Alex, how often do you watch or track the market and your investments, or do you just keep buying and never check okay?

Alex Murguia 34:46
Myself, personally, I we talked about this earlier, at the beginning of the year, of every year, I kind of take a sense of what I need to save, right? How much do I. To save myself, I put my wife, we, we as a family, how much do we want to save to make sure that we're accumulating and that the train is, you know, is chugging along, right? And so that's, that's automatic. I don't think about it. It's as, you know, I front load as much as I can. And then, you know, we leave buffers, and then we just do it as we go on, when that go and by do it, I mean, like, you know, automatic contributions, things like that, all right. And in addition to, in addition to 401, K's, I, you know, automatic wires for excess cash just goes out. We don't even think about it, and it goes into a model portfolio that we have, you know, myself and I am a client of my client. So it goes in and off it goes. How often do I look at that, de minimis? Now? Why? Because I am, I'm not looking at the number per se from January to February. Did it go up? Did it go down? I think it was something like I did this a while ago, but if I took every day, you know, let's say the Dow Jones, just because I did the Dow Jones, because it had a lot of variability, and now it's becoming, I think people are realizing it's a stupid index to even report on, but the Dow Jones, it goes up or down by so much every day, right? And so I, regardless, I took the total value that when went up or down every day at the end of the day, not like during the day intraday, because that's even more so. And it had gone up for the year I did it. It went up something like 110,000 points, 110,000 points, and it netted at the end of the year like a 400 point difference from the beginning of the year. Think about that for a second, and like, the year after that, it's not too far off. It's much closer to that number I just put out there. And so think about the waste of time and anxiety it would have caused me to be like, oh my goodness, look at this. Oh my goodness. Biden went up the steps, oh, I'm selling the Trump. Went down the escalator, oh, I'm buying that kind of stuff, or China, this the balloon. Oh, my goodness, I'm but there's so many things, and it's, it is just gonna drive you crazy. And so my own stuff, I I don't even know. Honestly, I couldn't tell you. I couldn't guess I know, more or less, like at a thing, but when it gets down to a certain level, I know that I'm saving enough, and I know it's doing its thing, and that gives me solace and I don't need to worry about it. And I look at other people's more than my own, to be frank, because I do it just in preparation for meetings and in preparation for calls and things like that. Now I look at CNBC every morning. Now I don't do it because I'm, hey, what's going on? My situation's a little different. I want to know what's happening from a news standpoint, the same reason that I follow sports or something like that. You know, Sunday morning, the football games and, you know, the pre game shows. I do it just to understand what clients are listening to and what they're being messaged. I find it very valuable for that. So for me, I watch it religiously, because it's a game of he said she, know I got to understand what they're saying, so I can already develop arguments for, for or against or what they're saying, because it's good. And then it keeps me up with current events I don't watch like CNN or MSNBC or Fox or anything. I don't watch like the political news. I kind of just do it through CNN and to me, that gives me enough signal that I can keep up with current events too. Wade knows I I'm politically like so agnostic. It's embarrassing, so I don't follow it. Now, when I at the end of the day, I like to

see percentages. Hey, how much did it go up by or down about? I have no idea. Numbers. I couldn't tell you, more or less, in even in round forms, is the Dow at 44,000 or this or that? I just know, oh, the market went up by a percent today or half a percent today. Why? Because I just like to get a sense of the tenor of of that. And I know that doesn't mean anything it. I see it like a baseball game. There are 162 games in the year, you know, does one game matter? No, but do I like to look at the box scores? Yeah, why? Because I just like the smell of things, you know. I just like how the markets smell. But I know that it doesn't, doesn't mean anything, you know, long term. So that's the best. So I just keep buying. I don't check. I'm just disciplined about that, and I don't do budgeting like Wade. Wade does budgeting. I figured, if we're saving what we want to save, whatever is left over is to spend. It's not Brewster's millions, where we try to spend it no matter what. But I don't, I don't I get the shrimp cocktail for appetizer. I don't like worry about budget like that, if I know that the money that we have is saved accordingly.

39:49
Wade, how does that sound? Teach your family to Red Lobster. When Red Lobster baby? Hey, soup and salad. Bottomless. Soup and Salad and shrimp. Yeah.

Alex Murguia 40:00
That's right. I think Red Lobster stopped at dinner. They Yeah, I think that's, there's the story is, that's why they went bankrupt. Yeah. I mean, what's this bottomless soup and salad at the Italian whatever? One of the garden, the Olive Garden, Olive Garden, the Olive Garden, we had to move to the Olive Garden. Desserts on the house. Everybody, no, but that's, that's kind of how I ride. I don't it'll drive you crazy. I have to know about it because of a client, ask us, hey, what? Uh, hey, how's the market doing this quarter? And if I don't know it, it looks kind of weird. But the reality is, it doesn't matter too much. I mean, there's no other way of saying it. And if somebody of an advisor tells you differently, they don't know what the hell they're talking about, honestly, because I don't think it matters all that much way.

Wade Pfau 40:48
Yeah, so for me, I the answer that, like the you're supposed to hear, is, don't check it. Don't worry about it. Don't check it. I do check more than I probably should be. Oh, you check I don't. You really look at your account, I don't actually. So we there's this idea of loss aversion, where every day the market, well, the market tends to go up more often than it goes down, but when it does go down, the pain of that loss exceeds any of the value of the UPS. So actually, when the market's going up, I check more frequently, and then, like even in 2024 we

41:22
there's market downturns in like April and in August, and then again in September, and but then it's it comes back up quickly again. And so when we get into one of those phases where the market keeps going down day after day, I tend not to check. It's like, okay, I'm just gonna stay Oh, you're just a bandwagon market watcher, and then when the market starts going up again, oh, yeah, yeah, this like I'm having a dolphin fan the first two games of the season. Yeah, yeah. But you don't make your you don't make your decisions based on that. You're able to just, you just like to ride the wave and be happy, or this and that. But not many people can do that. So that's, you know,

Wade Pfau 42:05

the reason I want to know how much I'm spending is to figure out how much I can save. And so as I have funds building up that I can make a new contribution into the investments I want to make sure I don't need to hold on to that to pay something like a future tax bill or something coming up, and then, yeah, I don't really.

42:26
I just try to invest it when it's available to invest, although maybe sometimes something's going on in the market. I never, I never sell because markets are going down. But the caveat is, I'm sure you're not. You also have cash on the side like I have cash. So it's I'm not drawing from my investments as sole reason, as my only income, as any income, at the moment. So I'm not, I'm not concerned, and I don't need to dip into it for for spending.

42:58
Yeah, and I have cash that just builds up until it's like a big enough number to bother with than investing it. And that's what I try to think ahead of what bills are coming due, that like estimated taxes and things so. And the other piece that you know to say, because it's obvious, our business, our human capital, Wade and I our human capital is tied into the market by virtue of the businesses we run. And so to that extent, we know very much, because we have to budget for the business too. And so we know very much.

Alex Murguia 43:31
You know what's happening in the market. But again, that's a different reason for why you're asking it, and I assume you're asking it as a consumer investor, as a consumer investor, I don't care. I really don't, because I believe that capitalism will work, and there'll be positive rates of return, and there are certain risk premiums to be had, and if you find a good risk story that you can you can count on systemic, systematic forms of return, then everything else is just the waiting game. Frankly, as far as I'm concerned, yeah, if you're tempted to trade more because you're watching, then it's better not to watch. But if you can watch without being tempted to trade more frequently, and I have to, but I have to because of the business we've chosen, you know? And it's not because I think Kramer says anything insightful I could care less, or Josh Brown, or any of that silliness I just watched because it's entertaining and current events, you know, that kind of thing. All right, Wade, let me ask you this question. Then, in case you ever are taking viewer mail, which is now I'd be happy to pose well, you get all the parentheses, in parentheses, in more depth, you should be open to suggestions. Okay? Should you be okay? Oh, should we be open? Should you be open to suggestions? Yeah, I'd be my sorry. I'd be happy to pose a couple of topics surrounding taxable investors, which I know aren't the majority. I think you'd be surprised. There's tons of I just can't find, a lot of writings dealing how a taxable investor might differ from those in tax deferred exempt accounts. I understand that the tax tail shouldn't wag the dog, but taxes are one of the few variables we can control. But do we have an arc for them? Also how a portfolio might differ depending on if someone were over funded versus someone who might be adequately funding. And they're referring to the funded ratio there. I assume, for example, someone, oh, maybe not. For example, someone with inverse versus a four safe withdrawal rate, versus the person barely funded.

Wade Pfau 45:50
Take it away. Wade, yeah, but the lower your withdrawal rate, the higher your funded ratio. So he, he's okay, talking about one in the same, yeah. I think ultimately, probably a lot of the big savers in the audience may be more tilted towards taxable just because you fill up your tax

advantage space. And if you're a big saver, you might reach the limits on your tax advantage space, and then everything else after that has to go in your taxable account. So I think a lot of our listeners may be in the situation where they do have significant taxable investments as well. It doesn't really change the story, because, yes, indeed, asset allocation always is more important than asset location. But if you've got most of your assets in taxable accounts, being tax efficient is all the more important. Low turnover, highly tax efficient index funds, less trading type funds. You don't have to worry about tax efficiency when you're in a tax advantaged account, because you don't pay those ongoing taxes, but you do pay those ongoing taxes in a taxable account. So focus on being as tax efficient as possible, on having your most tax efficient asset classes there, and less tax efficient to the extent you have some space and tax advantaged putting your less tax efficient assets elsewhere. And the only other kind of consideration well that, and that gets more into the funded side, is we talk about spending the taxable assets down first. But if you're primarily taxable assets, and you think you may never spend them all down, you get that step up in basis at death, so that your beneficiaries don't have to pay the capital gains tax. And so trying to preserve unrealized capital gains for your beneficiaries, would be a secondary type consideration for you, and then on the funded question we talk about, when you're 100% funded, you have the least amount of or you have the low level of risk capacity, you're vulnerable to market volatility as you become over funded, so As your withdrawal rate decreases, you have surplus wealth, the discretionary wealth. You can lock in your retirement lifestyle with a smaller percentage of your wealth, and then treat that surplus for more discretionary growth. And so usually we talk about how, as you become more and more overfunded, you can invest more aggressively, because you can, you can lock things in and just invest for growth with the rest. It's really those are assets that might ultimately go to beneficiaries and so forth. So that would just be the other angle on funded status. It's if you're depending on your retirement income style, if your income protection, in particular, having that reliable income to cover your basics, and then beyond that, just investing for growth. As you're more overfunded, you've got a bigger surplus, so more opportunities to invest for growth. It's how the how I treat the funded ratio as part of that, what are your thoughts?

Alex Murguia 48:59
I'm just enraptured by your response that I have no I'm just absorbing it. No thing, I figured I spoke so much for the other one that, you know, that Wade, let Wade Cook, as the kids say, you know, I think there's the first part,

49:21
huh?

49:23
I never heard the kids say, let Wade cook. I just heard skippity toilet. No, no, let them cook. Let them cook. Well, the kids should be saying, Let Wade cook. No, listen, I think the first part is absolutely right. I think

Alex Murguia 49:37
I get it when you see the stats that look people's biggest asset are, is their house, and then next to it is their 401, K, and the four 1k is probably, I don't know, average is 60,000 but that's just an average. So I'm sure there's a, if you look at that, another measure of central tendency, like the median, I'm sure it's much lower. So I can see why people thinking people don't have that much in taxable but. Proportionate to the country, you're absolutely right. But there's still a huge

amount of folks, especially those that would be speaking to advisors, frankly, that have tons, you know, a lot of their assets in taxable accounts, almost a nice proportion of it. And you're absolutely right when, when it's the first part of your answer, wait, once you're there, it becomes, actually one of the, one of the huge controllable things, as this person was also signaling that you can control so you, you best do that and, and so, yeah, I think it's, I think it's number one with a bullet in terms of things you should be looking at, you know, to give you that extra alpha, if you will. The second part, as it relates to the safe withdrawal rates and things like that, I agree. I have nothing to add other than Yes, all right, you know, I would say also, we talked about the funded ratio in this episode. We've done a few episodes on that. It's been probably long in the tooth. So we could do some new ones. But you may want to check it out, either late 23 or early 2024 we did a couple of funded ratio episodes. I think we did them with Blanchett too, right? I want to say, actually, with David right in January,

Wade Pfau 51:16
February, it's we'll have a public webinar where I'm going to talk about

51:22
answering the question like, how much do I need to retire? And explain, in the context of how that can be answered with the funded ratio as a lead into the retirement income challenge that we'll do in the start of March, okay, and there'll be that, and you guys are going to find out all you want to know about the payroll soon. This other cool little tool that that we like to have in our back pocket, but that's it for the Q and A's today. Wade any other question or you want to take us home.

51:51
No, we have one more episode on Q A, but it's we've collected all the questions that came in about defined benefit pensions, but we've now covered any question not related to defined benefit pensions, so we're we're good. All right, thanks everyone. All right. Everyone, thank you, and we'll catch you next week on retire with style.

Alex Murguia 52:12
There you go. Wade, thanks, man. All right. Everyone, bye.

Bob French 52:19
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 risk, including Risk of Loss past performance does not guarantee future results. You