Episode 173 Navigating Market Volatility Strategies for Investors

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SUMMARY KEYWORDS

Market volatility, financial decisions, retirement income, financial planning, investment strategy, economic uncertainty, psychological biases, risk management, sustainable withdrawal rates, Social Security delay, bond ladder, reverse mortgage, investment allocation, financial stability, market recovery.

SPEAKERS

Bob French, Alex Murguia, Briana Corbin, Wade Pfau

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 resaprofile.com/style and sign up to take the industry's first financial personality tool for retirement planning.

Briana Corbin 00:41

Okay, the markets are spiking. Headlines are screaming and emotions, yeah, they're running the show. So this week, Wade and Alex hit record in real time to help you take a breath, reset your thinking and focus on what really matters. This is your financial fire drill.

Wade Pfau 01:03

Hi everyone. Welcome to retire with style. I'm Wade, and I'm here with Alex, and we're ready to bring you another action packed episode as a lot's gone on in the market since the last time we recorded now Alex, this episode is more closer to real time we're recording it on the day before its release the previous episode we recorded the I think it was about five days before the release date, and at that time, markets were pretty volatile. There had been some losses, but probably most folks, at least with some international allocation, were flat for the year. Then after we recorded up till now, the markets are down another 12% or so. This is a very different environment, even than with the last time we had an episode where you walked us through all the different things going on in the economic world in terms of tariff policy and so forth. But now that markets are down quite a bit, I think it's important for our listeners to really be thinking about what to do during times of volatility, and how to make better financial decisions during times of market crisis. And who better to talk about that than our resident psychology PhD, Alex margia, to talk about what needs to be going on and what you should be thinking about and what kind of biases you need to be able to control during times of market volatility. So Alex, what should we be doing right now? Well,

Alex Murguia 02:28

first things first is, with regards to the podcast. If after record this and publish it, the market drops another 12% maybe we should reconsider the timing of our releases,

Wade Pfau 02:40
right? Right? It's sometimes you gotta be closer to real time. It's tough to be evergreen with your recordings if, and

Alex Murguia 02:48
as you can tell by my voice, we've been having a lot of meetings over the last week or so, just you know what? What you got a couple of there's a couple of angles here, right? Like what's going to happen with these tariffs, or the trade wars and the like. Did the US just get into a landlocked war effectively with the entire world? Yeah, those kind of things. And what does that play for how does that play out for us, stocks, international stocks, that kind of thing. But I'm going to put all of that to the table, because that's still 20 dimensional chess, and who knows right now? And it's better just to let these things play out a little bit. What's what's as important are the decisions that you're making right now. And what we want to do is when we address that, like learning to make better financial decisions during times of crisis. And we can have these presentations when everything is copasetic. But the reality is, it's now that you know when, when things are in flux, when, when things are in like this nervous energy. I think it's important to address it, to just reinforce productive, productive reactions, productive behaviors, if you will. And so again, sometimes, I think I've said it many times in this podcast, but if you distill investment advice to its to its essence in a funny sort of way, it's the same where the markets are down or markets are up, and that's, don't worry about it. It's always going to be like this. You know? I mean, wait, you know, when you say, like, what should I do? Don't worry about it. It's not always going to be like that. Even when the market's up, that's when people get greedy and you're like, don't worry. Not always going to be like this. So you have to just, you still need your bond allocation, right? When markets are down, same thing only. It's for the other reason, but it's, don't worry. It's not always going to be like this. Obviously, that's not going to work all the time, and those become platitudes and and so we want to take a different angle, and that's for our listening audience, and that's what should we do when events happen that sort of shake us to the core, if you will? And I think these are one of these moments. You know, there's always down. Terms that the market drops 10% that probably happens two three times a year kind of thing. But then there's events that happen once every three to four years where people are systemically like, what's going to happen now? And part of it is because I think there was such a, just a political divide in our country, if you will. And this is something that you can make the case. It's self inflicted. For those that are against the current administration, it would be like, What are you doing for those that are for the administration? It may be a reaction of, I get what you're doing. Does it have to be to these degrees or whatnot? But I'm not here to discuss any of that. Neither are neither Wade. I mean, we really take a political agnostic approach, and we're just trying to help you make sense of it from what should be your next best step, if you're because I think that's what the most important part of that is, you'd like to add anything to that way before I get going.

Wade Pfau 05:51
No, I think that's a nice lead in it's, it's always going to be, yeah, what do we do now? What's the best course of action to take? And I think I know the general answer you're going to provide, but please, please continue

Alex Murguia 06:04
so you know, for for times like now, what you find is just there's this overwhelming uncertainty. And you see that in the markets now, you're hearing phrases of the markets are going to try to find a flaw, right? And I think last time I checked PES, where the PE, for the S, P was about 22 some people will say, well, when the market finds the floor, the PES tend to be in the 14th range, if you will. So that's roughly another 30% drop that you could expect if you have a true floor. That's all talk. No one knows that that's going to happen or not, but I'm just giving you the sentence of what you're hearing and when you're hearing that uncertainty is about like, oh my goodness, this isn't really the floor. We have more to expect, just because somebody randomly decided to say that on TV, and it sounds a little smart, maybe, maybe not, you know. But the point is that you have this overwhelming sense of uncertainty right now, and to me, these are the inflection points that we need to looking to mirror on because this is when you're the most vulnerable to making mistakes and getting swept up from the noise. Now, by the noise, I don't mean it to sound like what's happening is insignificant. Notice, some extent, you can make the case they're trying to reset the whole global infrastructure. You know, whether it's for negotiations, whether it's for we need to bring back industry in here and address the deficit head on, that's for wiser people to think about. But this, this isn't just like a hurricane struck North Carolina and there's disruptions, but we know that after a few months, human tragedy aside, after a few months, the financial markets sort of recalibrate well here now they're still trying to find what is that recalibration going to look like if it passes or, you know, negotiations come through, etc. But that being the case, is uncertainty and what, what we'd like to apply here. And this is, again, with a psychology hat on. And this is something, you know, espoused by Michelle McDonald, and that's the rain model, if you and I think this is relevant in terms of the whole movement towards just self awareness, being in the moment, things along those lines. And, you know, mindfulness training. And so the rain model is interesting. And in the rain represents Akron, right? And I'll go through them one by one, as opposed to blowing them all. But R, A, I N, yeah, rain as an R, A, I N, not r, e, i The

Wade Pfau 08:32
reign of King. Alex,

Alex Murguia 08:33
yeah. Is that what you were thinking?

Wade Pfau 08:37
I didn't know, or I was thinking of rain. Wilson from the office who has two ends? And yes,

Alex Murguia 08:41
the rain. Wilson motto, exactly. But no, I it's, it's right now people are feeding it. They're looking at their statements. And make no mistake about it, no, you could be down at the very least 10% not the very most. You're in the 20s, right? And so, what is that? And so the ring the acronym. It's an acronym, and it stands for, let's just take the R right and when, when you get these moments of stress, this is where recognition is important. So R is recognition, recognize right? And here you purposely want to observe and label what is going on inside of you. You know, the body of mind. Your mind is jumping around right now. And you want to be able to recognize that, take a step back and be like, You know what I look at all over the place right now. I don't know what to do next, right? Or I think I need to do something, simply to give me the sense of I'm doing something, you know, your car is making noises. You do something kind of thing to fix

it. Your portfolio is going to hell in the hand basket or something like that. You do something to fix it, but it's not so fast, right? It doesn't work here. And so you want to recognize that issue. You know, there's something going on right now inside of me, even though there's that strong. Mind, Body connection, and so your mind is jumping around, and you want to recognize the stressful fear, right? Just that alone is the first sign of an intervention, being able to recognize that you're feeling this level of uncertainty right now that's happening. It's one thing that you get caught up because it comes in a little bit surreptitiously. You know, it's the news cycle. It's you're bombarded with headlines. Oh, my goodness. Uh, China of all of a sudden, Vietnam, zero tariffs. But those tariffs don't really count because they're cheating the system. China is sending stuff through them, and we want to make that right, yeah, you get caught up in this rigmarole of right now, everyone's a trade expert, and so from that standpoint, you just want to recognize what thoughts are going through your head around that and what, how's that affecting you. Your mind is jumping around, right? But once you do that, you don't need to have some sort of intervention around that. Okay, now I'm going to do this to make sure that I stop it. No, it's almost like you allow it. And if you think about it, I mean, there's nothing wrong with feeling the anxiousness of your portfolio dropping 10% 15% that's it would be hard not to feel anything, frankly. And so you don't need to fight that, but just simply acknowledge and accept the presence of whatever you observed above. I am feeling nervous right now. Okay, allow that feeling. You don't need to fight it. You know, if you fight it or deny it, usually you end up exacerbating it. You know that kind of thing, like, the more you resist, the stronger it becomes. It's one of those things that you just, you know, you've recognized that feeling of anxiousness, allow it to be something wrong with that, right? But then you get to the I part, right? The investigation, recognize, allow, investigate. And I think this is what we were trying to do, frankly, wait last week, which is, just investigate, hey, what's the issues with the tariffs in a very like book report kind of way? What's the issue with the tariffs? What's the issue with inflation? What's the issue with all of a sudden, the tech stocks are just favored right now. What's the issue with the budget deficits and this fiscal austerity that we're going, those are four significant headlines, right, that are hitting us at once, right? Right now. It's, it's the tariffs. Three weeks ago, it was Doge, right? You know, all in between, it was all these, you know, all of a sudden, Apple's going down Tesla's going, you know, that kind of, right? And so you want to investigate what, what, and you want to also investigate what stories you're telling yourself, and examine this. And this is where the political part really takes root. Sometimes, if you were against Trump, it, um, it almost like you, you double down to something. I'm not saying you're justified or not just about, I'm just trying to talk about, perhaps, the dynamics of what's going on. If you are dead against right, you're doling down on that. If you're for him, you may be saying to yourself things like, look, I like, I like, the the direction that he's going, but this is like throwing a brick at a window to maybe kill a flat you could be saying that, or you could be saying, Hey, why doesn't everyone you know recognize what's happening here? And we're taking met, we're taking on medicine now to feel this much better two years from now. You know, there's nothing wrong with having a longer view, as opposed to this myopia of things can never be bad in order to get better. I'm not justifying any of these points of thoughts. I'm just trying to bring them up from the standpoint of, this is what people could be thinking about, and this is what you want to investigate upon yourself. What are you really thinking about it? And if, how are you thinking about it? The manner in which you're thinking about it, how is it being influenced by any preconceived thoughts around it? Because I think that's what begins, that's what that's what causes that initial anxiety of you. So whereby you recognize it, you allow it to be, by allowing it to be and not fighting it, you're then able to investigate a lot better. I mean, during this past week, it can become easy to catastrophize, right? Assume the worst case scenario, which I'll get to it with recency. But you can begin to catastrophize, oh, my goodness, the US is effectively in a trade war against the entire globe. We're effectively Paraguay fighting Paraguay once weighed that into war with every single surrounding country. Paraguay is landlocked in South America. And I don't know, I couldn't tell you right now, the geography, urawai, Chile, Peru, I don't know, they pretty much got into war with everyone at once. You know, you could be thinking, Oh, my goodness, this is what we're doing. You know, the world can easily find different routes and not use America. And, you know, instead of buying their beef. From from Oklahoma. They can buy their beef from Argentina, just the same, right? You know that that kind of thing, you start going into these kind of things, you begin to catastrophize issues. Not saying that couldn't happen, but you take it to its extreme right. And so you want to investigate, are these part of distortions that I'm having, or is this something that could happen. And news outlets have nothing to do but report what's happening right now, and they're all trying to find a new angle, and that new angle to be published has to be that much more enticing, right? And so if you catch yourself doing things doing this, you want to think about more measured outcomes, such as, what would it take for things to be different, right? Instead of catastrophizing and piling on, what would it take for this to be different? Hey, one of the countries begins to negotiate. It becomes a template for the other ones to follow. Hey. The US says, hey, you know what? Maybe, maybe we, you know, a man's reach should always exceed his grasp, right? Maybe we reach too far. Let's, let's take a step back and be a little more even handed or not even, you know, and be a little more measured in terms of how we maybe play this out, as opposed to trying to become from one day to the next the sort of country that produces everything internally, etc, etc, etc. Maybe this is more of a process driven approach that's needed, as opposed to tearing out that band aid. I don't know. I don't know the answer to that. But the point is, once you begin to investigate these things in the manner that's called, like the recognition you you've seen yourself being anxious. Why are you anxious? You sit with it for a while, and then you begin to investigate it. You find that you start coming into this the advice that you always hear that George Harrison ama This too shall pass. It's not a Georgia. I mean, I guess you use it, but I'm sure that's like from the Bible. You know, you may want to quickly check PT, that bad boy while you're listening to me, but, yeah, I think it's a Bible anymore than anything. Uh, not to take away from George Harrison there, but that's the reality. Once you begin to assess these things, you'll recognize that these are dynamics that in certain situations you've had before, right? As opposed to saying, Okay, we're doing this. This is going to lead to this nationalistic populism. We're going to have to recreate everything inside. We're going to be ignored by everyone else, etc, etc. I wouldn't do that, you know, you start just taking steps for what would it take for this to be different? I mean, I wouldn't assume a contagion is going to happen. Not saying it's not. I wouldn't assume, Oh, my goodness, then the Russian currency will fall because of such and such, and this will then have a trickle down effect on everything else. I mean, maybe you've heard that before. I said Russia, because that came in my head, in 1998 you had the big Russian currency default, and it it took down a couple of other countries with it. And everyone was expecting, it's just a matter of time before those dominoes happen. Happened the same thing in Asia, where their currencies, it's imploded. And everyone thought it's the end of the world as we know it, right? But it wasn't. And not even to not, not even talking about COVID Here, or anything like that, and so you want to really investigate it, but investigate it from this third party sense, and try to catch where your political proclivities are maybe influencing your thought process. Not saying you can't have one. I'm just you. Just want to make sure that you have the proper filter when you're investigating it.

Bob French 18:41

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@retirementresearcher.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 19:06
Then the last part of the rain is this non identification piece. Simply put, you're more than the sum of your emotions. And this is a very this is very powerful, because once you take the steps above, you recognize you allow you investigate and you don't identify with it. That's not you that Sure. You could be feeling anxious, but that's not necessarily. It doesn't defund you. If you were, you can experience the feeling without acting on it. Again. I can't stress enough what happened. What's happening now is a significant it's not insignificant. It's not one of these, like, Oh, don't worry about it. It's just the the current quarter and next quarter would be the same. No If, if, if these policies are implemented, there is going to be a recalibration, a realignment of global trade, and so the markets need to find what that is going to look like before they can assess how to value that going forward. But. But that being the case, you can experience all of this without acting on it and by acting on it. I mean, let me get out of the market and wait, or let me double down on international stocks, because that's going to be my hedge. If this thing doesn't work out right, you want to just, you don't want to identify with with those emotions. It's okay to have it. They're not about they're not you, if you will, but it just helps you then analyze what's happening, right? It's it's okay to feel the fear. You know that that kind of stuff again. And then you get to your strategic allocations, and remember all of these studies that have been done on strategic allocations and sustainable withdrawal rates. They're all about long term investing with certain standard deviations. Put in, this type of volatility is already implied in financial plans. You don't do a financial plan so, so you can never experience these moments of inflection. You do it all the time. Now, wait, wait, we'll get into it towards the latter part of this podcast. But you know, it's not to me, the answer isn't, get out of the market, get in the market and wait for these things fly. I don't think you're going to win that game. That's a game that you're playing. The odds are heavily stacked against you. Now, what I would be interested in having a discussion about with folks would be, how do you want to source retirement income? Ultimately, because if you were basing your sustainable withdrawal rate on a on some sort of risk questionnaire, and you're a portfolio that's 80% equities and 20% fixed income, because that's what you know that risk tolerance questioner said, and then you're experiencing this, and you're like, I just, I just ate 30% of my retirement savings just for the hell of it, then maybe it's the strategy itself. I don't think an allocation of 7030 helps you all that much relative to 8020 when it when it comes to assessments, but that's where what type of retirement income style fits you best, works really well. And way can discuss that later on. I'm just trying to give you a sense of how to level set your thinking around this right and and the reality is, you do this all the time in other parts of of your life. Why you compartmentalize these thoughts and to in order to be a productive member of society, and you want to compartmentalize the fear that you're feeling right now, in order to be a successful investor, you really do. It's not sell and I'm out until whatever. No, that's the worst mistake you can make. Frankie, I mean, you can be angry without acting on it. You can be sad with, you know, while still getting on with your life. And so dealing with uncertainty without allowing it to affect your work. And in this case, your retirement plan is essential. And the way to do that is, like I said, just following these basic tenets. Now, you know it's easy for me to say, I know it's difficult to implement, but that's the reality of it, right? Recognize, allow recognize the the feeling, allow it while you allowing it, that's that's an intervention. From the standpoint of,

you're looking in, you're outside looking in, you're really kind of beginning to just assess it with a third party view. Investigate is the continuation of that? Why are you feeling that? And non identification is it's okay to feel that that doesn't define me, right? And so I still need to be a productive retirement income investor. I still need to accumulate, right? And the answer isn't necessarily the Get out of dogs. The answer is making sure that the strategy fits you continues to figure, because no one's going to know what's going to happen next with regards to the policies that are coming down. And so to me, this involves recentering on your financial plan, right? You don't need to figure out what's going to happen next, but you need to be in the right mindset to do the next right thing, right? And it's those little things that stack on each other. And when you stack on a lot of things, of the next right thing, you know, by by your 15th you've done a lot of good things for yourself, right? And you can only do that when the mindset is wrecked. And so you do that by resetting on your financial planner. Perhaps it's resetting your distributions. If you're a total return investor. Perhaps it's not. This may be a good time for a break Wade from my voice just getting into what are things you could reset from a reset perspective?

Wade Pfau 24:25
Oh, ideally, you would have been thinking about this before the times of market volatility. But when we get it, it's a good reminder. When's the

Alex Murguia 24:35
best time to plant a tree years ago? When's the second

Wade Pfau 24:40
best time right now? Okay, there you go. But the probably your retirement income style is having an impact on how you're thinking about everything, because if your total returns, you do tend to keep more of that accumulation mindset and free retirement, which is you really think about it, market downturn can help. Herds, because then your news table, you get to buy more hearings at the discount, so to speak, and you're there for the long term. We have the risk capacity. You can experience that market volatility

Alex Murguia 25:09
just can you speak into the mic? You were going in and out for me? Am I

Wade Pfau 25:16
Mike turned on? I should check if it's not the right microphone, because I hear you fine now, okay, oh yeah, okay, it's the right mic. So like with that, with total returns in retirement, you maintain that kind of flexibility as well, that there's less desire to have predictable income. You've got more flexibility for your spending to adjust with market performance, and so you're more likely to be taking this all in stride, that, yes, markets are down now, but as a total return individual with a probability based outlook, I'm comfortable relying on the idea that markets will recover and will grow over time, and that I'll be better off over the long term by maintaining my diversified portfolio, and so I have the confidence to withstand all this. If your style is different, the market volatility may be impacting you more negatively unless you already had the opportunity to adapt your strategy for your style, you're not necessarily always going to want to be reliant on market growth to meet your essential expenses, and if you've already set up the strategy so that you're not dependent on market growth to meet your essential expenses, then you also have the ability to take this all in stride, because you know that the markets go up and

down, but it's just for discretionary type goals. Might make some minor cuts to your discretionary goals in the short run, but over the long run, if markets recover, you can continue and enjoy that lifestyle. In addition to the reliable income that you have to meet your essential expenses, issue is more if you're not total returns, but just through inertia, or through just the fact that markets had been rising, and so you hadn't really had this on your to do list and so forth. You have a volatile investment portfolio, and you're at retirement. That's the concern. That's the whole idea of sequence of returns risk. If someone retired on April 1 2025 markets have dropped quite a bit since then, and that could have if markets stay down, if they don't recover quickly. In American history, often when there has been a downturn, the recovery happened pretty shortly thereafter, and it helped mitigate some of that sequence of returns risk. But if we're in for a longer period of market declines, that's where the sequence of returns risk can manifest and impact those early retirees, if they're overly dependent on the diversified investment portfolio to meet the retirement expenses. So ideally, it's about setting the plan that's right for you. If you were overfunded, and if you're still overfunded, even after these market drops, then there's still time to think about making sure you've adapted to a strategy that meets your retirement income style, if you've already become underfunded at this point, well, I guess technically, the math tells you you should get to your correct retirement income style. It's just the unfortunate situation that you may have been overfunded before and you're no longer overfunded for retirement, but that's really the kinds of things you want to be thinking about. Is just ideally not waiting until these market downturns to start thinking about it.

Bob French 28:30
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 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.

Alex Murguia 29:09
No, that's great. Wade and we're going to this is going to be part of a larger present. We're going to be giving a webinar. This podcast is going to be released on the eighth of April. On the 10th of April, I will be giving a webinar that we're going to talk about some of these topics that we're discussing today and more effectively. And it's going to be at one o'clock on the 10th i It'll be in the show notes. I suggest that you folks that are listening in jump in on that. It's going to be very effective in terms of what is the next best step. The webinar will be making smarter financial decisions in volatile markets. We're going to talk about this and more, and we're going to talk about effectively a financial planning component and how financial planning component also provides a framework. And what does that what should the. Look at and so we want to break all that down in the webinar. Just want to make sure I get the title making smarter financial decisions in volatile markets on the on this Thursday, April 10. April 10 at 1pm The link is below on say it again, Eastern Time. 1pm Yes, sir, Eastern Time the link, the link will be in the show notes below. I highly suggest you, you check us out. And so, wait, wait is correct? I mean, look, we have clients, and it's not necessarily a matter of changing the allocation of everything successful investing isn't about forecasting, it's about harvesting the returns that are available across the different areas of the market. And so with that. I mean, this is the price of admission, for for risk, right? For returns. It's, it's the, the irony is, people use safe withdrawal rates. But

wait, what's the what? What's the saying about safe withdraw rates? You can't really, there are no safe withdrawal rates from volatile assets, right,

Wade Pfau 31:01
right? The whole idea is a misnomer. The calling it a safe withdrawal rate, if you're spending from a diversified, volatile investment portfolio, it's If you want truly safe spending rates, you really have to use a reliable income like a bond ladder or risk pooled contracts. Yeah, and that's where otherwise you should have flexible spending. You shouldn't try to have consistent spending from a volatile portfolio.

Alex Murguia 31:25
Yeah, I'll say like this, and at the point blank, just bottom line. If you're worried about the markets and you take them a sustainable withdrawal rate in retirement and this is bothering you, then I would venture to say you're in the wrong strategy, because this is the price for admission. You know, you've read enough of those articles about safe withdrawal rates at 4% three and a half percent. Well, this is the price for admission that you have to pay for if this is something that you don't feel comfortable. This is why we were saying. This is where the RESA plays into it, where find out what your retirement income style is. You know, best time to plant a tree 20 years ago. Second best time is right now. And if you find yourself even more comfortable with some sort of contractual income, some sort of bond ladder to get that effect of essential spending, then you know the decision is upon you to do that. But that being the case with regards to investing, again, it's not about intelligence. You just, you just want to, you know, being, being able to forecast is not the name of the game, or being able to really address the biases that you have, the biases that you're seeing right now, I would say, more than anything, are a couple, you know, gamblers fallacy, you know that sort of law of logging up as well. You're, you're trying to detect patterns. Did the market go up today? It went down Thursday and Friday, 5% effectively each day. How's it doing today? Oh, it only went down 1% Oh, this thing is turning around. Oh, it went down another 10% oh, we're going to hit that bottom until the PE ratios go back to 14. You know that you start telling yourself things like that. Oh, it went up 300 points today. Okay, here we go, right? You start seeing patterns where there's not that that's going to happen invariably. Why? Because sometimes we're just too lazy to to listen to videos for two hours. No one has time for that. And so you assess the market to kind of inform you there's that piece. You also have recency effect. Or you take what's happening now and you interpolate that into the future, in perpetuity. And so, okay, oh my goodness, we are effectively shunning the rest of the world, and we're only going to produce and consume and export to other states internally, no that kind of thing. And you just take it out. And usually those things are not going to happen. And effectively, you know, you have these biases, and to be a successful investor, it's very difficult to fight these off, because we've only we've been around for 300,000 years. The markets have been around for about roughly, at best, 500 years. We're wired to survive, not necessarily wired to be these excellent investors. And so even take this, the smartest guy you can you can make the case the smartest guy out there, other than Wade Isaac Newton, right? Is he above you or below you? Did you come up with? What did you come up with? A catalyst on the fly? But you know, his famous quote is, I can calculate the motion of heavenly bodies, but not the madness of people. And he was including himself. He was a terrible investor. And so you want to get a sense of how these biases affect you, you know. How can you stop making these poor decisions now again, you implement the rain to recognize the, you know, that sort of concept around that you know, just, just to give it again in terms of, you know, you recognize, you allow you investigate, and you don't need to identify with it, you know,

you just It's fine that it's there. You've applied that, and you have a framework in place. You're setting yourself up for success now the framework is the financial plan. Now. Why does that work? Because it brings numbers to the mix. It provides this dispassionate objectivity. The numbers work. The numbers work. If they don't work, they don't work, right? And so a systematic financial planning process becomes a key element to helping you remain calm. You know you have this rain model, but you know seeing something there really helps you remain calm, and it helps you provide a framework to your biases to work within. But it's very hard to just turn them off. And the financial planning process does a few things from a psychological standpoint, that's very effective. The first one being backcasting. We mentioned this a few weeks ago, but we had no idea this is going to happen now. So it's worth repeating, assuming medical and listen to every episode right, although we hope we do, but you have back casting right? And that's plan. Planning is a function of systematic, systematically working backwards from a goal. Financial Plan is not a budget. A financial plan is what you want to accomplish 15 years from now, and let's work back from that. And so you're describing what you want as a successful outcome, and you work backwards, you reverse engineer the things you need to do systematically to get you there. And in any financial plan from at least an advisor that's worth its salt, there is no let's get out of the markets. My financial plan includes getting out of the markets whenever it drops 10% did you do that in your safe withdrawal rate studies, weight, where you kind of didn't take a distribution of the markets that would drop 20% and you went to

Wade Pfau 36:30
cash. I've played around with that kind of concept in the modeling, yeah, to just see how big the impact is. And it's been a long time since I've

Alex Murguia 36:38
otherwise predicted, you know you you know you have to predict it 100% of the time, is what I'm getting. You wouldn't even bother trying to predict something like that. You know,

Wade Pfau 36:48
no, but you could model like deciding to sell your stocks after the market's down X percent, or something like that. Then I don't know when you get back in but exactly,

Alex Murguia 36:58
I don't know whether to be quietly, no, no. But you know what I mean? You know what I'm trying to get at, right? Like you can't. You're not going to go and you're not going to create a financial plan and say, Okay, now I'm going to get out, and then two weeks later I'm going to get in, and then I'm going to get out in two weeks. You're never going to follow that plan. You just systematically assess, okay, this is the volatility I'm signing up for. Can my plan work? And you reverse engineer it from there. That's a back casting component to it. That is very that's one of the to me, I think a financial plan. Personally, it's not because I don't, I don't think the value is seeing on 30 years from now, I'm going to have $22,350,000 No, it's, it's the the financial plan is important because it helps you decide, in the immediate sense, what your next best step is. And it's been done dispassionately in order to achieve that greater goal. You know the amount of that specific goal, or whatever that's going to vary over time, and you're going to course correct, but it's giving you the sense of what that next best step is because you backtracked everything. And so that's very important from a financial planning perspective. The other piece is it gives you that future version of yourself. You're, you're starting to begin, you're, you're starting to begin to view yourself in that the future you, and you're seeing a lot of that, you know, it's coined

by Hal Hirschfeld, but this whole your future self will thank you when you start thinking, not so much you in 10 years, but you start thinking about your future self. What will the what will that person say to you for what you're doing now? Then you begin to think about things differently, because you're combating against temporal discount. Temporal discounting is we as humans have difficulty seeing things a lot into the future. It just doesn't resonate. Oh, 20 years from now, 30 years from now, you know that kind of it's hard to conceptualize when you're still thinking just 10 days from now. And so if you think of it in terms of, what will your future self tell you, if you decide to do this right now with your investments and it works or doesn't work, what will they tell obviously, if it works, but it's a crapshoot in my estimation, so most likely assume it's not. What are they going to turn and this goes back to when you make these decisions. The financial planning process helps answer. How will you feel 10 minutes from now, 10 months from now, 10 years from now, 10 minutes from now, you may be happy because you release, you relieved your immediate anxiety, but 10 months from now, maybe not 10 years from now, definitely not. And you have to think in terms of like that, especially when you're talking about 3035, year horizon. And so the better intervention results when you externalize yourself. This goes back to the ring model again, recognize, you know, allow, when you allow, you're beginning to externalize it, right, that kind of thing. And so in when you investigate, you're you're externalizing what's happening, because you're looking at it differently, right? And so how do you how will you feel 10 minutes from now, 10 months from now, 10 years from now, that's all, the whole part of why you're doing that, your future version. It's another way of of kind of bringing that to life. So financial plan helps, helps do that. The other piece that it gives you rules based decisions, right? And so in moments of clarity and moments of rationality, what is it that you want to do and give yourself rules based on that, as opposed to when you're in the heat of the moment, when we're here to the moment that's when you don't want to make those decisions, regardless of how well versed you are in the rain model, and that's part of why you do the rain model, so you're not in that heat of the moment. Objective, dispassionate is where it's at from a financial planning process, because it provides this rules based system for making decisions. And so the to me, that's that's how you want to be thinking about what's happening right now, and that's why you want to anchor yourself in a financial plan. Again, we're having a presentation that's going to take these concepts and more in greater detail on Thursday the 10th at 1pm if this is of interest, sign up below. There'll be a link below. Wade, anything you want to

Wade Pfau 41:02
add? No, I think, okay, it's a lot to be thinking about the rules based idea is important, because it's really a matter of you want to follow the rules you laid out before the times of panic and volatility and the the rain model can certainly help you do that.

Alex Murguia 41:20
And that's it, folks. I know this is retire with style, and we've done a couple of investment things, but again, with this extreme volatility, it's one of those items that we want to make sure that we're relevant for you. Now wait, we still have that one question that our new tradition, if you will, yeah,

Wade Pfau 41:37
yeah. In the last episode, it was a lengthy question, and we ended up only having time for part of the question, so I'd like to revisit the question and make sure we've covered all the different aspects of it. And so to let everyone know what that question is, this came in, I believe it was a comment on the YouTube page for the podcast. So if you are interested in seeing the YouTube

version of us. We still must people listen through podcast apps, but we're there on YouTube as well. And this individual wrote in was wondering if on your podcast, you can cover ideas for a pre Social Security drawing, early retiree with 100% of assets. Okay, so this person so they've retired there it's before they claim Social Security. 100% of their investment assets are in tax deferred accounts, $1.8 million in Roth accounts, $400,000 and how to do better? Well so if they're delaying Social Security like is there an alternative to drawing from their investment assets? Examples provided include maybe drawing from home equity, either through a traditional home equity line of credit or the reverse mortgage Home Equity Conversion Mortgage program, or using 401 K loans as part of that bridge strategy. Or do we just suck it up and spend from the tax deferred accounts, while maybe filling up the the 12 and 22% buckets with and it says with Roth, but I think he meant with Roth conversions, because you don't fill up tax brackets with Roth distributions. Does the math ever work out to fund from the Roth in order to convert more, or is that just taking from one pocket or moving to the other? And it was that last part of the question we answered last time, which is, you wouldn't cover spending from a Roth to free up tax capacity to do a Roth conversion. Because, yeah, that would be the same. You're not really changing anything. You might as well, just at that point, spend from the IRA or other tax deferred account. Now, beyond that, the rest of this question was more about a Social Security delay bridge, and yes, it's okay to spend investment assets to help support the delay of Social Security. I wrote a research article on that topic with Steve parish that was published in January 2023 in the Journal of Financial Planning, where we had just looked at the historical data and showed how, because of the delay credits of Social Security over the long term, and by the time you're in your mid 80s, you're really much better off having spent on investment assets to support the delay of Social Security and getting that much larger benefit for the rest of your life than just claiming Social Security earlier so that you don't have to distribute as much from your investments. It is okay to spend down your investments in the meantime. Now a couple additional points to that. And this question got into well, if there's something else, some buffer asset, or something from outside the portfolio, you could draw from instead of drawing from the investments. Yeah, that could work as well. And in my reverse mortgage book, I did look at using a reverse mortgage to support a Social Security delay bridge and yeah, it looked to improve outcomes for the most part, relative to well, delaying Social Security is incredibly power, powerful. So it was support the missing Social Security benefits through the reverse mortgage and leave your investments alone that worked. But also as an improvement over to. Claiming Social Security early spending from your investments first work fine as well. The the additional point is, you probably want to build a Social Security delay Bridge, which is something that is not going to be exposed to market volatility. It's just like right now, you don't want to have your portfolio exposed to that sequence of returns risk, because if you're delaying Social Security, you need to use a higher distribution rate until Social Security starts. That would increase your sequence of returns risk. But if you carve out a bond ladder, eight year bond ladder from age 62, to 70 something along those lines, yeah, that can be a very powerful way to improve your lifetime financial outcomes. Social Security is inflation adjusted, reliable lifetime income for the high earner, if they're in a couple situation, that benefit lasts for the joint lifetimes of both individuals, either as that person's retirement benefit or as a survivor benefit to their spouse. And it's you get a 77% larger benefit at 70 versus 62 assuming you already retired, and that's an inflation adjusted 77% increase. So delaying Social Security is incredibly powerful, and it's okay to spend down investments in the meantime, just thinking about a Social Security labor bridge is quite helpful. Carving that out of your investments as a bond ladder, building it through a reverse mortgage. I'm not so sure about the the 401 k loan idea, because then you're just, you're ultimately going to have to distribute that anyways, and you're going to be paying interest on it in the meantime. But, but yeah, beyond that, it's, I think can make a lot of sense. Covering your spending through the IRA does limit your ability to do Roth conversions. You might still have some capacity on top of that, or you may not to fill up some additional tax base, but at the end of the day, you want to prioritize delaying Social Security over maybe taking it early so you could do more Roth conversions. I don't think that's going to give you a better outcome for the most part.

Alex Murguia 46:58
Alex, no, that's it. I concur with you specifically about the four 1k part. I wouldn't To me that's another fly zone in terms of taking a loan in front of four 1k versus the other option that you mentioned.

Wade Pfau 47:11
I suppose if you're early retire, you have to deal with the early withdrawal penalties before 59 and a half. And that would speak against trying to avoid having to take from the the tax deferred account, but otherwise, yeah, it's fine to spend investments as a part of supporting the delay of Social Security. Agree. All right. Well, hopefully we'll be in a better economic environment a week from now, when we are back again with another exciting episode of retire with style. So thanks Alex today for walking us through what to be thinking about during market volatility. All right, everyone,

Alex Murguia 47:47
take care, and I hope you catch a lot of you on Thursday, it's gonna be should be good bye.

Bob French 47:56
Wade and Alex are both principals in McLean Asset Management and retirement researcher. Both are SEC registered investment advisors located in Tysons, Virginia. The opinions expressed in this program are for general informational and educational purposes only, and are not intended to provide specific advice or recommendations for any individual or on any specific securities to determine which investments may be appropriate for you consult your financial advisor. All investing comes with a risk, including Risk of Loss past performance, does not guarantee future results.

48:31
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