RECESSION CONCERNS AND RETIREMENT INCOME

EXECUTIVE SUMMARY:

The current state of our markets, the economy, and interest rates are one of the most difficult starting points for retirement and planning for retirement I have seen in 25 years.

The stock market is at all time highs, we have the longest economic expansion in history showing signs of its age.

Source: Compustat, FactSet, Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management.
Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price to earnings ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of September 30, 2019.

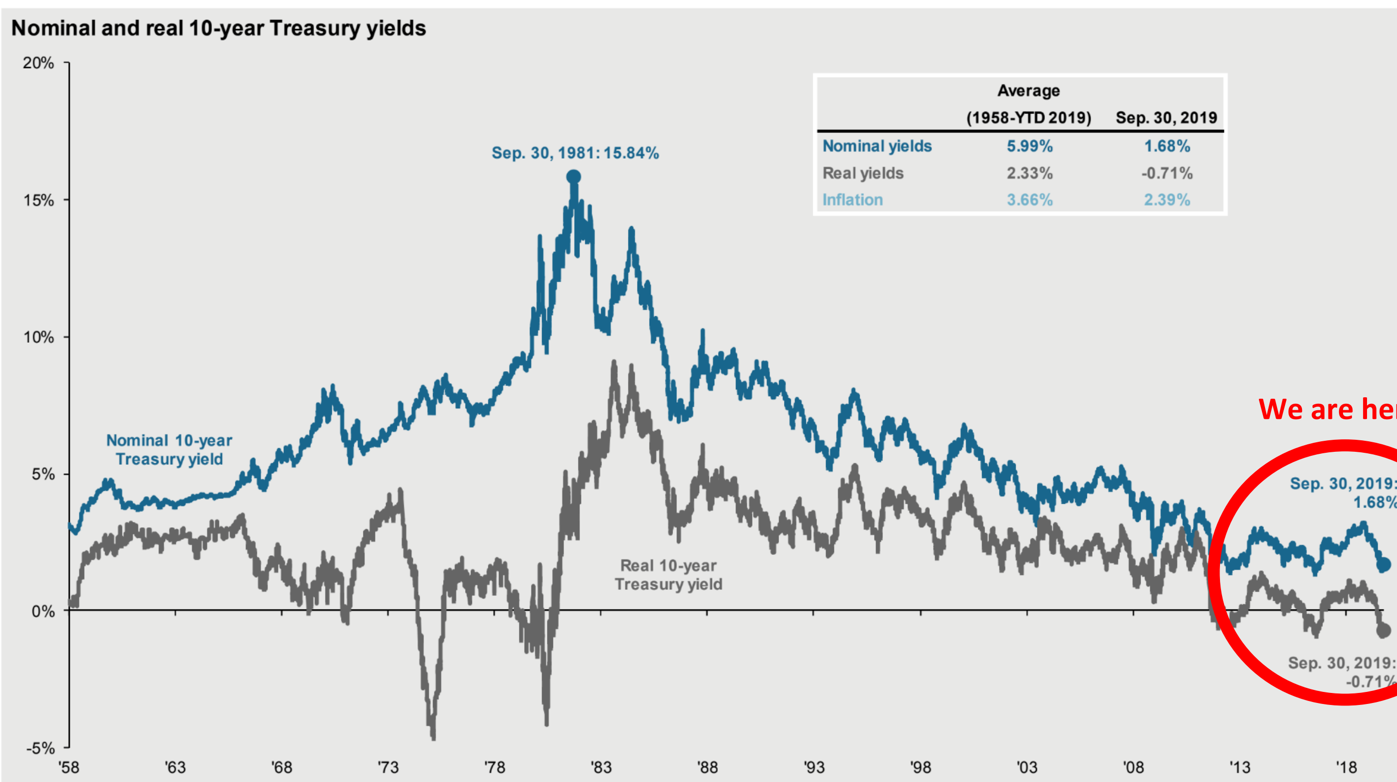
J.P.Morgan Asset Management

JKL WEALTH MANAGEMENT

RECESSION CONCERNS AND RETIREMENT INCOME

EXECUTIVE SUMMARY:

Interest rates are extremely low and proving challenging to find safe sources of income for retirees.



Source: BLS, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Real 10-year Treasury yields are calculated as the daily Treasury yield less year-over-year core CPI inflation for that month except for September 2019, where real yields are calculated by subtracting out August 2019 year-over-year core inflation.
Guide to the Markets – U.S. Data are as of September 30, 2019.

J.P.Morgan Asset Management

JKL WEALTH MANAGEMENT

RECESSION CONCERNS AND RETIREMENT INCOME

EXECUTIVE SUMMARY:

The possibility of recession and risks in the markets have increased dramatically

The election will likely be very contentious and ugly and uncertainty and volatility in the market are likely

Ultra low Interest rates and bond yields are creating a very difficult situation for retirement income

Close attention to detail on our retirement income plan and risk in our portfolios is of the utmost importance

This is not a call to panic but definitely a time for caution and careful planning going into the next decade for those facing retirement or in retirement.

Floor income provides a fundamental framework to weather difficult times

INTRODUCTION:

The retirement planning process is always evolving, and I have seen tremendous changes in how people retire and view retirement.

It once was looked at as something you did after a long 30-year career. You would have a gold watch ceremony and you got a nice pension for the rest of your life.

The next phase has been a shift to individuals having to carry the burden of saving for themselves in their own accounts such as defined contribution plans, stock plans, brokerage accounts and personal savings.

When a person is preparing to retire there is shift from growing their assets to recreating an income stream to live on for the rest of their lives. This is a drastic change in mindset and the outcome expectation from the portfolio should be much different than the prior decades of accumulation

The investment portfolios that are observed when new clients come in to see us often look the same for both growth or retirement and the question is where the income is coming from to pay your monthly expenses in a traditional asset allocation portfolio.

Are your investments being sold to meet the your monthly retirement expenses?

- **This can be devastating in a down market that lasts for any real length of time.**
- **The stock and bond markets really showed how deep they can fall together in 2008.**
- **The 2000-2010 period was an awful timeframe after a torrid stock market from 1980-2000.**

It is useful at this time to review recent history and see how portfolios held up in our most recent downturns and recessions. The decade of the 2000-2010 had 2 recessions that included the dot.com bubble bursting and the horrible financial crisis. This followed the best of times for stocks through the late 1990s. We are now seeing all time highs again and it is eerily similar in some ways.

> "The future aint what it used to be" Yogi Berra

JKL WEALTH MANAGEMENT

RECESSION CONCERNS AND RETIREMENT INCOME

“This whitepaper is my effort to share with the reader a distillation and summary of my 25 plus years of managing families investments and doing retirement planning.

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It may sound so simple it is ridiculous that happiness and joy comes with a base level of security to pay all your necessary expenses and maintaining good health. This is true if you are highly affluent with a huge net worth or someone who is living paycheck to paycheck.

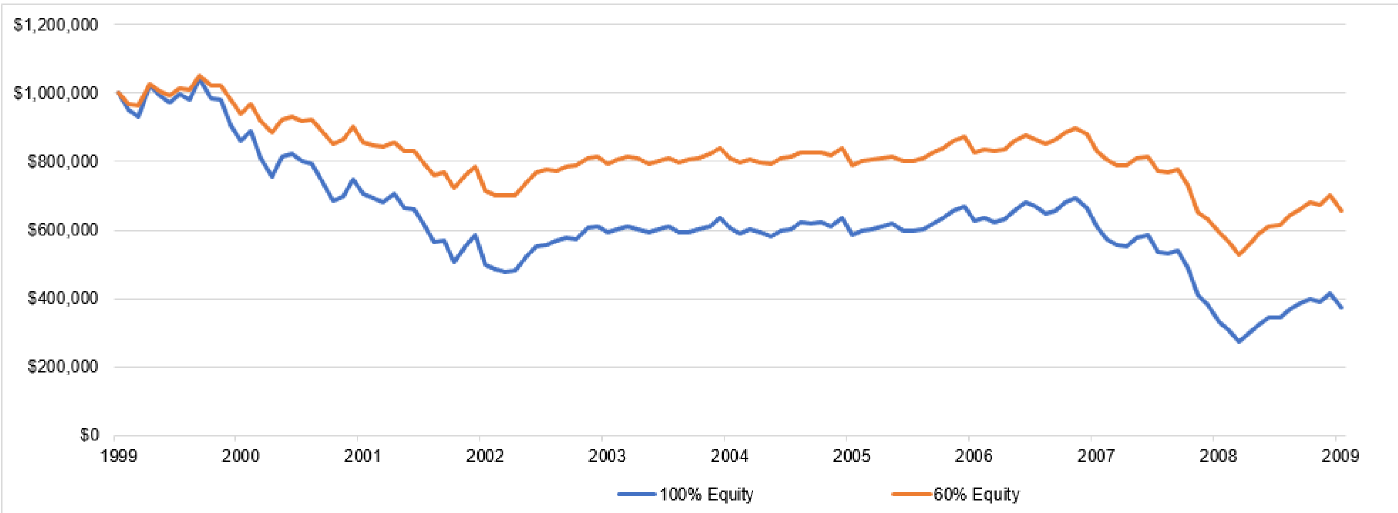
The stress is the same for us all. With those two attributes in place a retirement is built on a foundation of rock and not sand, it can’t be wiped out by a flood of bad markets or economic difficulties.

You want to know all your base expenses such as housing, medical, utilities, and food are all covered with confidence and a secure predictable source of income. This allows us to seek adventure and enrichment that is unencumbered with constant stress and anxiety about the markets, politics, and the economy.

The journey is meant to be one of great joy and I hope this paper provides insights that will open up some eyes to concepts that have worked well for myself and my clients for over 25 years.”

ARE YOU AT RISK:

Below we show a graph that shows the historic performance of investing $1,000,000 of retirement assets in a traditional portfolio with a mix of 60% stocks and 40% bonds represented by the orange line. The client is taking $50,000 a year in income. Vanguard provides great proxies for the total stock and bond markets. By looking at the graphics we see our traditional portfolio devastated quickly out of the initial start.



This all happened when bonds were at an attractive yield in 2000 and investors could invest at a 6-8% interest rate in their bond allocation. We don't have that luxury at this time and government bonds are yielding around 2% and stocks are at all time highs. This is a precarious position to say the least for someone in retirement or planning for it.

This is a retirees worst nightmare to have big losses early in their retirement.

- **It can completely derail a retirement plan.**
- **Many retirees had to go back to work during and after the financial crisis.**
- **The analysis shows our client going from $1,000,000 to just over $700,000 in under 3 years.**

This makes the floor income plan all the more critical. Knowing your bills that have to be paid with income from your cash flowing investments allows you to not sell investments at a low point in a bad market and you can ride out the downturn and recover when the market comes back in time.

Many people who retired and were invested in a portfolio that was a normal asset allocation had a horrible experience of watching their retirement assets dwindle very quickly with no place to hide.

FLOOR INCOME PLANNING

Floor income is a critical element of our customized retirement planning solution for our clients.

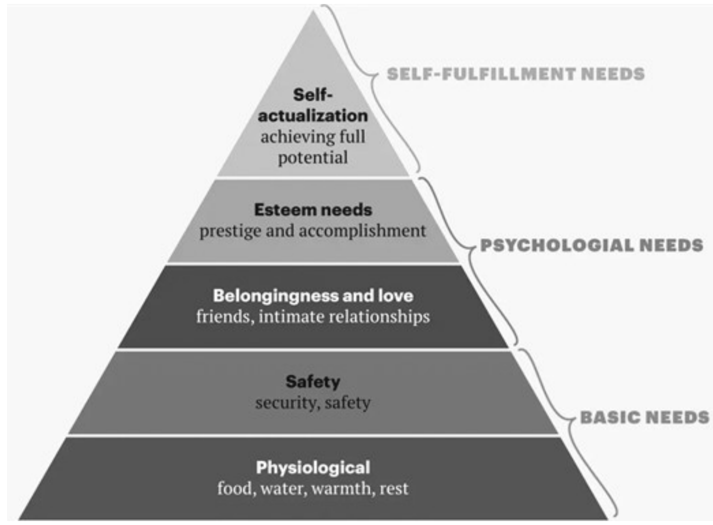
It drives our decisions on strategic investments to directly meet the retirement expenses for clients.

Once we have established what a client needs to pay on all of their base line expenses we are ready to construct the retirement portfolio.

The end goal of our planning and management in retirement is for a family to experience joy and happiness with as little stress as possible.

This is true for all of us throughout our life but holds especially true in retirement years. Lets start this discussion with some thought leadership on our psychology and how it relates directly to our financial needs.

> *"Once a client begins thinking of retirement, we want to help them to understand what they need as a lifestyle floor (the minimum amount of funding, required for the client to keep their lifestyle viable) and begin to shift their portfolio's focus from pure accumulation, with its emphasis on maintaining balance, to a stance that protects their lifestyle while still offering the potential for upside. This floor isn't necessarily what they want to spend to maintain a lifestyle; it is what they need to spend to maintain their lifestyle."*
>
> **Retirement Portfolios: Theory, Construction, and Management by Michael J. Zwecher**



MASLOW'S HIERACHY OF NEEDS

There is Maslow's " Hierarchy of Needs" that dovetails nicely in looking at our relationship with our money and happiness in retirement. Maslow's work was released in his paper "A Theory of Human Motivation" where the famous pyramid you may have seen is prominent.

We can see that the base level of the pyramid consists of our needs for our survival day to day and includes air, food, water health shelter and safety.

The large base needs to be satisfied before one becomes motivated to achieve higher level needs and pursuits.

This is in direct correlation to our pyramid in that those basic needs are essentially the floor income for a retirement plan that allows a client to then pursue higher levels of life enrichment and joy without worrying.

FLOOR INCOME PLANNING

The first step in the process is to identify our expenses that we have to pay each month.

It is important to distinguish here that these are only the very basics that need to be taken care of each month to maintain and sustain our lifestyles.

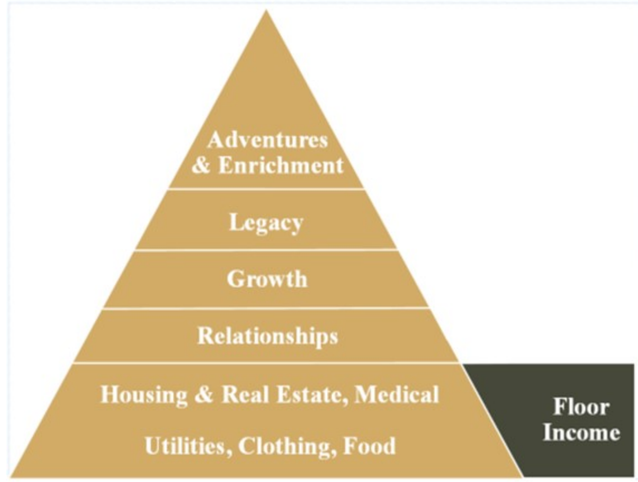
This includes housing, medical, food, clothing, utilities and anything you consider to be bare basics for your base level expenses.

We then want to consider where we have dependable and as predictable as possible sources of income to meet these expenses.

In our analysis we include such sources as Social Security, Pensions, Trusts, Real Estate, Dividends and interest from investments, and contractual agreements like annuities and life insurance.

Floor Income Sources:

Social Security
Pension
Rental Income
Investment Dividends
Interest
Other Sources

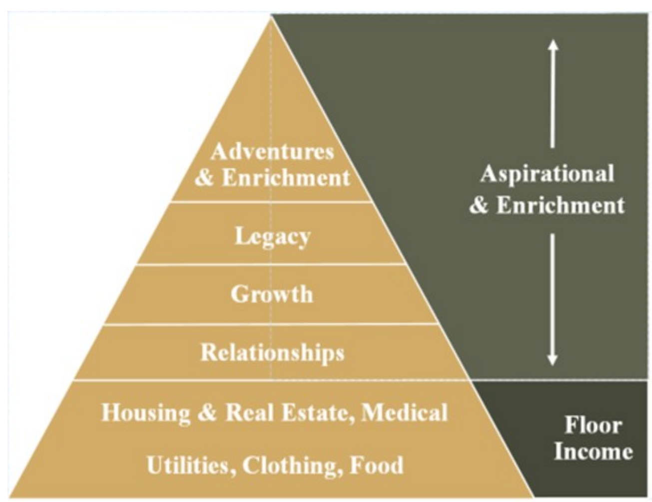


The Second step

Once we have established the total amount, we have to spend each month on expenses and compare it with our incoming cash flow from all sources we will have a surplus or deficit.

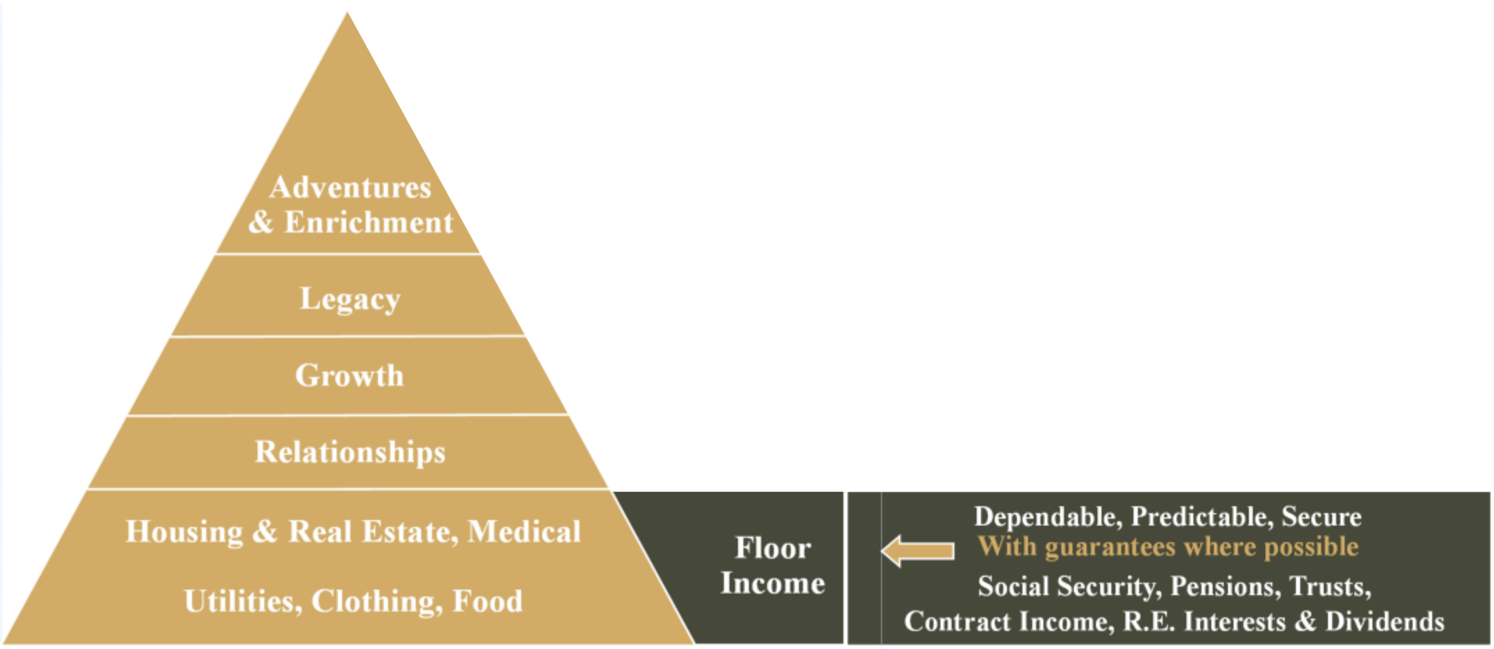
If there is a surplus, then we are in a great place to move forward and any adjustments are made to increase funding for aspirational and enrichment goals we have.

If there is a deficit between incoming cash and expenses paid out, we have a gap to fill with our retirement floor investment strategy.



When we know what the dollar amount is to cover the expenses, we then make a plan.

FLOOR INCOME PLANNING



We adjust the investment portfolio to include sources that pay us our monthly cash flow dollars to cover expenses as close to evenly as possible.

Once this is in place, we invest the remainder of the portfolio in a more traditional mix of growth and income securities in the asset allocation to fund aspirational and enrichment goals as we walk up each level of the triangle.

Step Three

The plan is designed with the goal of keeping our asset base as fully intact for our long retirement period without having to sell if at all possible or as little as possible.

This is crucial in down markets and if the income is meeting our base expenses we can weather the storms of recessions and bear markets with resilience in our portfolio by not selling shares when we don't want to at low prices.

> **"The joy of retirement comes in those everyday pursuits that embrace the joy of life; to experience daily the freedom to invest one's life-long knowledge for the betterment of others; and, to allocate time to pursuits that only received, in years of working, a fleeting moment."**
>
> **– Byron Pulsifer**

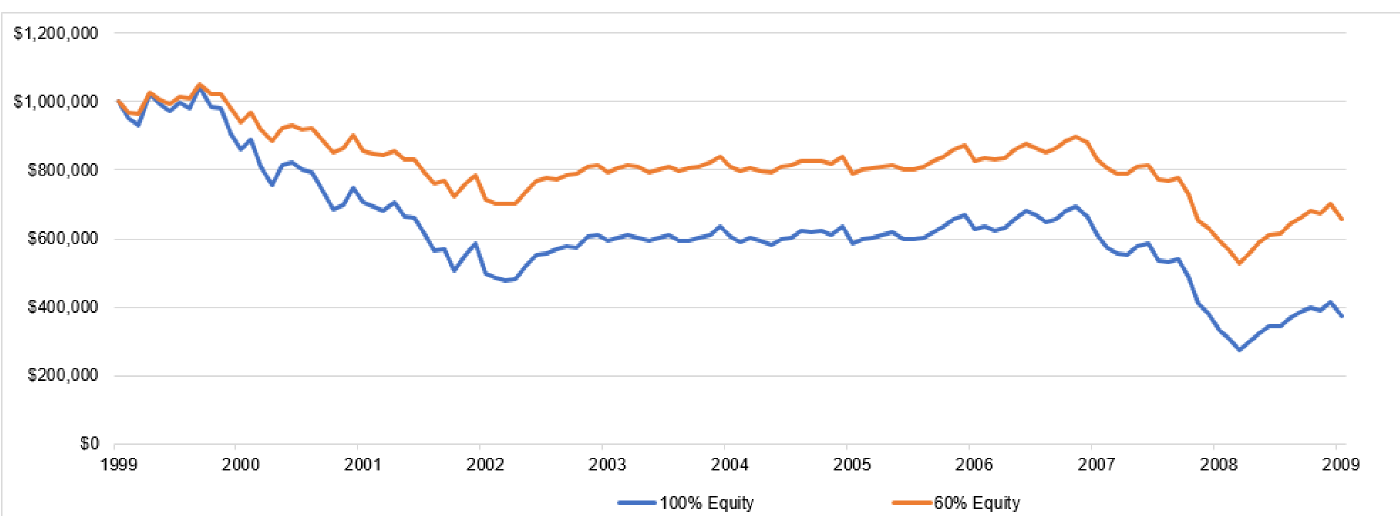
The best way I have found to illustrate this is by correlating it to a real estate example.

For some reason we all are able to grasp the concept better thinking of our retirement assets as a building. The concept is that the building is worth $1,000,000 and we need $50,000 a year in income.

We have 2 choices to meet that need.

Choice One: liquidate our asset slowly over time (like selling stocks and bonds).

Traditional Retirement Portfolio with a 60/40 Stock to Bond Allocation.



Choice two: We keep the building full of tenants and collect the rent from them to pay our expenses.

In a Floor Income Plan

You rent all the 20 units at $2,500 an month for $50k a year

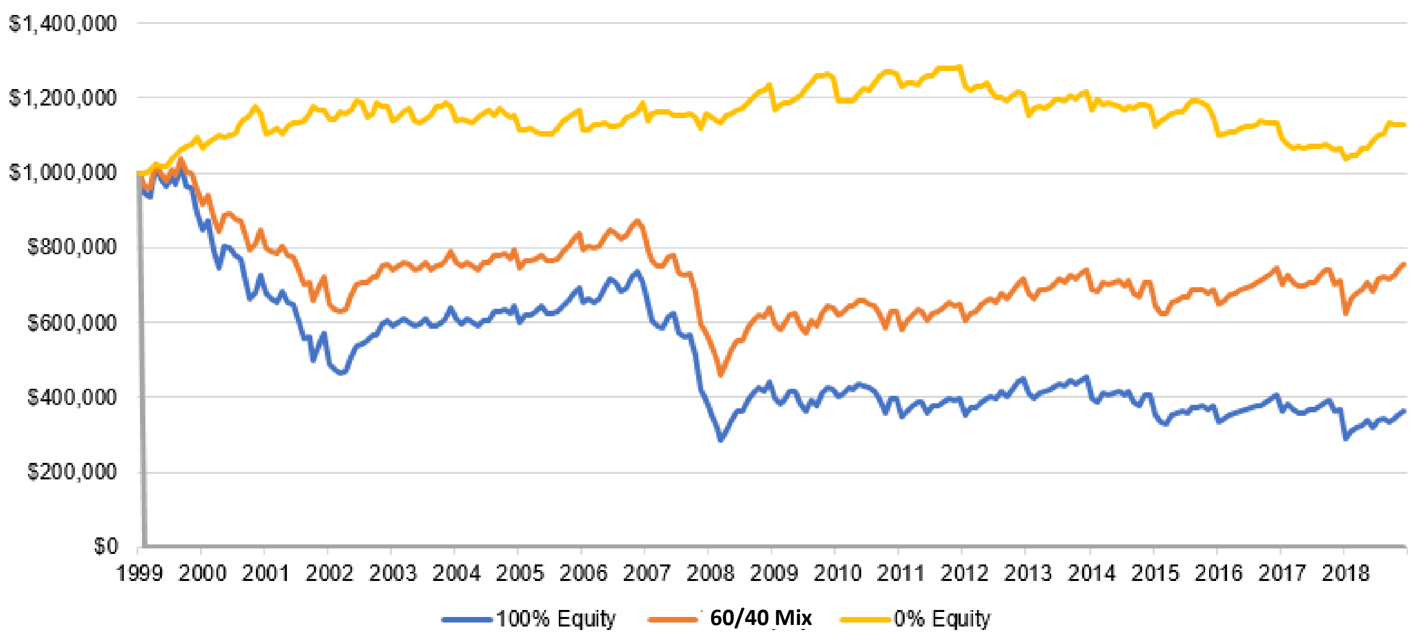
In 10 years you still own your entire building!

In a down market you are not forced to sell. When markets are high you can raise your rent.

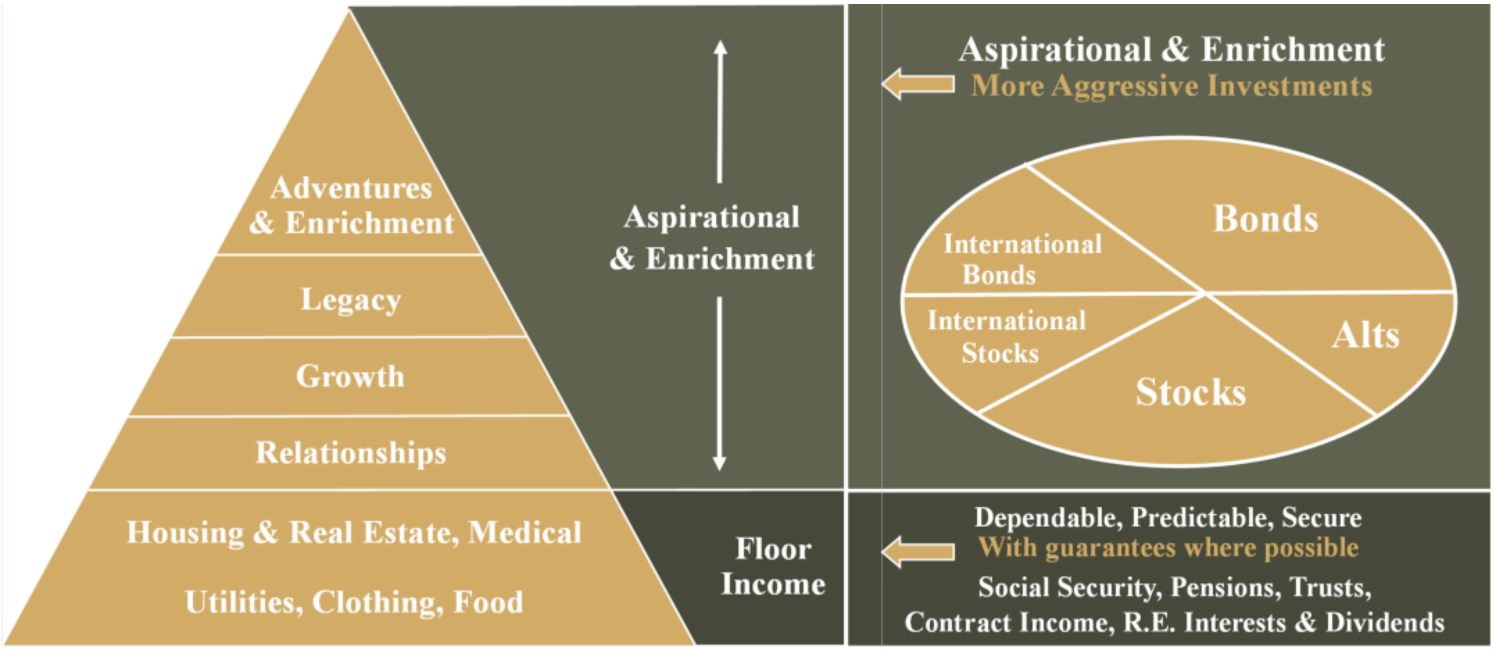
This keeps us in control of the asset through all market cycles,

and we are able to weather ups and downs in the price of the building as long as we have cash for from good tenants. (Interest and dividends, etc. from stocks and bonds)

Floor Income vs Traditional Retirement Plan



SUMMARY



The future is always full of surprises we cannot predict and many of them are completely out of our control. However if we can control and put the effort in we can avoid some of the major pitfalls that can be life altering.

My Experience through the financial crisis as branch manager, with oversights of 20 advisors with thousands of clients and billions of retirement dollars gave me an experience level I could never have attained simply as a advisor with just my own clients. I was able to observe what worked for some advisors and more importantly what did not work for both advisors and their clients. The lessons were very difficult at the time but very constructive for the disciplines I utilize for my clients to avoid that potential difficulty and pain in retirement.

It is my hope that this paper provides value and insight on your journey. Now is the time to speak to you advisor and look at your plan for retirement income during difficult finical times.

All the best,

John Lohrenz
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