Episode #174: How to Balance Your Portfolio’s Risk and Return Potential

Video Transcription

Hello and welcome to another edition of "Money Script Monday." My name is Sean Brady and today's topic is how to balance portfolios' risk and return potential. Does your current strategy offer accumulation potential without adding market risks? If you're seeking a financial strategy that can help balance your portfolios' risk and return potential, then you're going to need to include a mixture of various financial assets and financial vehicles that can help address your needs. While it's true that some risks are unavoidable, you can help mitigate some of their effects. Some of those financial risks are market volatility, taxes, longevity, and inflation. Some of the primary asset classes are things like equities, fixed income, money markets, cash, and real estate. Lack of diversification can lead to financial shortfalls that can impact your retirement when you're preparing for your future, and that's why diversification is key when it comes to spreading out your market risk.

Many of these asset classes are correlated directly to the stock market in the form of financial vehicles like stocks and bonds and other market assets. When those assets fall, your financial portfolio could fall as well. That's why it's important to diversify into other financial vehicles that react a little bit different to the market environment. That way you could spread your market risk, and that way your portfolio can grow with a little less bumps in the road or losses.

That's why a low correlation asset can be a positive impact on your portfolio. A low correlation asset won't be as severely impacted by the ups and downs of the markets, and that's something like an indexed universal life policy. Along with the ability to earn index interests, it also offers protection in the form of a death benefit, and it can also help reduce the risk and your overall retirement portfolio and market fall at all times. It offers protection so that financial reassurance that your beneficiaries would like. It offers an income-tax-free death benefit paid to beneficiaries regardless of the market conditions. It also offers tax diversification, so it can help you manage how much of your assets and when those assets are taxed. It offers that income-tax-free death benefit as mentioned. It offers tax-free growth and also offers an income tax-free policy loans and withdrawals. In addition to tax diversification, it also offers portfolio diversification. It's an asset that has varying reactions to the market environment. You can earn index interests based on an external market index, but also offers that additional protection with that 0% floor. You're not directly invested in any equities or fixed-income vehicles. You're not directly invested in the market, you don't own shares of an index.

Finally, access and flexibility. It helps you address any immediate financial concerns. You can access your cash value through income tax-free policy loans or withdrawals for whatever you want whenever you want. That's a plus for indexed universal life policies.

If you don't diversify and you take on too much risk, then you could suffer some significant losses due to market volatility, and it can take a significant amount of time to make up that loss, to recover from those losses. Over the last 25 years, the S&P 500 index has been negative for six of them. If the market goes down and you suffer a 15%, 20% loss, or even worse like we did in 2008 or 2009, it could take a long time to recover from those losses. If you had an IUL policy during that time, it would have received a 0% credit, which is much better than suffering a 30% loss. How long would it take for you to recover from these types of losses listed here? As I mentioned, if you were to suffer a 30% loss to your overall retirement portfolio, it would take a total return of 43% to recoup those losses. A lot of people just don't have that time. With IUL, zero is your hero, and although with an IUL policy during market volatility or real volatile time you might not receive an index interest credit, your cash value remains flat and unaffected to market loss, which is fantastic. An IUL policy may not be able to protect your other assets from losses, but it can help reduce the risk within your overall portfolio and help lessen the blow if there is a big loss.

I want you to remember that a low correlation asset can help balance your portfolios' risk and return potential. An IUL adds that additional benefits and protection with the death benefits. Diversification is key when it comes to a well-balanced portfolio. That's why I want you to ask your financial professional, to see if an IUL will fit in your overall retirement strategy. Thank you, and we'll see you again next time on "Money Script Monday."