Episode #226: How to Protect Your Assets from Another Drop in The Market

Video Transcription

Hello, and welcome to another edition of Money Script Monday. My name is Sean Brady, and today's topic is how to protect your assets from another drop in the market.

With today's longer life expectancies, you should plan for a much longer retirement. While that's a good thing, it does expose you and make you more vulnerable to market volatility, and your assets could run out much more quickly than anticipated.

The good news is that during the accumulation phase of your retirement savings, the period before you start withdrawing your assets for money, you have much more time to weather the volatile storms of the market. It'll experience the ups the downs, but over the long run, you should have your assets grow substantially.

The bad news is when you start withdrawing your assets for income during retirement; it makes you much more vulnerable to market volatility. During that distribution phase of your retirement savings, the period in which you start drawing from your assets for income, the year-by-year sequence of returns could have a huge impact on your assets and your retirements.

That's because when you start withdrawing from your assets during a down market, the losses that you experience are then locked in. Unlike the accumulation phase of your retirement, that money no longer has the potential to increase when the market rises, and that loss will diminish the total value of your remaining assets.

Over time, this chipping away of your assets can cause your money to run out much more quickly than anticipated. To demonstrate what I'm talking about, let's get into a hypothetical example.

Let's say you're retiring with a million-dollar nest egg, and you plan to withdraw 5% per year so $50,000. Assuming a 3.5% annual adjustment for inflation, let's take a look at two different market scenarios.

Let's say you're retiring in an upmarket, that's this blue line here. Let's say you're retiring in a down market, that's this red line here. These two different market scenarios include very good, good, and not-so-good returns, but both scenarios are going to average a respectable 6% return.

Just by retiring in a down market, you could experience over 10 plus years in lost income and that, in a nutshell, is the sequence of returns risk. Unfortunately, there's no way to predict how much the market's going to be up, or how much the market's going to be down when you decide to retire.

Fortunately, there are strategies that can address that risk. Annuities can help with the sequence of returns risk. Generally during those transition years, generally about 5-10 years before you retire, you could move a portion or reposition a portion of your assets to an annuity and that can help lessen the impact of market volatility; it can help reduce that sequence of returns risk.

Annuities as a part of your overall retirement portfolio can help you reach your long-term retirement goals. It offers you that tax-deferred growth potential. It offers you a death benefit to your beneficiaries during that accumulation phase. Finally, it offers you that guaranteed stream of income that can help level the impact of you potentially experiencing an unfavorable sequence of returns.

Remember every single year that your assets last means fewer financial worries. It could also mean much more being passed on to your loved ones.

Ask a financial professional today to see if an annuity is appropriate for you.

Thank you and we'll see you again next time on Money Script Monday.