KEEN ON
RETIREMENT

Stock Market Jitters?
Making it Through Volatile Times

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski:	Hey everybody. Welcome back to Keen on Retirement, I'm your cohost, Steve Sanduski, and I am joined today by Bill Keen and Matt Wilson. Guys, how are you today?
Bill Keen:	Steve, we are good. We are in that season now here in Kansas City where I tell folks to just every day just stop, pause, take a breath, look around at the beautiful foliage, the trees, the leaves, enjoy the season because we are in one of those seasons now where the leaves are just beautiful down here, Steve, here in Kansas City, we get awfully hot and awfully cold, and I say this, we're owed at least four to five weeks on either side of those seasons where we have our friends in Newport Beach's weather. But we didn't get it coming into the season this year, it went from freezing to it seemed like 100 degrees, quickly, but here we've been given a beautiful fall here in Kansas City, so I wish I could show it to you, Steve. I'll have to send you a couple pictures, but even in my home, I look out the windows and I just take it in. It's breathtaking. So how's it looking up in your neck of the woods? Did you get a nice fall this year, or no?
Steve Sanduski:	Well, we had a few trees that have had some nice color, so our transition season seemed to be shorter up here. We're a fair amount farther north here in Wisconsin than you are there in Kansas City, but actually just the other day, Linda was coming home and I opened up the door to the garage as she was coming in, and she said, "Steve, you need to come out here and look at this tree." So I walked out there, and we had recently cut down some shrubbery that was blocking a beautiful maple tree and oak tree, and it was just a really beautiful, vibrant color, so that was really nice to look at. And yeah, so often we don't appreciate those simple things and take a moment to pause and reflect and be grateful for simple things like that. So a very good reminder, Bill.

Bill Keen: Well, thank you. We're always headed to that magic moment in the future when all the stars align right that we can be happy, content, and have met our goals, and some days it's just about taking a breath and enjoying the moment. Don't miss the magic moments. And right now, for me, for some reason, the color is just popping. I was on my early morning run this morning, which Matt holds me accountable to. They're not very fast, they're not very long, but at least I'm staying at it, consistency wins, and I just have been aware of some of those things, so I thought it'd be fun to chat about.

Steve Sanduski: Yeah.

Bill Keen: But now that doesn't ... hopefully that's what I'm focusing on instead of these recent midterm elections.

Steve Sanduski: Yeah, well we just completed the midterm election, so a couple things we want to talk about today. We are going to chat about the election here. Not the election results, per se, but what has typically happened in the financial markets after midterm elections, so we've got some really interesting data there. And then the other thing that we want to talk about today is the month of October has lived up to its historical reputation of being a spooky and scary month in the financial markets, so we're going to be talking about a strategy that you guys have developed here at Keen Wealth Advisors in terms of how do you ensure that you get a steady stream of income that you need to live on, that you desire, even in volatile times? So that for the most part, you can count on this income stream regardless of the volatility that's happening in the financial market. So we're going to talk about that. But first, let's chat a little bit about what has typically happened in financial markets after midterm elections.

Bill Keen: You know, Matt has this information. He's held it from us, hasn't he, Steve? Because he wants to quiz us-

Matt Wilson: I have some data, yeah.

Steve Sanduski: He wants to be the source of power here, right Matt?

Matt Wilson: I do. Knowledge is power. Here's the question. So after all the midterm elections, since the World War II era, do you know what the average gain in the stock market is? In the year after the midterm elections?

Bill Keen: All right, so in this case, it'd be 2019, and just to clarify for our listeners and us, how many midterm elections have there been in this data set that you're asking us about?

Matt Wilson: So including the most recent one, there's 19 midterm elections, but of course we don't have the future data on that, so we're looking at the last 18 midterm elections.

Bill Keen: Okay. Well, you know these ... yeah, these midterm elections, they certainly have provided voters an opportunity to express how they feel about the job the sitting President is doing as well, and there's certainly been a lot of discourse, civil discourse, which we intimately were aware of when we were in DC recently, weren't we?

Matt Wilson: That's right, yeah. Lot of conversations happening, that's for sure.

Bill Keen: So I think if somebody made a guess about this based on the sentiment and the arguing and the combative nature of midterm elections, and all elections I guess, they might say that the future wasn't good after all of this, but I'm guessing that probably, maybe two thirds of the time, we had a positive year following the midterms. That's my guess, but.

Matt Wilson: Okay. What about you, Steve?

Steve Sanduski: Yeah. I'm going to go out on a limb here and I'm going to say that on average, the return in the year following midterm elections has been positive.

Matt Wilson: On average.

Bill Keen: Okay.

Matt Wilson: Well wait a second.

Steve Sanduski: How's that for really putting myself out there?

Bill Keen: Yeah.

Matt Wilson: Well, you know, it could be wrong. That doesn't mean it's right.

Bill Keen: And I was pretty vague too, saying two thirds of the time it's up, so neither one of us really committed to anything very specific.

Steve Sanduski: That's right. We're probably not going to be wrong, Bill.

Bill Keen: But we're both on the positive side if you noticed.

Steve Sanduski: That's right.

Matt Wilson: You're playing the averages on your side. Google market has only gone up over time, so here's the data. Every single year following the midterm election, markets have been positive. Every single time.

Steve Sanduski: Wow, that's amazing.

Bill Keen: Okay.

Matt Wilson: Take all the averages out of it. It's been a positive gain in the year following, the year after the midterm elections.

Bill Keen: There's not many times where we can look back and say every time something happened, is there?

Matt Wilson: That's right. Now of course, these streaks are meant to be broken, but I don't think 19 is going to be the first one for that. The average gain, now this is interesting, the average gain is 19%. Over 19%.

Bill Keen: Are you sure about that, Matt?

Matt Wilson: Yeah.

Bill Keen: That's a big number.

Matt Wilson: It's a lot. Yeah.

Bill Keen: Wow. That's a big number. So we were on the positive side, but we were cautiously optimistic, Steve.

Steve Sanduski: So we-

Matt Wilson: On the low end, it was 1.3, so wide range.

Steve Sanduski: Yeah, but we under-committed and over-delivered, Bill.

Bill Keen: Yes, yes. Now 19 hasn't occurred yet, so.

Steve Sanduski: Yeah, and past performance is no guarantee of future results, let's just get that out there.

Bill Keen: Thank you, thank you.

Matt Wilson: But it does tell us, hey, and as the numbers tell us, and this is what we'll get into today, because we are experiencing, October is a volatile month, and what do you do about it, what are your choices, and how do you get through these things? But then knowing, okay, yeah, the market goes up over time. On average, it's positive on a year over year basis.

Steve Sanduski: Yeah, well let's jump into that, then. So as we know, October's past now, it was a pretty volatile month, it was a down month, and what do you guys do when you're working with clients? How do you look at their portfolios or think about their money and an income stream for the folks that you're working with that are in retirement that are depending on a relatively consistent stream of income to live on? How do you manage that when you go through a month like we just had in October?

Bill Keen: That's a well-framed question because this is not theoretical now, the majority of our clients are in what we call the distribution phase of their investment career. Not all, but most. If you're retired and you have a pool of assets, stocks and bonds and other investment classes, you and your family are relying on that investment collectively to produce income for the rest of your lives, and hopefully that income will increase as well with the cost of living, as inflation proceeds forward out into the future. So this becomes very real. And again, it's not just something that we're theorizing about or talking about on CNBC, this is something we're having to do on the ground, in the trenches for clients, and I've been at this for over 25 years through a couple of the worst corrections that the markets have ever seen. So when folks start to ponder this, we have this environment, this market, these capital markets. The political environment, the geopolitical environment, all these things that are happening, and they feel, at times, kind of out of control, or ominous, or scary.

Bill Keen: So to your point, a month like October can make folks think, "Wow, are we going to be okay?" And the first thing we say is you have to have a financial plan in place where you've articulated how much money do you need to live on, what will the taxes be, how will social security integrate with those things, what are the right decisions there, what will healthcare costs look like? Really get a plan for all those things, and work within the guardrails of the financial plan, but then the engine to the plan, these investments that we are talking about today, have to perform for you over the longterm.

Bill Keen: So it's where the rubber meets the road, and for us, the strategy that's gotten our clients through is making sure that we don't have investments in the equity markets, and sometimes we use words like equity, well that means stocks, and when I say it, it means a diversified portfolio of some of the strongest stocks in our opinion that exist, and it means that we don't have money in those things that can be volatile, that were going to need back within, call it five years or so. That's kind of the minimum we look at, Matt, isn't it? And then some folks, if you talk about it in that context, they can get their mind around, "All right, we have investments in the stock market that will be volatile." But we talk about that up front. We're not saying it won't be, it will be, but we don't need those dollars back within, call it five years, and in some cases, folks have more than that, they have maybe 10 years of their income needs invested in things that are more fixed.

Bill Keen: And that ... folks having an understanding of that strategy is what gets them through these times and helps them sleep at night, and helps them understand why we're doing what we're doing, and it's not just some thing, Steve, like hey, if you're 70 years old, you should have 70% of your money in bonds, which was an old back of the napkin thing from years ago. It's more about what do you need these assets to produce for you? Now let's think through it, let's reverse engineer where you should be, and then understand what volatility you're going to be looking at. But for our talk today, we go back in history and we talk about how things have worked, and what we see is that time has, like you say, past performance doesn't guarantee future results, but time up to this point has always healed. So if you can get through the down times and not panic and make an emotional decision, sell everything out at the wrong time, where you don't have money in the markets that you need back, so you have no choice, you have to sell at a bad time, then we can navigate these times that they're coming at us, whatever happens, and be okay.

Matt Wilson: Mm-hmm (affirmative). Yeah, and there's data behind this as Bill mentioned, and he discussed five years of your income needs in bonds, and this is where we come up with this because we look back at all the corrections the market has had since before the Great Depression, and we define a correction as down 20% or more from the peak, that is the start of a correction. So that's ... we have these terms, you already said that, bull markets and bear markets, so when we go down more than 20%, we say that the bull market has ended and the bear market has now begun.

Steve Sanduski: And is it typically ... what about the ten percenters? Are those considered corrections as well, or is it 20% for the bear market, 10% for correction? I guess different people have different-

Matt Wilson: I was going to say, I think sometimes they're interchangeable. We do define, I think it's pretty consistent to say a bear market starts once you're down 20%, and that is the end, the official end of the bull market, if we had to kind of put some time on these things.

Bill Keen: Yeah, don't lose your momentum here, but I just want to point out that we're talking about from the all time high at that point as well.

Matt Wilson: That's right. So from the high of the market hit. And this is some data from The Wall Street Journal, and again, looking back at all of these bear markets since the 1920s, and they went through, and they put the length of the bear market, so how long did it take from when the market hit a peak to where it finally hit a bottom? How long did that take? And then from when it hit a bottom back to the previous high again. How long did that take?

Bill Keen: Yes.

Matt Wilson: And so the average bear market, from peak to trough, is about one year. That's how long it lasts.

Bill Keen: Okay, from peak to trough. Okay.

Matt Wilson: And then, from trough to previous peak, that's about another two years.

Bill Keen: Okay. So these are the more significant corrections, or I guess bear markets, right?

Matt Wilson: Yeah.

Bill Keen: These are the ones that get folks attention.

Matt Wilson: They're the bear markets. That's right. Even small ones get people's attention, but these are the ones that are more significant. And the average, when we look at peak to peak again, it's just over three years, 3.1 years is the average. So that's why we say we want to have, especially when someone's in the distribution phase, at least five years of those income needs set aside because what you don't want to have to do is sell something when it's down. You don't want to put yourself in that position. So if we have at least that set aside, we know we don't have to sell something, which then again helps us not make an emotional decision.

Bill Keen: That's right because folks understand that. They live that. They understand that, and that makes all the difference in the world.

Matt Wilson: That's right. And it's not that your accounts won't go down in those periods because if you're invested in the stock market and the stock market goes down, you're going to experience that piece of it going down, but you don't have to sell those investments when you're down. And as you mentioned, time heals all wounds because the longer that we're invested in stocks, the higher and more consistent rate of return that we have.

Bill Keen: Mm-hmm (affirmative). Mm-hmm (affirmative).

Matt Wilson: So the longer ... you've got to think about that. If our holding period was one day, well it's completely random the return we're going to make.

Bill Keen: Right.

Matt Wilson: But if our holding period is three years, five years, 10 years, 20 years, I mean, if you think about how long your retirement's going to last, well many folks are going to have 30 plus years in retirement. So our holding periods are significant.

Bill Keen: That's right. And when you say "set aside", you're just saying assets invested in things that are more fixed-

Matt Wilson: In fixed income, that's right.

Bill Keen: Income.

Matt Wilson: One's interesting bearing or marked subject to the volatility of the stock market.

Bill Keen: So don't you think from our experience over the years that when folks talk about risk, they're really internalizing risk a couple of different ways, and I think the financial services industry has not done a very good job of demonstrating and defining risk. But I think the risk that most people are afraid of or internalize is total loss of capital risk, where you make an investment and you lose it, you lose your money permanently.

Steve Sanduski: Yeah, permanent loss. Or needing it back and having to sell something and getting less for it than what you originally deposited. And yeah, those are real. Those risks exist.

Bill Keen: Right, but when we're talking about assets that you don't need back within five years, or maybe even much longer, to your point, someone who's going to be retired for 30 years, there might be a portion of their assets, well there will be, that they won't need back for 20 years, 25 years.

Matt Wilson: That's right.

Bill Keen: So when you're talking about that part of the portfolio, risk is more defined just about the volatility, how much does something go up and down? No one cares about volatility on the up side. Hey, things are going up so much that it's volatile. Well it's volatile up, so everybody's fine with that.

Matt Wilson: Yeah.

Bill Keen: It's the temporary downside volatility. It's uncomfortable. There's no way to talk around that, but it's so far, it has been always temporary, and it's actually always been opportunistic if you've actually got a plan in place or a portfolio management strategy where you can actually buy a few things that were down during those timeframes. Every time in history, they've always been opportunistic.

Matt Wilson: That's right.

Bill Keen: If you're looking at it that way. And it's so important I think young people understand this as well because if they're starting off, you talked in prior episodes, Matt, I think about the younger generations who kind of came online right as the financial meltdown happened 10 years ago, their experience what the markets might produce for them over time is different than someone like even our clients that have been investing for 40 years. We have people in their mid-60s who they've been on the journey, they've seen the corrections, they've been through multiple collections, '87, '01, '02, '08, '09. They've been through it with real money, but they see how its worked, and they have wisdom from all that, and they have a lot of faith in the process because they've lived it.

Matt Wilson: That's right.

Bill Keen: As opposed to somebody who's just coming online who's maybe somewhat confused about it. But I think that temporary volatility, we have to make sure folks understand what that means and how it affects them or how it doesn't affect them, if they're positioned right, first off, if they have a strategy, and if they have the right view of it.

Steve Sanduski: That's right because what people go through, especially, we had a rough month in October, and that's not uncommon. I mean, it happens a lot to have these types of volatile periods. I mean, just going back to March of '09, so that was the official start of the recent bull market, March of '09, and we have had, in the US, we've had 23 pullbacks greater than 5%, and eight greater than 10%.

Bill Keen: Okay.

Steve Sanduski: Now none of them have been more than 20% because that would have been the end of the bull market. We're still in this bull market since March of '09. So the stock market, the Dow back then was right around 6,600, I believe? In March of '09?

Bill Keen: Mm-hmm (affirmative).

Steve Sanduski: And it's sitting at 25,000 today. It was up to about 27,000 before October and during that period, 23 times, the market's dropped at least 5%, and eight times it's done it more than 8%, and then it gets through it and March is higher.

Bill Keen: Right. Right. I think you point out a good data set in time as well because a lot of folks are worried about the timing aspect of these things, too. Do I invest at the wrong time? And I think if you're in and out, if you're all in and all out, imagine somebody that got fearful in that time that you just mentioned and they sold all their investments in '09, call it, and they were going to wait for things to "calm down".

Steve Sanduski: Yeah.

Bill Keen: And remember, things never calm down.

Steve Sanduski: And that's kind of why I laugh because it's like there's no bell that's rung that says, "It's calm now. Time to invest."

Bill Keen: Right, so they would have experienced a permanent loss of capital, and the opportunity cost would have just been, in many cases we would see, it would have been a multiple seven figure mistake.

Steve Sanduski: Oh yeah. And you have to make two decisions, too, when you do that.

Bill Keen: Right.

Steve Sanduski: So the first decision is, okay, I'm going to sell everything because I just can't ... either I think it's going to go down further, or two, it's just going to be crazy and I just can't take it anymore, and we're just going to wait until it, again, calms down. That's decision one. Decision two is, okay, when do I get back in? And that's the part that I think people just, they never get back in in most cases.

Bill Keen: Right. Right. So if I'm looking at a chart here, which I am, starting in January of 2008, and coming out all the way into just here recently, just a few weeks ago, we talk about that market putting in a bottom at that time in '09, well you know, what was happening, Lehman Brothers had filed for bankruptcy, the H1N1 virus, which was a global pandemic, was occurring. We had Obama sworn into office at that time, about a $787 billion US stimulus bill signed. We rolled right into the Dubai credit crisis, the flash crash occurred-

Steve Sanduski: Yeah.

Bill Keen: The US debt crisis. Was that when the US ... actually, the SMP actually downgraded US debt, Matt?

Matt Wilson: It did, yeah. It was being downgraded.

Bill Keen: So we were being told that the US Treasuries which were the safest thing on the planet earth were now not triple A rated. Now that was after all the credit agencies had all the mortgage back securities rated triple A. So now they're going the other direction and they're downgrading the US Treasuries.

Matt Wilson: Yeah, they didn't have a lot of-

Bill Keen: After they missed.

Matt Wilson: Lost their credibility a little bit, so.

Bill Keen: Right. Right. So I won't bore you because we don't have enough time to go through all of the things that have happened, including North Korea, including the Ebola outbreak, we had oil prices super high, then we had a collapse. We had so many things go on. Terrorist attacks in Paris, we had the Chinese stock market crash in '15, we had Russia move troops into Crimea, there were so many, the budget sequestration, I mean, I could list this on and we could do several more episodes of me just reading all these things that have "happened" that make it look as if the market never "calmed down".

Steve Sanduski: That's right.

Bill Keen: But yet we're up, what is it, 350% or so off that low?

Matt Wilson: That's right, yeah.

Bill Keen: Okay.

Matt Wilson: And if you look at, too, the return you made, as you mentioned. If you were to invest at the wrong time because that's the other ... you're afraid of investing at the wrong time, too, "Well is this a good time to invest?" And it's the high. So this data goes back to January 2008, and it just tracked. If you invested then, which was before the great recession in '08, '09, your average return, if you just invested in the SMP 500, the US stock market, was 8.89%.

Bill Keen: So you're saying investing before arguably the worst possible time in history, barring probably 1929, Great Depression, and you just held for ten years, and this is data that we do have. This isn't our guess about what's going to happen in the future, this is real data that occurred, this is in the history books, you would have had almost a 9% return if you invested at the absolute wrong time, in 2007 out till today.

Matt Wilson: That's right. Yeah. More than ten years, just a little bit more, almost 11 years, but that's a pretty good return over an 11 year period, especially considering that you got the timing exactly wrong.

Bill Keen: Right. Now in that same timeframe, I think consumer price index has been up under, what? Just under 2% probably?

Matt Wilson: Yeah.

Bill Keen: Something along those lines?

Matt Wilson: Inflation, yeah, been real low.

Bill Keen: And gold. Like if somebody thought gold was the move back then, gold, has it been ... do you have data on that, Matt?

Matt Wilson: Yeah, I'm seeing gold here just under four and a half percent.

Bill Keen: Okay.

Matt Wilson: And the 10 year treasury, which it did okay, but it was ... I'm showing 3.7 cash-

Bill Keen: 3.7.

Matt Wilson: Yeah, cash in the bank accounts was half a percent or so, and home prices even, so real estate or home prices defined has been under 2% under that timeframe as well, even though homes have really rallied back these last few years.

Bill Keen: Mm-hmm (affirmative). Yeah, it's kind of surprising. I would have thought home prices would have been a little bit higher than that just considering what we're seeing in the real estate market, but they still, even after '08, they went down for many years after that, even after the market started to recover, home prices were still suffering.

Matt Wilson: Yeah, down into maybe 2011 or '12, I think.

Bill Keen: Yeah. Slower recovery there. Steve, you know, once again, we're monopolizing the time, and we completely respect your input here.

Steve Sanduski: Well I always enjoy listening to you guys, so I'm just soaking this all in, but actually I do have a couple things. So one is a comment, and then the second is a question. So the comment is, and this goes back to something you said earlier, Matt, and I just want to clarify here, so I think you said that the average length of a bear market, so this is when the market declines 20% or more from its previous all time high, I think you said that the average bear market lasts, what, a little over one year?

Matt Wilson: That's right.

Steve Sanduski: And then the peak to trough, so if you go from the all time high in the market and then you have a bear market, so it's a decline of 20% or more, which is a little over a year, and then from the bottom of that bear market to go back up to another all time high, you're saying that that is roughly about three years on average? That from peak, to trough, back to peak again, that is about a three year period with a bear market in the middle of that. Is that right?

Matt Wilson: That's right.

Steve Sanduski: Okay. So yeah, I think that is such a great way to look at it because you both talked about how you like to work with your clients and have about five years worth of their income needs in place in conservative investments that are spinning out this income so that if you look at all the historical data, from peak, to trough, to peak on average has been about three years, and you're putting about five years’ worth of that income in a portfolio that has a pretty good chance of being able to make that happen, then you guys are being reasonably conservative in terms of working with your clients to make sure that regardless of almost anything that can happen in the stock market, that your clients are going to be in good shape, they've got their income, and they don't really have to worry about this interim volatility. So I just wanted to ... is that a fair statement what I just described?

Bill Keen: It is, Steve. It's something we've been focused on just myopically over the years because I think so many folks have a financial planning or a financial professional experience out there in the US where the time isn't being taken to do the education and to provide the perspective, and then when clients get into a situation where they're seeing their account values, the equity portion draw down they really are experiencing it as permanent loss and it gets very scary, and I think for the financial planners and financial advisors that listen to our show, and quite a few do, I would just highly recommend that you make that investment back into your clients by providing educational sessions, like we're doing here today, and others, yes, on financial planning, taxation, IRA rules and regulations, Social Security, all those things, too, but on this piece of it, because the engine to the plan is so important, which is the investments. And providing that education to folks and the perspective is so valuable, and I think it's missed a lot in the financial planning community.

Bill Keen: So yes, to your point, folks can actually go through these things and have a sense of security. Not a reckless, in denial sense of security, but knowing that the plan is in place, we've planned for down terms, we even have mechanisms in place to be able to take advantage of the down terms so that we're not whipsawed by these inevitable market cycles, but that we're thoughtful, we're methodical, we're intentional, and we're in the right position up front to get through whatever might be presented to us in the coming days, but then we're also able to take advantage of it. We have clients at the firm that, a good portion that are with us that say, "You know what? We realize that these down terms, we don't need to touch our capital that's invested in the equity market. We thought it through with you all, and we consistently have the conversation every time we talk and meet. And we know that we're taking advantage of some of these situations that come up." So it's the client experience of what's happening out there that, as a good financial advisor, you can help clients understand correctly and not just be afraid of it.

Bill Keen: There's a whole industry, Steve, and you know this, but there's a whole industry out there that is fear based, that preys upon the investors fear of what we're trying to combat with this perspective. The equity-indexed annuity, not to name anybody specifically, but there's that whole group of folks out there, and there's a place for one of those if it makes sense in limited cases, I believe, but ... if it's presented right and sold right, most of the time it's not in my opinion, but that prey on the fear. So a lot of those firms that sell those investments that prey on people's fear, they love this type of volatility because they're saying, "Oh, our sales are going up because people are becoming afraid, and we're going to prey on that and get them locked into these programs that lock their money up and pay big commissions and all that." And I think, again, it's like I'm on a mission, I know that I am, and that's why I go public with things like this, to educate and engage folks on the reality. And I'm not going to go over to the dark side, I call it. I'm going to bring truth, perspective, factual information about how its worked over history, and then real strategy about how you get people through these things in a way that they can sleep at night and they understand.

Matt Wilson: Mm-hmm (affirmative).

Bill Keen: And I just think it's so important.

Matt Wilson: Yeah, and it stars up front. You've got to have the right allocation, the right mix of your investments, between the different asset classes, going into these corrections, and these pullbacks, and these bear markets before they happen.

Bill Keen: That's right. And there's a whole other segment, Steve too, when we work with folks that have maybe sold businesses, that have liquidity events, that you look up and they've forked their whole life, and this isn't necessarily the masses, but they look up and they've sold the business, and they're sitting on $20 million, let's say, of investments. And usually, they're used to having all their money in business and now they're sitting on $20 million, and the question that they have now, it's a little different than your typical retiree, coming out of maybe a corporation, or the engineer we work with, but they're saying, "Well guys, I don't need to invest this money. I can put it under my mattress and I'll never spend it all." Or, "I could put it all in a treasury bill and I'll never spend it all." And for them, there's a little different consideration about, "Am I going to be a good steward of these resources? Am I going to understand how this all works and think forward thinking about what kind of a difference can these assets make?" For my family, for my heirs, for the community, for their charitable involvement, those kinds of things.

Bill Keen: And in most cases, those folks, even though they could get a zero percent return and still be okay, net of inflation and everything, but even in those cases, and most of the time they say, "No, we want to be good stewards. We want to understand this, and we want to have participation in the equity markets even though there's going to be some volatility." A good portion of our clients couldn't make their plan work if they only made 2% a year or zero percent a year, they don't have that choice. So there's almost the non-choice choice of, "Okay, we need some assets in our portfolio that are going to grow in the equity type return. There's others that don't and still choose to be involved in the markets as well. So it's a spectrum, isn't it, Matt?

Matt Wilson: It is. Yeah. I mean, everyone's different, but it is. And we talk about the five year rule, of having at least five years of your income needs in fixed income. And that's different for everybody, too. Everyone's unique when we come up with this. That's just our minimum number when we talk to somebody who's pulling money out of their accounts-

Bill Keen: Yes.

Matt Wilson: To live on. But it's part of our process to have this conversation and really figure out what's right for them because people experience markets different. They're going to have different emotional reactions, so we just want to make sure they're set up for success, not set up for failure.

Steve Sanduski: So I think that is just a great insight, that in the financial markets, when we go from an all time high to the bottom of a bear market back up to the next all time high, that on average, that cycle has lasted about three years, and as you work with your clients, you create portfolios that generate about five years worth of income that is for the most part going to be shielded from equity market volatility. So I think that is a great insight. Now the question that I had, though, is for that part that is in the five years, you talk about fixed income. Are we just talking bonds, or are there other asset classes that you're investing in, and can you talk about that at all? What are these other sources where you can generate that kind of income without tremendous volatility?

Bill Keen: Yeah, so that bucket, so to speak, is in bonds, and it's a mix of government bonds and corporate bonds and short term bonds and long term bonds. So a lot of different types of bonds, but yes, bonds primarily in this stage in the investment cycle. And in addition to that, that amount of their income needs is ... we figure that out up front. How much are you going to be pulling out of this account? So we take that number and we come up with, "Okay, well we want to have five years of that amount of money in this fixed income bucket." Or, "We want that to be 10 years." Whatever that number is. And that fixed income, it generates a yield, interest rates aren't real high, but it's a couple, 3%, 4%, it kind of varies depending on the mix between the types of bonds that are in there, but then we also have income coming in, Steve, off of the equity investments, off the stock investments, via the dividends. So there's income, there's in flow into the portfolio via interest payments from these bonds, and also dividend payments, which helps supplement the withdrawal that someone's taking out of their account.

Steve Sanduski: And speaking of the supplement, are you also taking into consideration maybe they have social security income, or maybe they have a pension? Are you taking in those types of other sources of income to come up with this five year bucket?

Bill Keen: So we look at those in both ways, in terms of, "Okay, well if you have social security, that is a certain amount of income you're going to receive for the rest of your life." And we look at, okay, from a financial planning standpoint, if we need $10,000 a month to live on and we're going to get three of it from social security, well we need seven to come from the investments. And we don't look at social security as a replacement for bonds, it's one of the legs on the stool, just like a pension is. If you have a monthly income from a pension payment. That's just one of the legs of the stool, and yes, you can make a case that someone could be more in stocks than their other investments because they have social security or a pension, but again, it's a unique individualized how much in stocks and bonds from an emotional standpoint. So we have tools and we have a way to go through and identify how much in stocks and bonds for everybody to begin with from an emotional standpoint, but then, too, when we back into this years in bonds, that's also just, "Okay, well we want to have at least a certain amount, so let's talk about what that minimum is, and now let's work about, okay, let's make sure that's comfortable for you and show you what some stress testing around that looks like."

Steve Sanduski: Well great. Well let me just briefly summarize what I think we've talked about today, and then we'll let you guys wrap up with some final words. So I think we can say that historically, the financial markets, particularly the stock market, the equity market, has gone up over time in the United States, so if you invested over a long enough period of time, you typically have positive returns, we've got the data that shows that. Again, past performance is no guarantee of future results. Also, that the timeframe from the all time high in a stock market to the bottom of a bear market and back up to the top of the next all time high, that cycle has lasted about three years.

Steve Sanduski: And then, in terms of how do you manage through that period, you folks are putting together buckets, or income portfolios, or sources of income that will last for about five years that are in non-volatile areas. So that is one way that you work with your clients to help them not get too worried about these volatile times in the financial markets. And then, last point is that that bucket of income, that can consist of bonds, it could be government bonds, it could be corporate bonds, and that may be supplemented by things like social security or maybe a corporate pension plan or other stable sources of income to get you that five year income bucket. So did I miss anything there in terms of kind of a brief overview?

Bill Keen: I think you did a good job with it there. As we wrap the show today, what we want to help folks, set them up for success. We want to help them think through what their "why" is, what they're trying to accomplish in their life, make that financial plan representative of their goals, their dreams, their desires, what they're trying to accomplish both today and out into the future. And we want to make sure that folks understand where they are, what makes sense for them. Five years is a starting point that folks that have been completely afraid of the equity markets and have zero dollars in the equity markets, and that plan wasn't going to work for them, they were going to pull back some of their expectations about their standard of living and retirement, and we've had one case where someone had 20 years of their income needs in the fixed side, or set aside, like Matt said, but it still allowed them to have about a third of their portfolio in the equity markets, which drove enough of the positive return to make some things happen for them in their lives that otherwise wouldn't have.

Bill Keen: So everyone is different with how this works, but we wanted to take the short amount of time today to lay out, yes, perspective on history, but then real strategy about how things can work for someone really day to day and in their plan. And not to forget, it's always about diversification as well, from across asset classes and across individual securities as well, never be too over-concentrated in one thing, and having a plan that we're pre-committed to, to get folks through it no matter what happens. So if you're listening and you don't have a plan in place, you feel like you're flying blind, which could be happening because the market has had this really nice 10 year run and you've kind of just been on autopilot, if you're in that position, I would highly recommend that you really get deliberate about this, get with a good firm.

Bill Keen: Keen Wealth would be willing to help folks who want to better themselves, who want to have a plan in place, but I think it's really important as we deal with some of this volatility, and you're talking about your family's long term survival and the thriving of your family long term, that you get deliberate about it, have a plan in place that you have confidence in, know why you're doing what you're doing. Don't just rely on someone that you haven't maybe vetted appropriately and know in your heart you've got a plan in place that works and someone that communicates with you regularly about it. I think it's important that we went through this today, so Steve and Matt, as usual, I really appreciate both of you. I think we're making a difference, and I think from the results, some of the feedback we're getting, I know that for a fact.

Steve Sanduski: Excellent. Yeah, another great episode here. So if you'd like to learn more, please go to KeenOnRetirement.com, that's K-E-E-N on retirement.com, and you can check out the show notes from this episode and all the previous ones. And guys, great information here, really valuable and profound insight. So thank you, and we'll look forward to the next episode of Keen on Retirement.

Bill Keen: All right, Steve. Thank you.

Matt Wilson: Thanks, Steve.