

# Rethinking Retirement

Bear Market Insurance





# PROTECT YOUR RETIREMENT SAVINGS

Americans need to build retirement savings through careful investing and participation in asset classes — such as equities — when they are

young so that their retirement assets can grow, outpace inflation and prepare their nest egg for future changes in the economy.

## // AMERICANS MUST ALSO PROTECT THEIR RETIREMENT SAVINGS FROM RISK

### Longevity Risk



#### Outliving Retirement Savings

With historically long lifespans, investors could reach 90 or more years of age. To avoid outliving their savings, people planning for their retirement should consider financial vehicles that generate income that they can never outlive.

### Market Risk



#### Market Losses

People planning for their retirement should take age-appropriate risk at each life stage, such as by maximizing growth in the early years and reducing market risk as retirement approaches. Risk may also be reduced during retirement or as markets become overvalued.

### Inflation Risk



#### Purchasing Power Losses

People planning for their retirement should consider investments prior to—and during—retirement that provide inflation protection. Stocks or investments that are linked to stocks generally protect against inflation over the long-term.

### Investment Behavioral Risk



#### Buying late, selling early

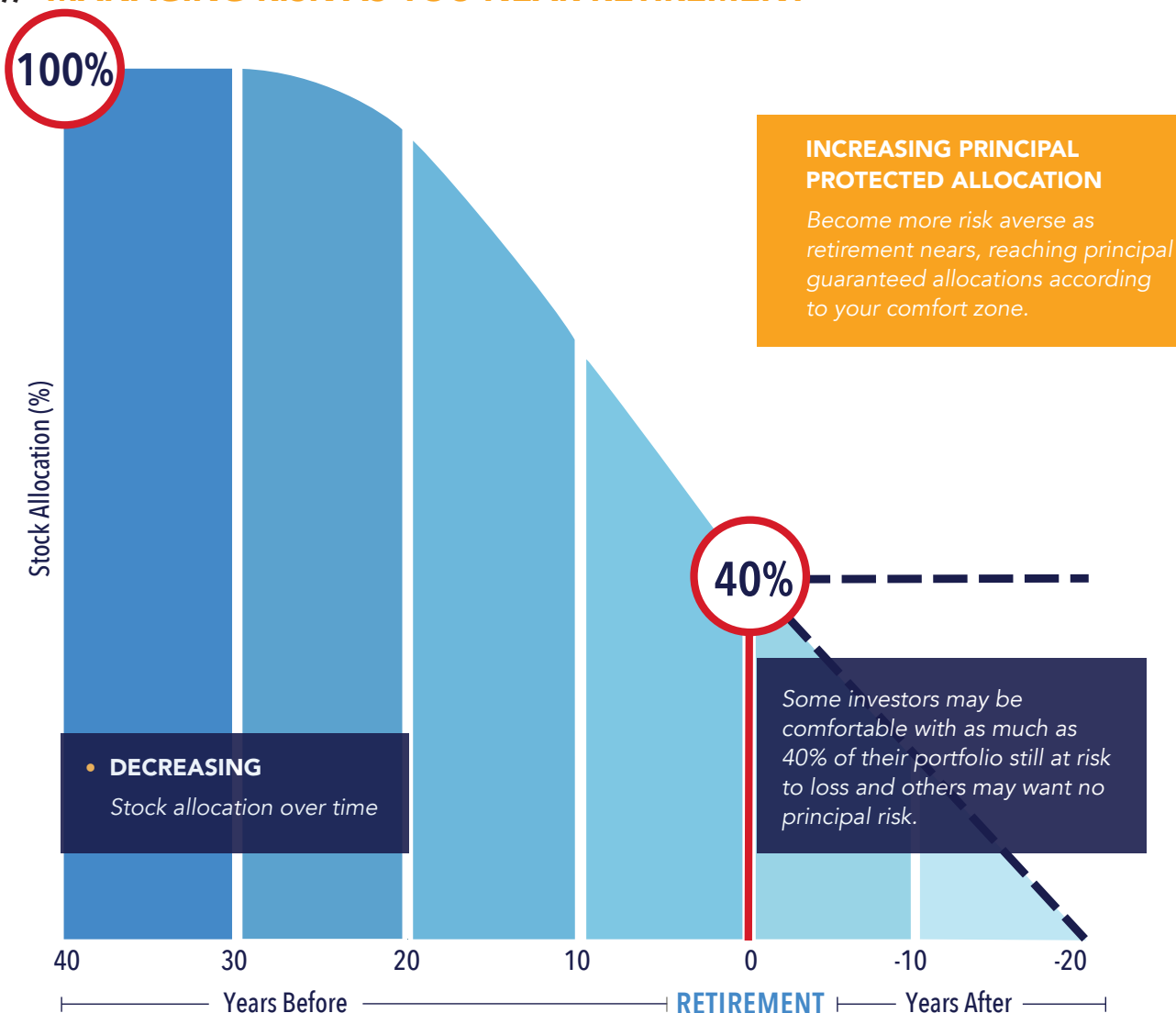
People planning for their retirement should moderate risk so that they do not “buy and sell” in ways that reduce their long-term returns. Protecting principal first allows them to better participate for the long run.

# MARKET RISK SHOULD BE REDUCED WITH AGE

Risk can be valuable when an investor is young. Historically, stocks have provided generally higher returns. Stocks also provide risk as investors approach or move into retirement. WealthVest's recent national survey<sup>1</sup> demonstrates that investors want less or no risk, but often have portfolios with great risk. One way to address these competing desires is to slowly reduce risk

as a person approaches retirement, eventually either eliminating risk or reducing it to the lowest level that is comfortable for an individual. Retirees should generally not take on risk that is greater than they can afford to lose, and they should avoid risk that can damage their long-term retirement income needs.

## // MANAGING RISK AS YOU NEAR RETIREMENT



1. WealthVest, Retirement Realities Study (Bozeman, MT: WealthVest, 2018).

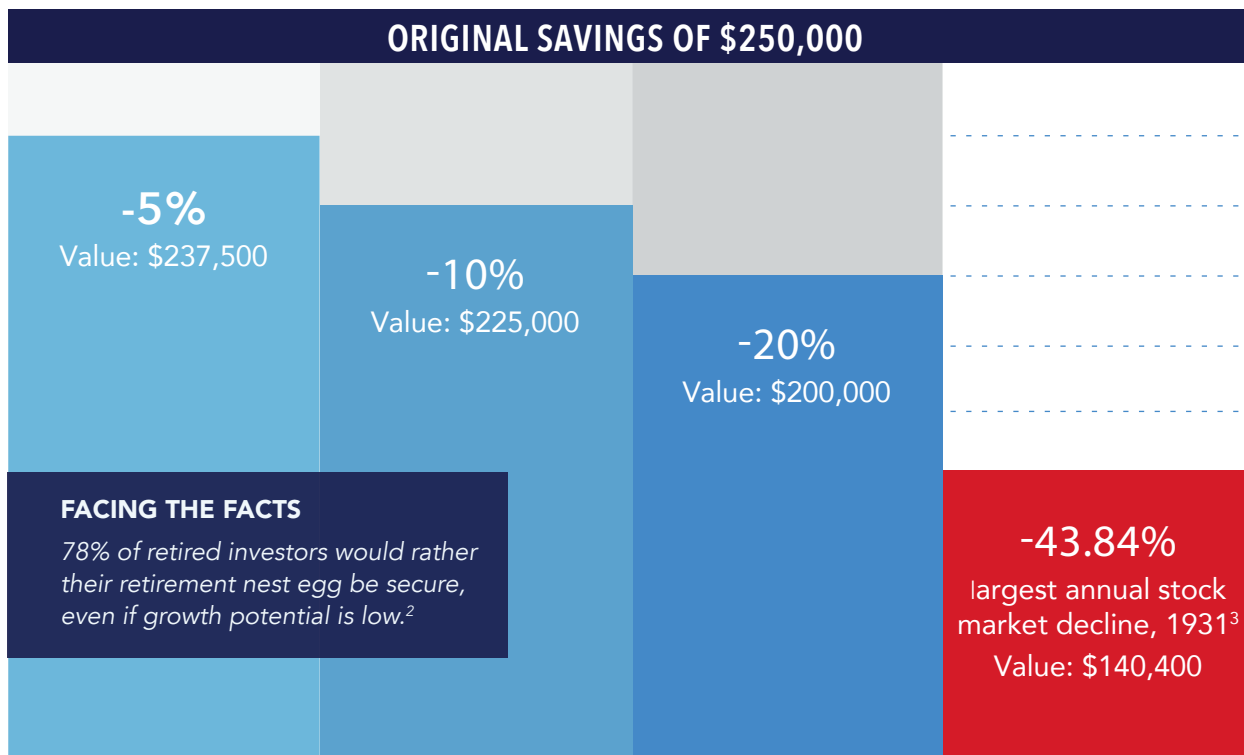
# LOSS OVERPOWERS GAIN

*Losing money in your portfolio can make achieving gains even more difficult*

It is important to realize that loss can overpower gain. In order to “make up” for a loss, a higher return is necessary to compensate for the lost funds. Simply put, after a loss, you have fewer assets to work with, so the remaining assets must work harder to offset it.

Although this scenario can be a more limited setback if you are in your early savings years, the closer the losses are to your target retirement age—or if losses occur during retirement—the more impactful the losses can be to your standard of living.

## // % GAIN REQUIRED TO RECOUP LOSS IN ONE YEAR



2. Gallup, Investors Risk-Averse When It Comes to Retirement Savings <http://bit.ly/1LjcPdr> (Feb. 2020)

3. Stock market decline is based on the S&P 500® Index. NYU Stern School of Business, Annual Returns on Stock, T. Bonds and T. Bills: 1928 - Current <http://bit.ly/1rr5h3v> (Jan. 2020)

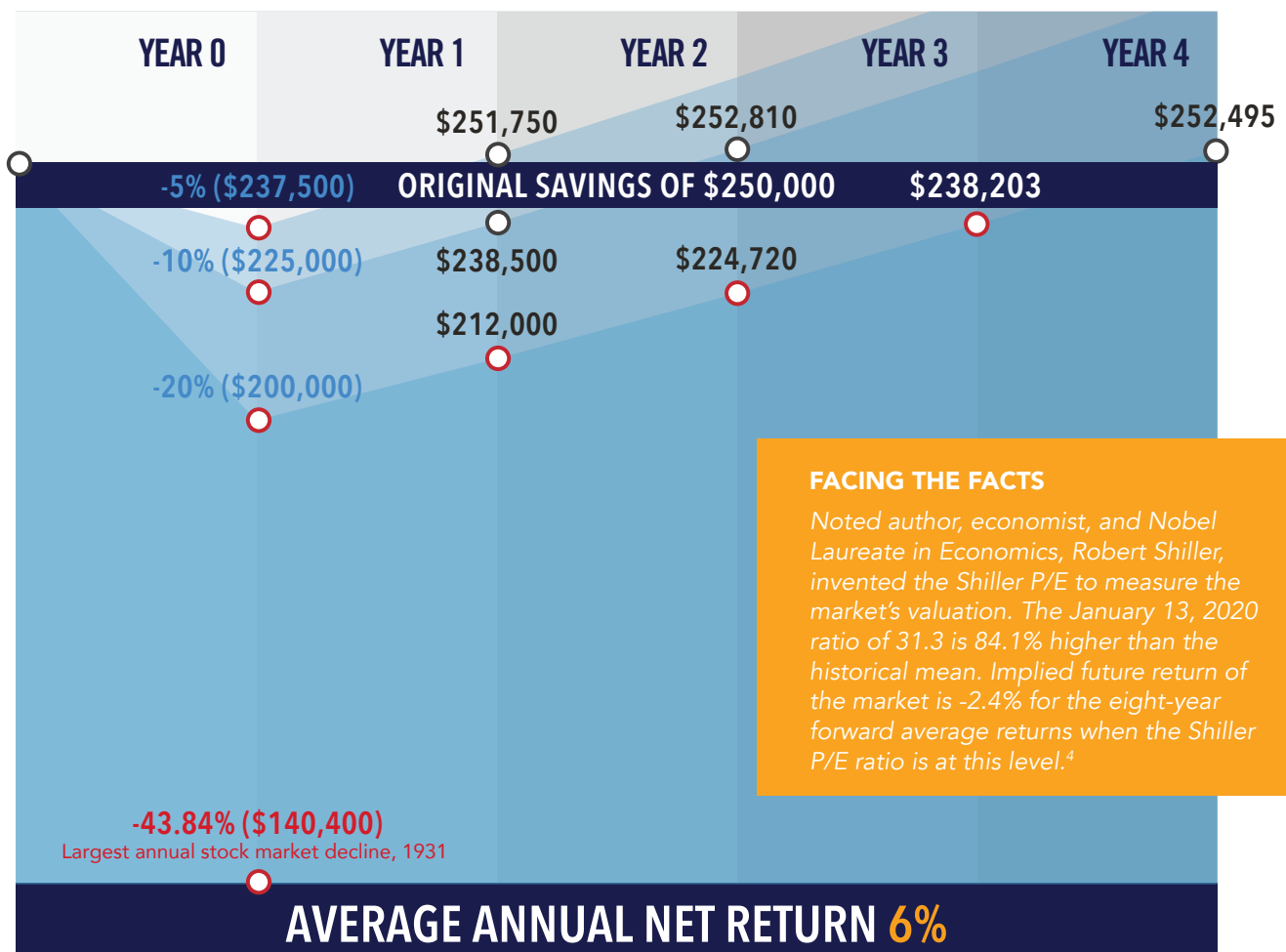
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# TIME MAY NOT BE ON YOUR SIDE

## *It can take years to overcome one bad day in the market*

One asset that we can never make up is time. A significant market correction as you approach or begin your retirement can dramatically impact your nest egg and your retirement income. When you are younger, there is time to make up for losses.

If retirement is approaching in a few years, or if you are only a few years into your retirement, then any loss can have a very real impact on your living comfort and the longevity of your savings.



### FACING THE FACTS

Noted author, economist, and Nobel Laureate in Economics, Robert Shiller, invented the Shiller P/E to measure the market's valuation. The January 13, 2020 ratio of 31.3 is 84.1% higher than the historical mean. Implied future return of the market is -2.4% for the eight-year forward average returns when the Shiller P/E ratio is at this level.<sup>4</sup>

4. Shiller's P/E ratio is as of 1/13/2020. - A Better Measurement Of Market Valuation <http://bit.ly/17AHW75> (January, 2020)

# BEWARE OF BEAR MARKETS

Stock markets often go up. Over the long course of history, they have tended to go up more often than down. The United States benefited from a rapidly growing economy during the late 19th–20th century, and strong economic growth helps to drive stock prices.

Since 1870, stock markets have tended to appreciate 7–8% per year after all investment fees.

However, after long periods of stock market gains, we tend to experience significant periods of losses or periods of very small gains. In reality, both are generally true. Markets hit a high, then they fall a substantial amount—either quickly or over time—and the markets finally recover.

How much do they fall? Well, that depends upon how high they have risen. We talk in terms of markets being at 10,000, 15,000 or 20,000. This is called the nominal level of the market.

## // PAST BEAR MARKETS<sup>5</sup>

BEAR MARKET	STARTING DATE	ENDING DATE	PEAK TO TROUGH
Panic of 1873: The Long Depression	Feb-1873	Nov-1873	-19.89%
Panic of 1893: Railroad Bubble	Jan-1893	Aug-1893	-27.13%
Panic of 1907: Knickerbocker Crisis	Sep-1906	Nov-1907	-35.78%
Wall Street Crash of 1929: Black Tuesday	Sep-1929	Jun-1932	-83.16%
Crash of 1937-1938	Feb-1937	Apr-1938	-43.47%
1946 Bear Market: Inventory Recession	May-1946	Jun-1949	-22.65%
Crash of 1957	Jul-1957	Dec-1957	-16.18%
Crash of 1962: Kennedy Slide	Dec-1961	Jun-1962	-21.82%
Crash of 1966	Jan-1966	Oct-1966	-16.84%
Crash of 1968-1970: Vietnam Jitters	Oct-1967	Jun-1970	-20.10%
Crash of 1973-1974 : Nixon & OPEC price shocks	Jan-1973	Sep-1974	-36.60%
Crash of 1980-1982: Volcker Crash	Nov-1980	Jul-1982	-18.05%
Crash of 1987: Black Monday	Aug-1987	Dec-1987	-26.09%
Crash of 2000: The Dot Com Bubble	Aug-2000	Oct-2002	-42.04%
Crash of 2007: The Housing Bubble	Oct-2007	Mar-2009	-49.94%

*This table was compiled using Robert Shiller's monthly data. Dividends have been included in the returns and no advisory fees were applied in demonstrating this historical stock market table.*

5. Home Page of Robert J. Shiller. Accessed January 30, 2020. <http://www.econ.yale.edu/~shiller/data.htm>.

An important measure of a market is the P/E ratio (i.e., the price of a stock divided by the earnings of a stock). When we speak of the stock market, we talk in terms of all the stocks in the market divided by all of the earnings of all of the companies.

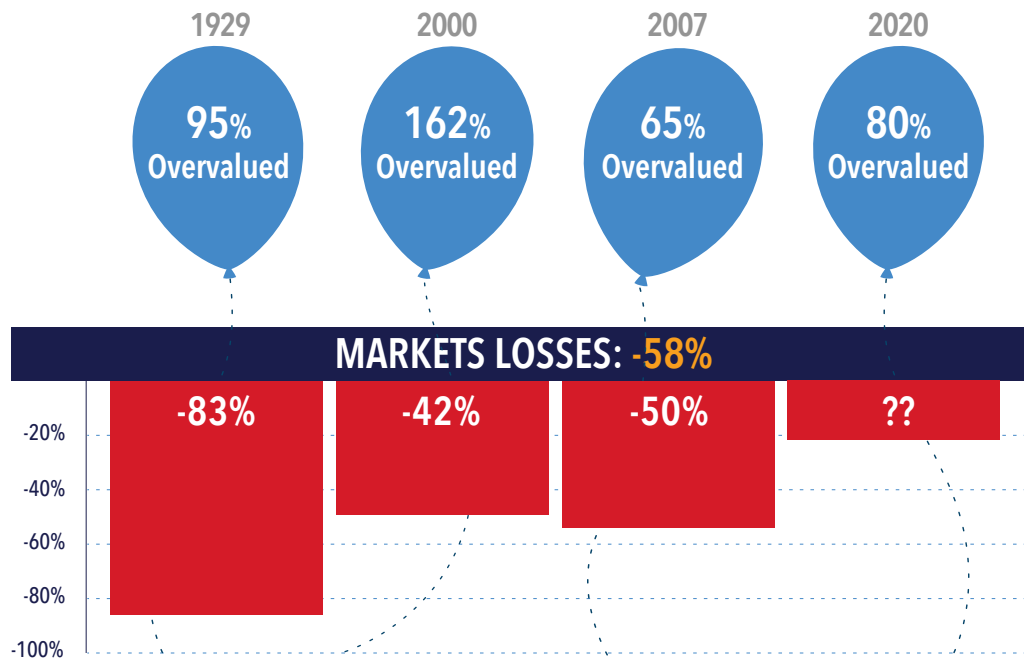
One subcategory of P/E ratios (how expensive are stocks today) is the Shiller P/E<sup>6</sup> (also known as the cyclically adjusted price earnings (CAPE) or the P/E 10) ratio. This measure looks at real per share earnings over a 10-year period. The Shiller P/E is

named after Robert Shiller, a noted economist, Yale professor and 2013 Nobel laureate in economics.

On January 1st, 2020, the stock market was at *the 3<sup>rd</sup> most expensive period of history*<sup>7</sup>, slightly below Black Tuesday in 1929 and where the market was prior to the crash in the 2007 housing bubble, but lower than the period prior to the dot-com bubble bursting, in 2000.

## // WHEN MARKETS ARE OVERVALUED<sup>8</sup>

*Balloons are ready to Pop*



The measure in which the Shiller P/E is overvalued has been adjusted to the average historical price. In the graphic above, the over valuation was calculated from the top months for the Shiller P/E ratio in the year of the market correction. In this case September 1, 1929; January 1, 2000 and May 1, 2007. The average bear market indicator, as expressed as a Shiller P/E Ratio, on the S&P 500<sup>®</sup> as of January 1st, 2020 is 16.69.

There is no way to know if a recession is imminent, however, when looking at the historical analysis, the stock markets are highly expensive and in line with several major corrections that have occurred in the past.

What 2020 brings is anyone's guess, but 2019 was characterized by high market valuations and global trade pressures.

6. Will Kenton. "P/E 10 Ratio." Investopedia. January 9, 2018. Accessed January 14, 2020. <https://www.investopedia.com/terms/p/pe10ratio.asp>

7. Shiller PE Ratio. Accessed August 8, 2019. <https://www.multpl.com/shiller-pe>

8. Home Page of Robert J. Shiller. Accessed January 30, 2020. <http://www.econ.yale.edu/~shiller/data.htm>.

**CAN YOUR CLIENT AFFORD TO WATCH  
THEIR PORTFOLIO DECLINE BY 58%?**

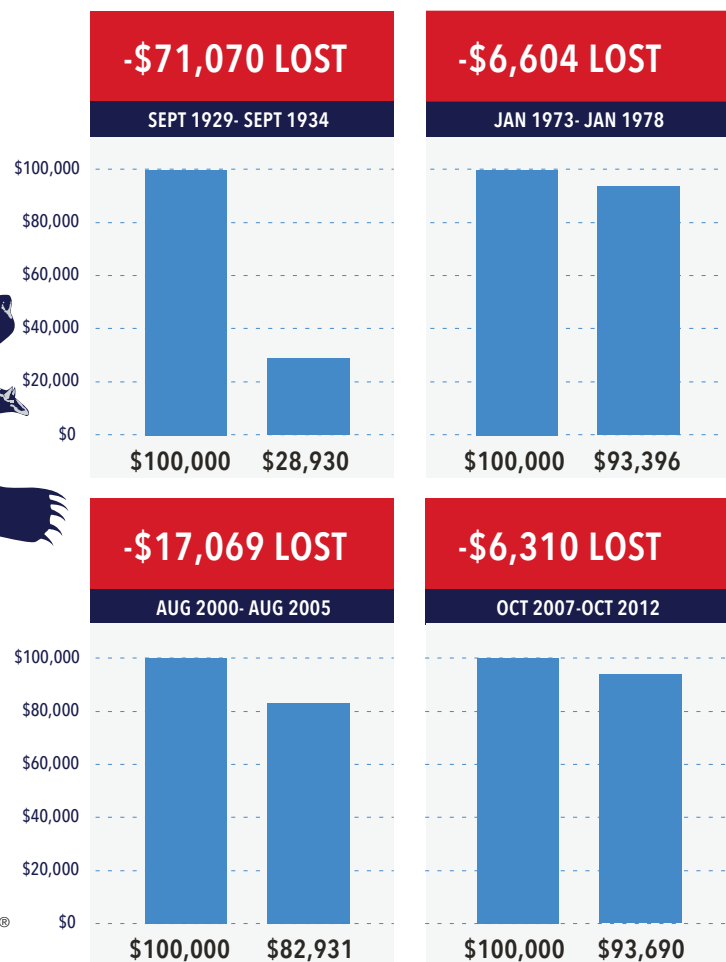
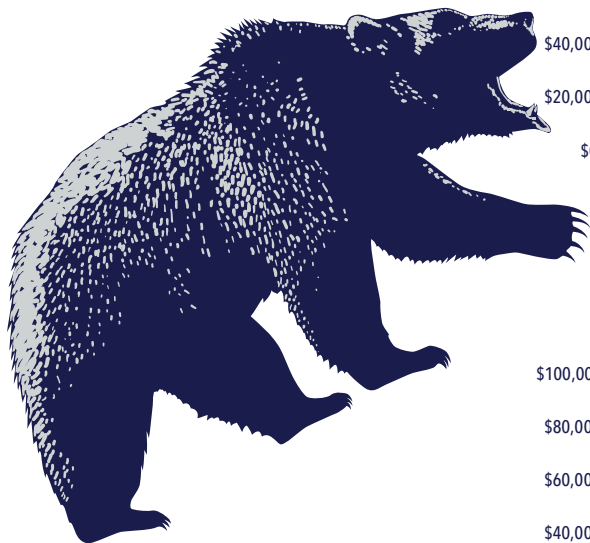
# HOW MUCH CAN A BEAR MARKET COST MY RETIREMENT SAVINGS

Bear markets can be very expensive—and at times cost the average investor up to half of their savings. They can also happen quickly—and the losses in the first few days can weigh on an

investors psychological behavior. After an initial downturn—investors may want to “make up their losses” before they sell equities or they may reduce the equities in their retirement account.

## // PAST BEAR MARKETS<sup>8</sup>

*These examples of four bear markets—all of them starting at a level of over-valuation “stocks being too high”—is similar to today.*



These values were calculated using the S&P 500® prices including dividends, at the start of the monthly peak. They were then compared to the monthly price including dividends 5-years later.

8. Home Page of Robert J. Shiller. Accessed January 30, 2020. <http://www.econ.yale.edu/~shiller/data.htm>.

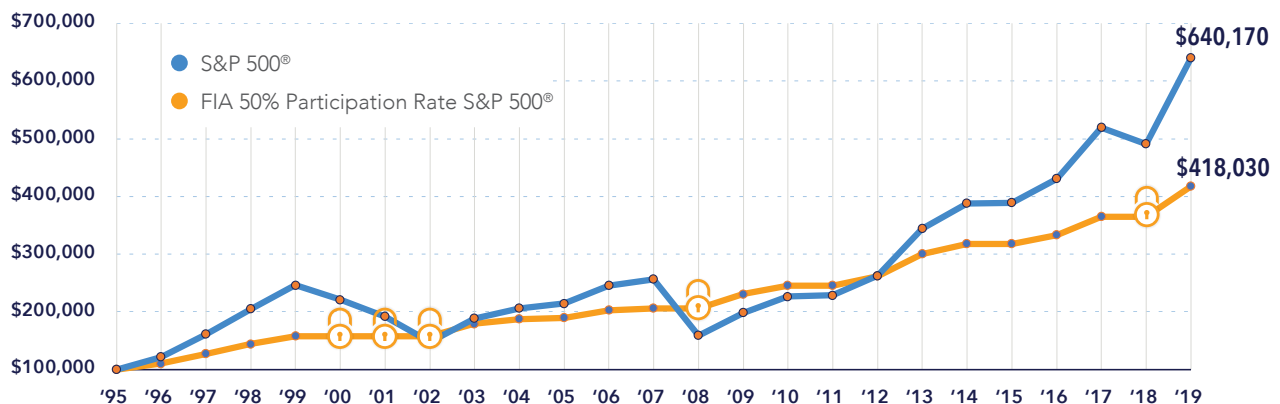


# BEAR MARKET INSURANCE FOR YOUR RETIREMENT: FIXED INDEX ANNUITIES

Fixed index annuities (FIAs) are a form of bear market insurance. FIAs are insurance contracts that provide interest credits that allow your contract's account value to grow as the market appreciates by linking interest credits to the positive return of a stock market index (e.g. the S&P 500®.) However, in years when the market declines, your contract's account value is protected and will not decline.

This strategy is known as an "annual point-to-point." The market gains of the related index used to calculate interest credited to the contract's account value are capped. This is typically done in the form of a stated number, such as 6% cap (i.e. if the index has gains of 8%, 6% interest is credited to the FIA contract value.) Another popular form is the annual point-to-point with a participation rate. In this case an FIA may have a 50% participation rate (if the index tracked has gains of 20%, then 10% interest is applied to the FIA contract value.)

## // FIAs SINCE INCEPTION



These hypothetical examples are intended to illustrate how index fluctuations might affect your contract values based on the selected crediting methods. They are not intended to show past or future results. The hypothetical products were purchased on 12/29/1995 and the initial premiums and the hypothetical investment amount in the S&P 500® was \$100,000. The depiction assumes no withdrawals or additional premiums or principal were added during the 24-year period ending 12/31/2019. Index returns for a given year have been calculated by comparing the adjusted close from the last trade day of the preceding year with the adjusted close from the last trade day of the given year. For example, the return for 2003 is calculated using the adjusted close of the index on 12/31/2002 and the adjusted close of the index on 12/31/2003.

The S&P 500® returns shown include dividends. Annual returns were modeled using ticker symbol (^SP500TR).

The S&P 500® returns shown are net of assumed management fees. The annual assumed management fee used within the model was 1.14% and is based on a summation of the annual average fee for households with managed assets of \$1 million to \$1.5 million in 2018 of 1.06% and the average equity index mutual fund average fee of 0.08%. This fee data was gathered from McKinsey & Company and ICI Research, respectively. The returns for the participation rate crediting method was calculated using the S&P 500® return for a given year, excluding dividends and fees. This was done to mimic how fixed index annuity interest credits are calculated in the real world. These returns were modeled using quotes from ticker symbol (^GSPC). All data used was from Yahoo! Finance.

**A fixed index annuity (FIA)** is a tax-deferred, long-term retirement vehicle issued by an insurance company. FIAs are designed to meet long-term needs for retirement income. While product and feature availability may vary by insurance carrier and state, in general, FIAs provide guarantees of premium (backed on the financial strength and claims paying ability of the issuing company) credited interest (subject to surrender charges) and a death benefit for beneficiaries. Any distributions may be subject to ordinary income tax and, if taken prior to age 59 1/2, an additional 10% federal tax. Early withdrawals may result in loss of premium and credited interest due to surrender charges.



## LOCKS IN INTEREST CREDITS DURING MARKET DECLINES

### // DID YOU KNOW?

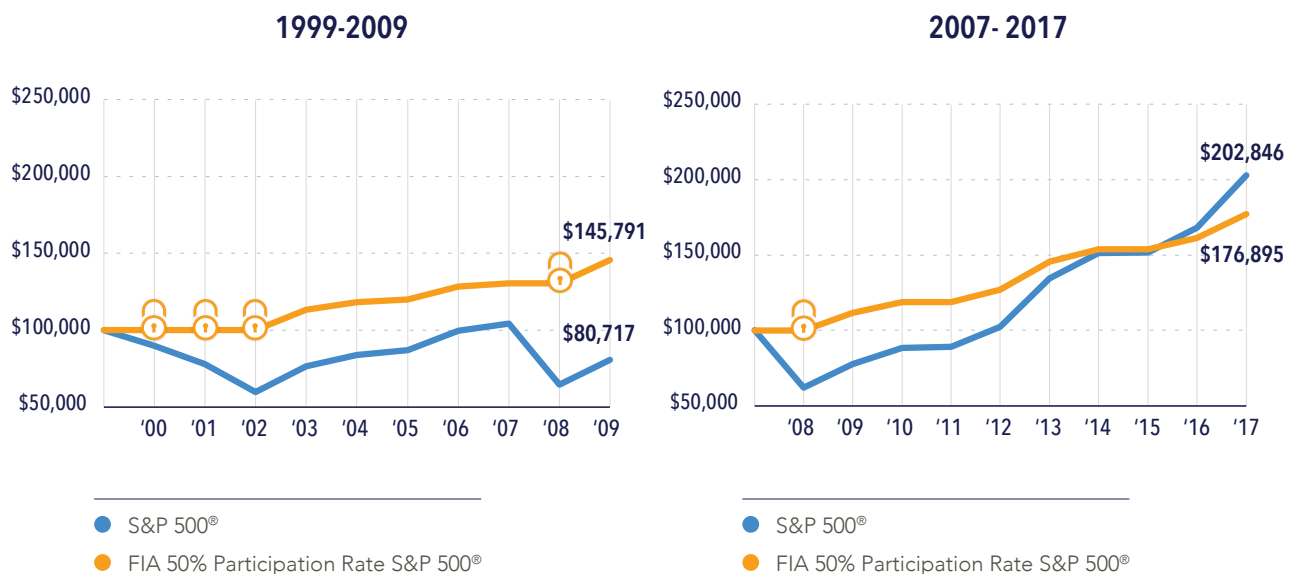
Fixed index annuities do not have a memory past one year, so interest credits are locked in during market declines. This allows the fixed index annuity account value to remain level during declines and gain on subsequent increases, regardless if the high watermark has been reached.

## ANNUITIES CAN PROTECT YOUR PORTFOLIOS FROM THE WORST BEAR MARKETS

Now, let's look at the two most recent bear markets compared to an FIA over a 10-year period. The S&P 500® from 1999-2009 and 2007-2017 are both characterized by large initial losses, that take years to recover from. In the loss years,

the FIA account value is not going up, but you are not losing money. In years when the stock market is going up, you are gaining interest credits.

### // ARE WE APPROACHING OUR NEXT BEAR MARKET?



*These hypothetical examples are intended to illustrate how index fluctuations might affect your contract values based on the selected crediting methods. They are not intended to show past or future results. The hypothetical products were purchased on 12/31/1999 and 12/31/2007 respectively. The initial premiums and the hypothetical investment amount in the S&P 500® was \$100,000. The depiction assumes no withdrawals or additional premiums or principal were added during each of the 10-year periods ending on 12/31/2009 and 12/29/2017, respectively. Index returns for a given year have been calculated by comparing the close from the last trade day of the proceeding year with the close from the last trade day of the given year. For example, the return for 2003 is calculated using the close of the index on 12/31/2002 and the close of the index on 12/31/2003.*

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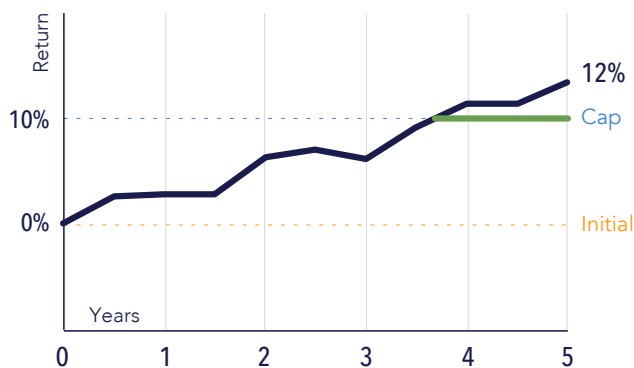
*The returns for the participation rate crediting method was calculated using the S&P 500® return for a given year, excluding dividends and fees. This was done to mimic how fixed index annuity interest credits are calculated in the real world. These returns were modeled using quotes from ticker symbol (^GSPC). All data used was from Yahoo! Finance.*

# BEAR MARKET INSURANCE FOR YOUR RETIREMENT: MARKET LINKED CDs

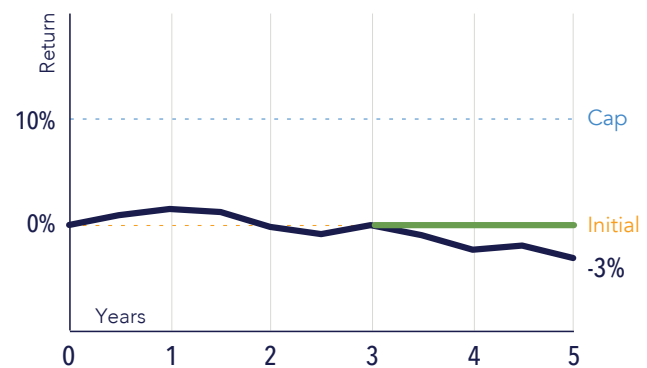
While fixed-index annuities also offer principal protection, some investors are looking for slightly shorter surrender schedules and may also want to withdrawal their money penalty-free prior to age 59<sup>1/2</sup>. In this case market linked cd's (MLCDs) can be an attractive alternative.

MLCDs are a safe money alternative with market upside potential and downside protection. They can be used as a hedge against inflation because there is a stronger protection against decreases in purchasing power when a return is linked to an underlying asset, the value of which can move in a way that correlates to a rise in inflation, and not a fixed rate of return.

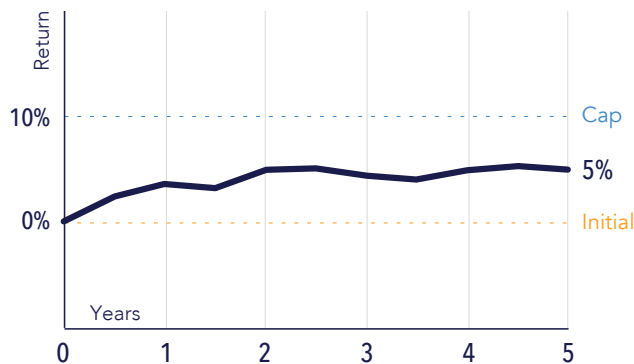
ALL THREE OF THESE SCENARIOS DEMONSTRATE A MLCD WITH A 10% CAP



In the hypothetical situation above the underlying asset has a 12% return. In this case, the MLCD is capped at 10%.



In the hypothetical situation above the underlying asset has a -3% return. In this case, the MLCD is principal protected.



In the hypothetical situation above the underlying asset has a 5% return. In this case, the MLCD is credited 5%.



**DID YOU KNOW:** Market-Linked CDs have FDIC insurance. The Federal Deposit Insurance Corporation (FDIC) is an independent agency backed by the full faith and credit of the United States government. The FDIC offers protection to cover standard deposits in the event an issuer fails or goes bankrupt and insures losses in an individual account up to \$250,000\*.

\*Market Linked CDs are FDIC insured up to the FDIC limits backed by the full faith and credit of the U.S. Government. FDIC insurance is up to \$250,000 per depositor, per FDIC insured issuing bank,, per ownership category. For more information see: <https://www.fdic.gov/deposit/deposits/faq.html>

## KEY TERMS

- **BEAR MARKET<sup>9</sup>:** A bear market is a market condition that is characterized by widespread pessimism surrounding the stock market. The scope of the downturn varies, but a 20% loss over a two-month period is often considered the beginning of a bear market.
- **FIXED INDEX ANNUITIES (FIAs):** A fixed index annuity (FIA) is a tax-deferred, long-term retirement savings vehicle issued by an insurance company. FIAs are designed to meet long-term needs for retirement income. While product and feature availability may vary by insurance carrier and state, in general, FIAs provide guarantees of premium (backed on the financial strength and claims paying ability of the issuing company,) credited interest (subject to surrender charges) and a death benefit for beneficiaries. Any distributions may be subject to ordinary income tax and, if taken prior to age 59 1/2, an additional 10% federal tax. Early withdrawals may result in loss of premium and credited interest due to surrender charges.
- **SHILLER P/E:** The P/E 10 ratio is a valuation measure, generally applied to broad equity indices, that uses real per-share earnings over a 10-year period.
- **The P/E 10 ratio** uses smoothed real earnings to eliminate the fluctuations in net income caused by variations in profit margins over a typical business cycle. The ratio was popularized by Yale University professor Robert Shiller, who won the Nobel Prize in Economic Sciences in 2013. It attracted a great deal of attention after Shiller warned that the frenetic U.S. stock market rally of the late-1990s would turn out to be a bubble.
- **S&P 500<sup>®</sup> ANNUAL POINT-TO-POINT WITH A CAP RATE:** This is a crediting method which features annual reset. You receive 100% of the S&P 500<sup>®</sup> up to a stated cap. Your gains are locked in annually and you have 100% principal protection.
- **S&P 500<sup>®</sup> ANNUAL POINT-TO-POINT WITH PARTICIPATION RATE:** This is a crediting method which features annual reset, typically on the contract anniversary date, which places no limit on your upside potential. For example, if we will assume a 45% participation rate, clients simply receive 45% of the S&P 500<sup>®</sup> excluding dividends, upside with all gains locked in annually with 100% principal protection.

## DISCLOSURES

The S&P 500<sup>®</sup> is a trademark of Standard & Poor's Financial Services, LLC and its affiliates and for certain fixed index annuity contracts is licensed for use by the insurance company producer, and the related products are not sponsored, endorsed, sold or promoted by S&P Dow Jones Indices LLC or their affiliates, none of which make any representation regarding the advisability of purchasing such a product. WealthVest is not affiliated with, nor does it have a direct business relationship with Standard & Poors Financial Services, LLC. When you buy a fixed index annuity, you own an insurance contract. You are not buying shares of any stock or index.

This is not a comprehensive overview of all the relevant features and benefits of fixed index annuities. Before making a decision to purchase a particular product be sure to review all of the material details about the product and discuss the suitability of the product for your financial planning purposes with a qualified financial professional.

The annual reset allows for any interest credited on each contract anniversary to be "locked-in" and it can never be taken away due to market decreases. The interest credited is added to the accumulation value of your contract, which then becomes the guaranteed Accumulation Value "floor" that will be included in the calculation of the interest that is credited going forward, subject to any withdrawals and applicable rider fees. The annual reset sets the index starting point each year at the contract anniversary. This reset feature is beneficial when the index experiences a severe downturn during any given year because not only do you not lose accumulation value from the downturn, but the new starting point for future growth calculations is the lower index value.

9. Kenton, Will. "Bear Market." Investopedia. June 11, 2019. Accessed January 30, 2020.  
<https://www.investopedia.com/terms/b/bearmarket.asp>



Although an external index may affect your interest credited, the contract does not directly participate in any equity investments. You are not buying shares in an index. The index value does not include the dividends paid on the equity investments underlying any equity index. These dividends are not reflected in the interest credited to your contract. Guarantees are backed by the financial strength and claims-paying ability of the issuing insurance company and do not apply to the performance of the index, which will fluctuate with market conditions. Annuities are designed to meet long-term needs of retirement income. Annuity contracts typically require money being left in the annuity for a specified period of time, usually referred to as the surrender charge period. If you fully surrender your annuity contract at any time, guaranteed payments provided for in the contract and/or any rider will typically no longer be in force, and you will receive your contract's cash surrender value. Before purchasing an annuity, read and understand the disclosure document for the early withdrawal charge schedule. The purchase of an annuity is an important financial decision. Talk to your financial professional to learn more about the risks and benefits of annuities.

Annuities are designed to meet long-term needs for retirement income. They provide guarantees of premium and credited interest, subject to surrender charges, and a death benefit for beneficiaries.

The interest credited on an annuity contract may be affected by the performance of an external index. However, the annuity contract does not directly participate in the index or any equity or fixed interest investments. The annuity contract does not constitute buying shares of an index. The index value does not include the dividends paid on any equity investments underlying any equity index or any interest paid on any fixed income investments underlying any bond index. These dividends and interest are not reflected in the interest credited to the annuity contract. This material is intended for informational purposes only and is not intended to serve as the basis for any investment or purchasing decision.

Guarantees are backed by the financial strength and claims paying ability of the issuing company.

This brochure is designed to provide general information on the subjects covered. Pursuant to IRS Circular 230, it is not, however, intended to provide specific legal or tax advice and cannot be used to avoid tax penalties or to promote, market, or recommend any tax plan or arrangement. Please note that WealthVest, and their representatives and employees do not give legal or tax advice. You are encouraged to consult your tax advisor or attorney.

Purchasing an annuity inside a qualified plan (retirement plan) that provides a tax deferral under the Internal Revenue Code provides no additional tax benefits. An annuity used to fund a tax qualified retirement plan should be selected based on features other than tax deferral. All of the annuity's features risks, limitations and costs should be considered prior to purchasing an annuity inside a qualified retirement plan.

MLCDs do not have a traditional secondary market and are designed to be held to maturity; therefore, these products should be considered illiquid when purchased. However, if a MLCD is repurchased by the issuer prior to maturity, the amount received may be less than the principal amount due to market factors and the time to maturity.

MLCDs are linked to the performance of an underlying asset. If the underlying asset does not go up, then the MLCD may not generate a return.

If MLCDs are repurchased by the issuer early, principal can be lost as these investments are designed to be held to maturity. Please note that WealthVest, and their representatives and employees do not give legal or tax advice. You are encouraged to consult your tax advisor or attorney.

# ABOUT THE AUTHORS

## // WADE DOKKEN



*Wade Dokken has over 30 years of financial services and leadership experience. Wade was the face of American Skandia, leading its sales and marketing strategy from its inception in 1988 to becoming the #1 variable annuity seller in the first quarter of 2000, and ultimately spearheaded the company's sale as CEO in 2003.*

*Dokken is the author of "New Century, New Deal," a public policy analysis of the challenges facing Social Security in the coming decades. Dokken is also a columnist at FA Magazine, providing research white papers on diverse topics such as sustainable withdrawal rates, sequence of returns, and portfolio optimization.*

## // DREW DOKKEN



*Drew Dokken attended the University of Denver, graduating with a Bachelor of Science degree in international studies and a minor in economics. He studied abroad in 2012 to attend Fudan University in Shanghai, China.*

*After graduating college in 2013, Drew attended the Career Development Program at Jackson National Life. Drew obtained a Masters of International Business at Hult University in 2016.*

## NOTES:

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