MARKET MONITOR

ROYAL ASSET MANAGERS, LLC OCTOBER 2021 VOLUME XVI ISSUE 2

Take Financial Worries Out of Retirement by Following Some Simple Rules

BY: MICHAEL ALEXENKO, CFA

Executing a good retirement plan involves more than just a basic mathematical calculation, because we have exogeneous and endogenous factors that create uncertainty which can be either real or perceived. To keep us focused, here are a few simple rules and laws that are worthy of repeating to guide us during good times and bad.

Budgeting is good for you:
A budget is not a tool that your financial planner uses to keep you from spending and enjoying your money. The budgeting process is merely a method by which we discover the lifestyle you are accustomed to living. A financial advisor is indifferent as to whether a couple spends $100K or $200K each year. The important thing to know is how much you're spending and if that rate of spending is sustainable for you. What good does it do you to set out on a path of spending $250K/year when your assets will only allow you to spend $125K?

A happy retirement requires that you don't exhaust assets before you die. Budgeting is a crucial element to protect you from that failure. Without a good budget a reliable financial plan is impossible to develop. So, take time to accurately track your living expenses which will help you identify what spending is mandatory and what might represent excess. This task is most important to complete prior to retirement and will also offer meaningful data during retirement**.**

Carefully select a retirement age:
Continuing to cash your employer's payroll check is one of the most influential factors in financial planning programs, not to mention the psychological benefit you enjoy from the sense of security it creates. The decision to work two or three more years can have a significant impact upon the projected outcome of a financial plan. For some, work is enjoyable and creates a sense of fulfillment. In cases such as this, the decision to retire must include the hopes and dreams of all family members as much as the individual. The choice is not an all or nothing one either. Some might derive as much emotional benefit from part-time work as they get financial benefit by augmenting the use of their retirement resources.

Maximize Social Security Benefits:
Deciding when to claim your Social Security benefits needs more consideration than just resolving to take them as soon as you are eligible at age 62 because you believe that program is heading toward insolvency, and you better get what you can while you can. It's understandable that people are pessimistic about the future of the program, but with the Federal Reserve's ability to print money, the likelihood that the system will become defunct is negligible.

Know that each year you delay to take benefits, they grow by 8%. If you delay benefits until age 70 rather than taking them at age 62, you are likely to increase your annual benefit by more than 60%. If you as primary earner, have a spouse who is more than five years younger than you, it might be best to postpone claiming because your surviving spouse enhances his/her benefits after your death. Use the Social Security website to get estimates of your benefits assuming different claim dates and have a conversation with your local Social Security office around age 60 to get more questions answered

Build a diversified portfolio and stick with an investment strategy:
Increasing your probability of achieving retirement success is highly dependent upon how well you invest. A diversified portfolio with the appropriate asset allocation that gives exposure to no more and no less risk than you are able to tolerate is critical to a happy retirement. Some financial advisors, like Royal Asset Managers, are more adept at this task than others who shamelessly like to charge much more. Investments and financial planning are inextricably linked which is another reason that the budgeting process takes on a central role.

Behavioral Finance/investor psychology errors:
Behavioral finance has captured real investor deficiencies. It's not Wall Street's version of psychobabble. Romance and money might be the most emotional decisions we experience or is the order money then romance? Studies have shown that individuals can suffer from

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You make life easier if you follow sensible rules

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overconfidence when it comes to investing. Some might believe they possess clairvoyance or expect their advisors to have a sixth sense when it comes to picking the right stocks and when to get in and out of the market. This kind of thinking is dangerous overconfidence.

Recency bias is another problem that can cause people to make long term decisions based on recent investment performance. Best not to forecast your portfolio's returns on gains earned in 2020/21. It's sweet to have our portfolios blooming like flowers but spending more or retiring early because we've had a bull market for twelve years ignores the lost decade that we experienced from 2000-09, and could have again soon.

Cash is king:
Always remember to keep enough cash on hand to cover at least twelve months of your expenditures. If you spend $100K/year then on January 1 there should be an aggregate total of at least $100K of cash in your investment accounts.

If you don't have enough cash on hand, you can get caught having to sell at depressed prices or get tempted to sell a bunch of stock exposure at market lows. If you were short on cash prior to this month's market tumble as it was prepping for the Fed meeting, you'd know it was no fun. Cash balances can be the calming medicine needed most when the market tests our resolve.

Like most things in life, we can make retirement a lot easier for ourselves if we follow sensible rules. The Almighty gave us ten to follow that He put in place to help us be happier souls rather than as a practical joke to make us miserable slaves. The same sort of principle applies in the world of personal finance and how we plan for and make our lives less anxious when it comes to our financial security. Temptations abound in our moral lives as they do in our financial ones. Because thoughts enter our minds that pervert our judgment, rules help to keep us disciplined and help remind us what is the right thing to do regardless of what bad choices our emotions are making look attractive.

Market Snapshot:
Fed, Inflation, Taxes and Earnings Will Drive Market Through Year End

By: Michael Alexenko, CFA

Possibly one of the reasons that the mood of the market feels like everyone is waiting for a shoe to drop is that we've arrived at a pretty good place by breaking some rules. We've all raided the treasury; our pockets are full, and nobody is working; something doesn't feel right? This might be some extreme hyperbole but there is a fair amount of truth in the depiction.

Leading up to the most recent Fed meeting the market began to worry that the easy money policy that has gotten us to where we are is going to shut down. Add to this some risks for big tax increases and voila, over two weeks the market decided to shed about 5% from its peak to intraday lows. With the fear of what the Fed chairman might say behind us, the market is adjusting to the concerns that interest rates might begin to move up quickly even before it has to face the anxiety of what the next Fed meeting will bring in early November. Until then we'll also have employment and inflation reports that create chances for rough spots.

Some good news is that mid-October is earning season and this year's market rally has as much to do about great earnings as it does cheap money. Q3 reports should not disappoint, and the Fed has printed enough money that's why interest rates have remained low regardless of high inflation. We'll soon enter the strong seasonal period for the market and there's high probability that it will be a good one.

Publication courtesy of:
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