



BEAR MARKET

SURVIVAL GUIDE:

How to Overcome
Retirement Income
Challenges & Protect
Yourself from
Market Volatility

NAVIGATING THE RETIEMENT RED ZONE

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American investors went more than a decade without seeing a bear market. In fact from March 2009 to February 2020, the market climbed higher with only brief modest declines. That all changed with the arrival of COVID in early 2020.

Like many aspects of life, the stock market was significantly impacted. The S&P 500 fell more than 27% in just over a month in early 2020, launching the first bear market in 11 years.¹

The S&P 500 eventually recovered from the COVID bear market, but it now faces new potential risks. The index technically crossed into bear market territory on June 16, when it had fallen 23.5% from its peak. From that point through late-July, the index recovered more than 8%. However, it is still down 17.22% year-to-date through July 27, 2022.²

While the previous bear market was caused by a single unprecedented event (COVID), the current bear market has several causes. Inflation is at record highs. The global supply chains and labor

markets are tight, causing severe delays and sales disruptions. Interest rates are beginning to level out. And the war between Russia and Ukraine has rattled global stability.

The causes of each bear market may be unique, but bear markets themselves are fairly common. In fact, they tend to happen once every 3.6 years. Going a decade or more between bear markets is rare.³

A bear market can have more serious consequences as you approach retirement. You may not have decades or even years until you retire. That means you may not have time to participate in a market recovery.

If you're close to retirement or already retired, you may need to rely on your investments to generate income. A bear market could reduce your ability to generate income, which could have a very real impact on your standard of living.

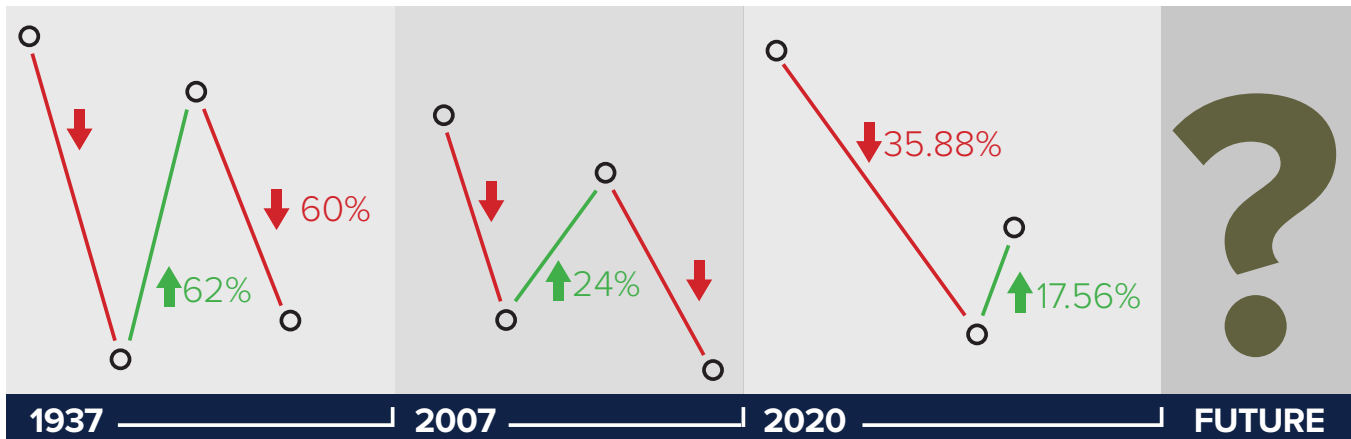
How do you protect your savings from a bear market as you approach and enter retirement?

The right asset allocation can reduce your exposure to market volatility. However, you also may want to incorporate other vehicles that can help minimize risk and protect your retirement income. In this guide, we'll identify some of the unique challenges that retirees face and some tools that can help you enjoy the retirement you've always imagined.

¹ <https://seekingalpha.com/article/4483348-bear-market-history>

² <https://www.google.com/finance/quote/.INX:INDEXSP?window=YTD>

³ <https://www.hartfordfunds.com/practice-management/client-conversations/bear-markets.html#:~:text=Bear%20markets%20tend%20to%20be,average%20frequency%20between%20bear%20markets>



2022 Downturn

The 2022 downturn started with the very first trading day of the year. On January 4, 2022, the Dow Jones Industrial Average (DJIA) hit its all-time high of 36,799. Through July 27, 2022, the index is down 17.22%, although it has been down lower at various points throughout the first half of the year.

A bear market occurs when an index declines 20% or more. That nearly happened in both May and June, when the DJIA had fallen more than 18% from its peak. The index has climbed nearly 7% since hitting a low-point in mid-June.⁴ Such increases are common during market downturns. In fact, the bear market that started in 2007 had a

24% increase at one point before changing course and continuing its downward trajectory.

The market lost 60% in 1937, but not before having a 62% upswing in the middle of the downturn.⁴

The truth is that it's impossible to predict when a

bear market will end and when the next bull market will start. However, while past performance does not ensure the same future results, we can look to history for trends which suggest that the markets will recover. You can prepare for the future by considering history, avoiding impulsive decisions, and implementing a long-term strategy that aligns with your goals and needs.

Retirement Challenges

Today's retirees face a unique set of challenges that can exacerbate the impact of a bear market. Some of those challenges include:

Longevity

According to the Society of Actuaries, a 65-year-old man today has a 50% chance of living to 87 and a 25% chance of living to 92. For a 65-year-old woman, those ages are 90 and 96, respectively. A 65-year-old married couple has a 50% chance that one spouse will live to 94 and a 25% chance that one will live to 98.⁵

A long, healthy life is a good thing. However, a long lifespan can create challenges, especially for your savings. The longer you live, the longer your savings has to last. If you retire in your mid-60s and live to your mid-90s, your assets may need to last several decades. That can be difficult if you suffer a steep decline in the early years of retirement.

⁴ <https://www.google.com/finance/quote/.DJI:INDEXDJX?window=1Y>

⁵ <https://www.fidelity.com/viewpoints/retirement/longevity>



Inflation is the gradual increase in prices for goods and services from year-to-year. It affects everything, from groceries to housing to utilities and more. If you want to see the impact of inflation, consider the cost of your groceries today versus 20 years ago.

Inflation is usually minimal on an annual basis, so it often flies under the radar. However, 2022 isn't like other years. In June 2022, the Consumer Price Index increased 9.1% over the previous 12 months. That's the highest increase for the CPI since 1981.⁶

The Federal Reserve is predicting a 6.6% increase in prices for 2022 and long-term inflation rate of 3.9%.⁷

Inflation likely won't stay at record high levels forever, but it is a normal part of the economy and retirement planning. You'll need to gradually increase your income throughout retirement to overcome increasing costs of living. Again, that can be difficult to accomplish if a bear market reduces the balance of your savings and limits your ability to generate income.

Lack of Guaranteed Income

There was a time when a retiree could rely on combined income from Social Security and an employer defined benefit pension. Those days are long gone. Social Security is a valuable resource for most retirees, but it pays an average benefit of only \$1,461 per month.⁸ While that amount is helpful, it probably isn't enough to fund retirement for most retirees.

Corporate defined benefit pensions have become a rare benefit. In 1998, 59% of Fortune 500 companies offered a pension. By 2019, that figure was down to 14%.⁹

With fewer defined benefit plans and limited Social Security income, how do today's retirees fund their living expenses? With regular distributions from their personal savings. You'll likely rely on your investments to provide a large portion of your income in retirement. Again, a bear market can make it difficult to create the income you need to live comfortably.

Market Volatility

You may think that the best way to avoid a bear market is to simply avoid the markets altogether. After all, if you're not invested in the market, your assets can't decline in value.

However, there's risk in this strategy too. As mentioned, you may need your assets to last several decades, and you'll need to grow your income over that time. That means you'll likely need to continue growing your assets throughout retirement.

Many assets that have no market risk also have limited growth potential. If you move all your assets to so-called "safe" vehicles, you may see little or no growth. That could be problematic in the later years of retirement, especially if you take regular distributions from your accounts. Without growth, you could drain your assets quickly.

⁶ <https://www.bls.gov/opub/ted/2022/consumer-prices-up-9-1-percent-over-the-year-ended-june-2022-largest-increase-in-40-years.htm>

⁷ <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/global-economics-intelligence-executive-summary-may-2022#:~:text=Inflation%20expectations%2C%20as%20estimated%20in,3.9%25%20in%20the%20longer%20term>

⁸ <https://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf>

⁹ <https://www.aarp.org/retirement/planning-for-retirement/info-2021/14-states-that-dont-tax-pension-payouts.html>

Asset Allocation

One of the most effective ways to help minimize risk exposure is through asset allocation. Asset allocation is a strategy in which an investor attempts to balance risk and return by distributing funds across a variety of different asset classes.

There's no universal allocation that's right for everyone. Your allocation should be based on your specific goals, needs, and concerns. Two of the factors to consider when determining your allocation include:

Time Horizon

When do you actually need to use your savings? That's your time horizon. For example, a 30-year-old who is saving for retirement has an extremely long-time horizon because they won't be retiring for another 30 years or more. A 60-year-old who is retiring at 65 has a much shorter time horizon.

Generally speaking, the longer your time horizon, the more risk you can tolerate. Someone with a 30-year time horizon has time to potentially recover from a bear market and will probably experience multiple bear markets in their lifetime. A 60-year-old doesn't have the same benefit of time to recover from a market loss.

Personal Risk Tolerance

Everyone has their own unique perspective when it comes to risk. Some have an aggressive approach and are comfortable with wild swings in their investment returns if it means higher long-term growth. Others are troubled by even moderate declines and find it difficult to tolerate substantial losses, even if they have time to recover.

A financial professional can help you determine your personal risk tolerance. They can use quizzes, questionnaires, and other tools to determine how much risk is appropriate for your comfort level.

Asset Allocation Over Time

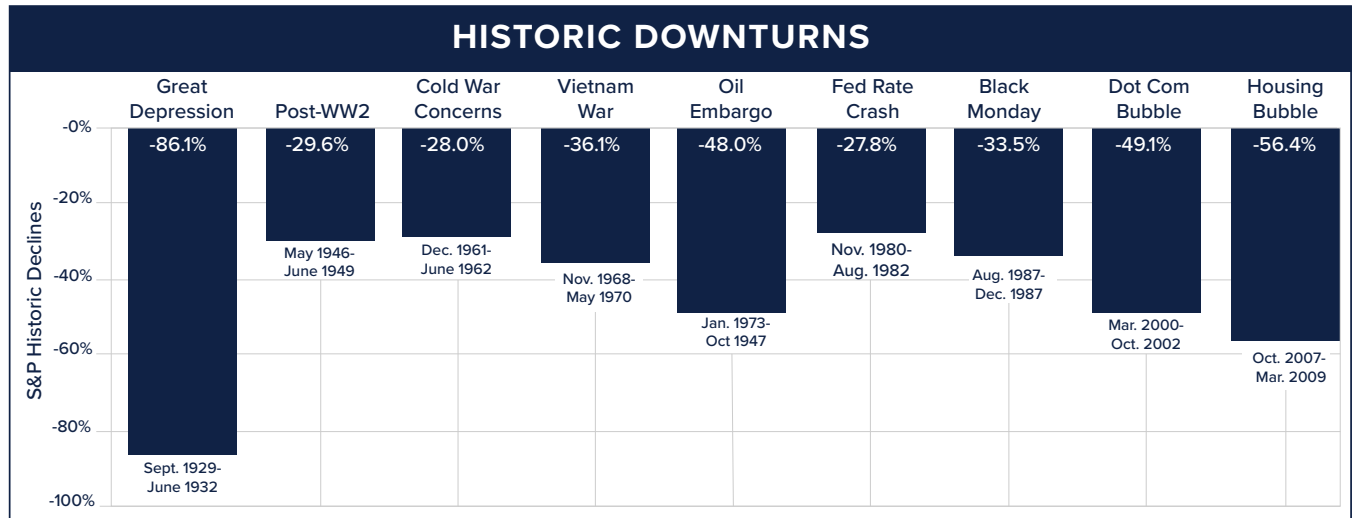
No asset allocation is constant. Rather, you should review and adjust your allocation over time. Your time horizon and personal risk tolerance change as your life changes. Many investors become more conservative as they approach retirement, and their exposure to riskier assets, like equities, may decrease over time.

Asset allocation does not ensure a profit or protect against loss.



History of Market Downturns

Over the long-term, the financial markets have trended up. However, downturns happen. The most severe downturns - market declines of 20% or more - are known as “bear markets.” While bear markets aren’t frequent occurrences, they do happen. Below is a list of 11 bear markets in the past 100 years:⁹

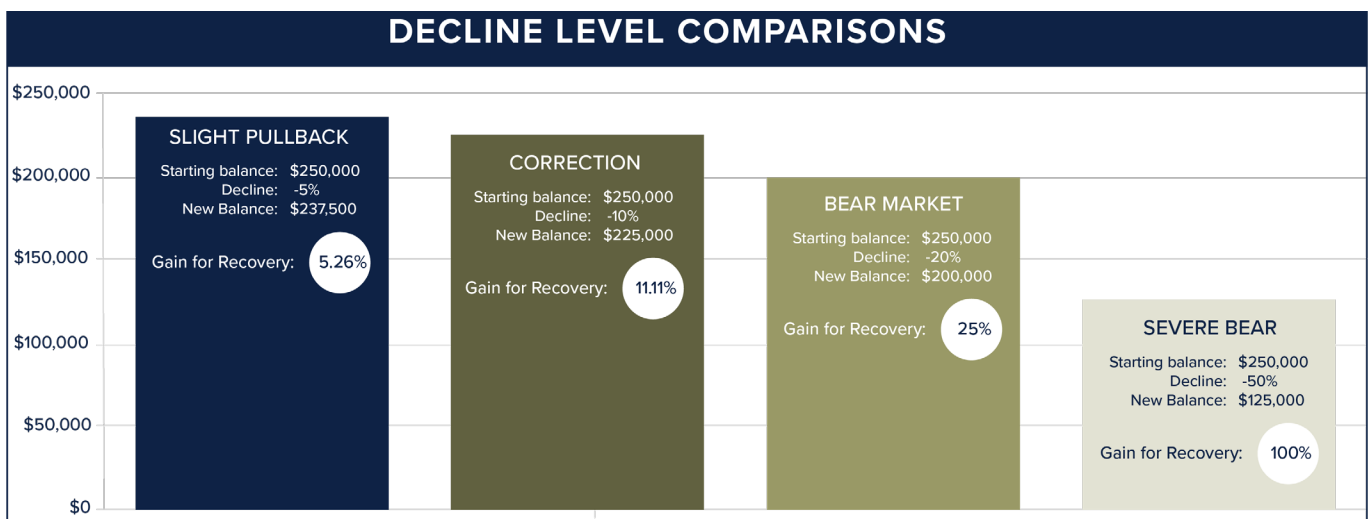


Past performance may not be used to predict future performance.

Bear markets may not be common, but they’re also not the only type of downturn. Bear markets are the most extreme type of downturn, with a decline of 20% or more. However, there are also “market corrections,” which is a downturn with a decline of between 10 and 20%.

Market corrections are far more common than bear markets. There have been 24 market corrections since November 1974 and only five of them became bear markets.¹⁰

Both corrections and bear markets can have a significant impact on your retirement. Below is a table of how certain decline levels affect a \$250,000 portfolio, along with the return needed to recover from the loss:



Hypothetical examples shown for illustrative purposes only. Figures do not represent any specific product or investment, nor do they reflect the deduction of investment fees or taxes.

⁹ <https://www.planadviser.com/mere-16-fortune-500-companies-offer-db-plan/>

¹⁰ <https://www.schwab.com/learn/story/market-correction-what-does-it-mean>

You probably notice that a recovery requires a higher percentage gain than the actual loss. For example, you need a 5.26% return to recover from a 5% loss. You need a 25% gain to recover from a 20% loss. Why is this?

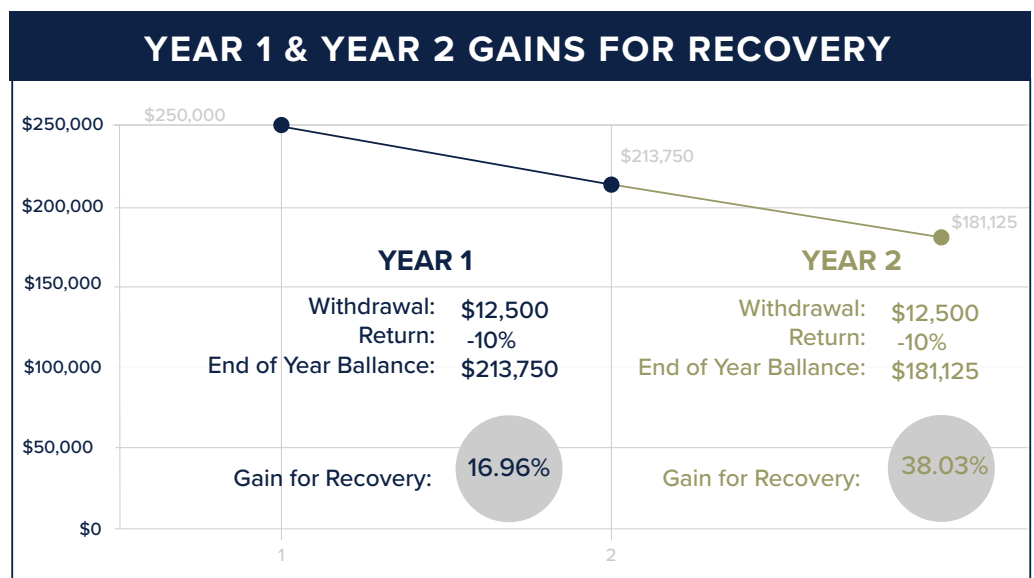
After a loss, you have a new lower balance. So, in the table above, a 20% loss would reduce the balance from \$250,000 to \$200,000. You need a \$50,000 gain to get back to even. That's 25% of your new lower balance. Now consider what would happen if you're taking 5% annual withdrawals from your \$250,000 retirement portfolio and you suffer a 20% loss over a two-year period:

As you can see, the combination of a bear market and regular account distributions can put your portfolio on a nearly irreversible downward trend. If you're relying on your savings for income, it's crucial to have a risk management plan in place designed to minimize the chances of a sizable decline. You can also protect yourself by budgeting carefully, being disciplined about your withdrawals, and only increasing your distributions as needed.

Many investors use asset allocation to guard against this kind of a decline. By shifting to a more conservative strategy, you can minimize your exposure to risk. You can also protect yourself by budgeting carefully, being disciplined about your withdrawals, and only increasing your distributions as needed.

However, even with solid strategy, there are still some risks that are beyond your control. Consider the following example. Two individuals retire with \$500,000 in retirement assets and live 20 years in retirement. They both have the same distribution strategy: to take \$30,000 in income in year 1 and then increase their withdrawals by 3% each year to offset inflation. During the next 20 years, retiree A will see the market go up 269%, a 6.74% annual compound average. Retiree B will see the market go up 225% during retirement, a 6.07% annual compound average.

Sounds like Retiree A is going to have an easier time in retirement, right?
Let's find out ...



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In the chart below, you can see their returns, withdrawals, and results. Retiree A runs out of money in year 14. Retiree B passes away about \$100,000 more than their starting assets.

The returns in this example are from the S&P 500. For Retiree A, they are from the period 1973-1992. For Retiree B, they are from 1989-2008. There's no predicting what the market will do once you enter retirement, which is what makes sequence of returns risk such a significant risk to your success.

YEAR	RETIREE A			RETIREE B		
	RETURN	WITHDRAWAL	ACCOUNT BALANCE	RETURN	WITHDRAWAL	ACCOUNT BALANCE
1	-17.4%	30,000	388,382	27.3%	\$30,000	\$598,077
2	-29.7%	30,900	251,245	-6.6%	\$30,900	\$529,975
3	31.5%	31,827	288,642	26.3%	\$31,827	\$629,195
4	19.1%	32,782	304,854	4.5%	\$32,782	\$623,038
5	-11.5%	33,765	239,908	7.1%	\$33,765	\$630,847
6	1.1%	34,778	207,309	-1.5%	\$34,778	\$586,894
7	12.3%	35,822	192,595	34.1%	\$35,822	\$739,046
8	25.8%	36,896	195,828	20.3%	\$36,896	\$844,432
9	-9.7%	38,003	142,468	31.0%	\$38,003	\$1,056,487
10	14.8%	39,143	118,577	26.7%	\$39,143	\$1,288,655
11	17.3%	40,317	91,775	19.5%	\$40,317	\$1,492,089
12	1.4%	41,527	50,952	-10.1%	\$41,527	\$1,303,487
13	26.3%	42,773	10,333	-13.0%	\$42,773	\$1,096,283
14	14.6%	10,333	0	-23.4%	\$44,056	\$806,364
15	2.0%	0	0	26.4%	\$45,378	\$961,737
16	12.4%	0	0	9.0%	\$46,739	\$977,288
17	27.3%	0	0	3.0%	\$48,141	\$977,631
18	-6.6%	0	0	13.6%	\$49,585	\$1,054,440
19	26.3%	0	0	3.5%	\$51,073	\$1,038,782
20	4.5%	0	0	-38.5%	\$52,605	\$606,639

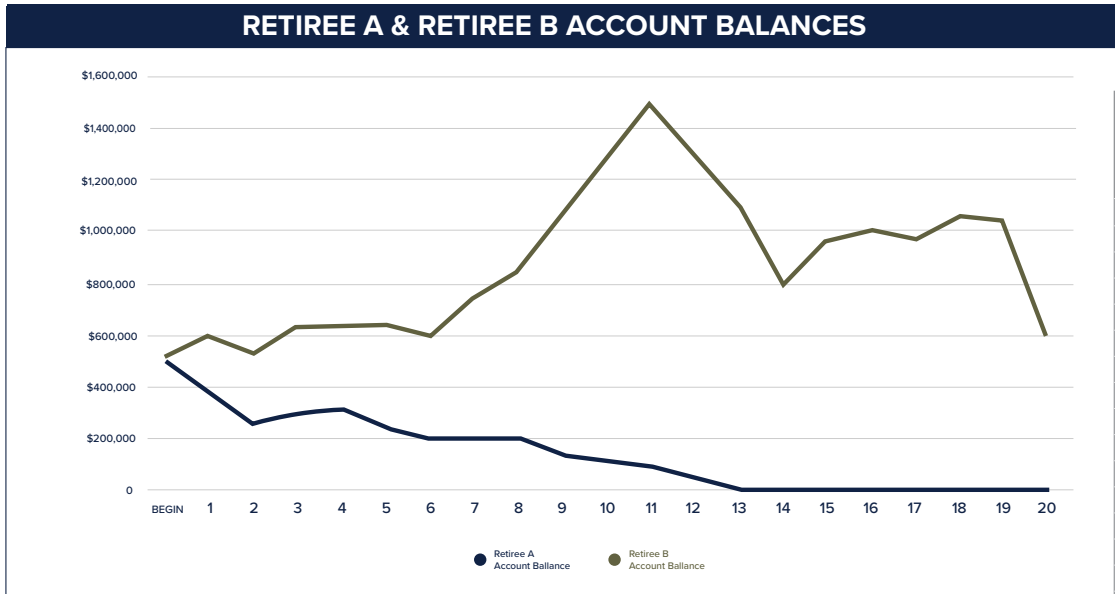
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**These are actual returns from the S&P 500. These figures represent reinvestments of dividends to the index.*



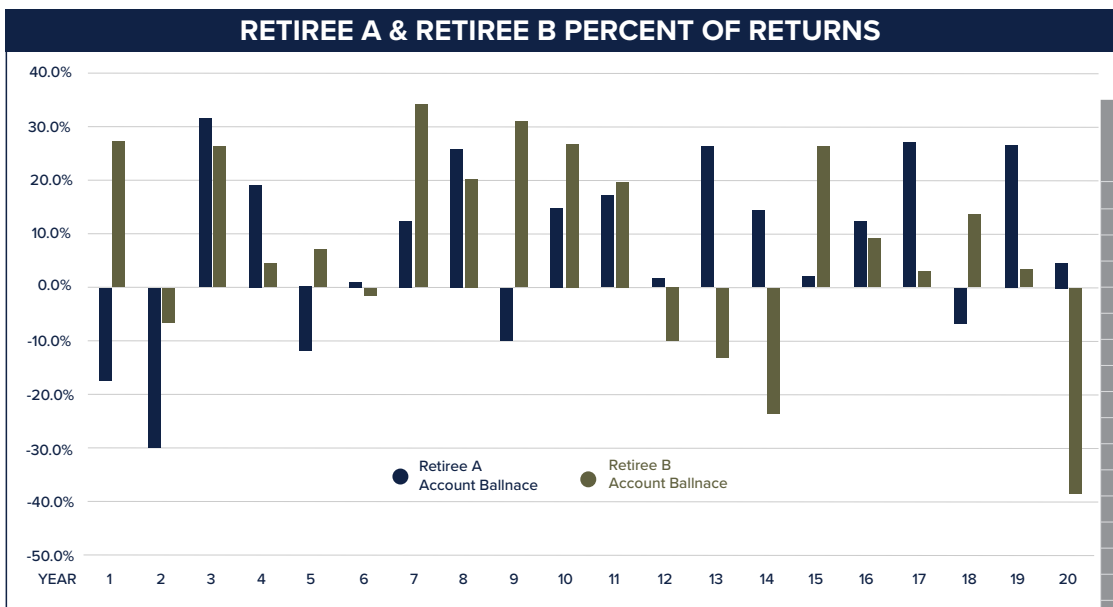
How is this possible?

How can Retiree A have the exact same withdrawal strategy and the exact same starting amount of assets as Retiree B, with better average annual returns, but end up with vastly different results?



	RETIREE A	RETIREE B
BEGIN	\$500,000	\$500,000
YEAR	RETURN	RETURN
1	388,382	598,077
2	251,245	529,975
3	288,642	629,195
4	304,854	623,038
5	239,908	630,847
6	207,309	586,894
7	192,595	739,046
8	195,828	844,432
9	142,468	1,056,487
10	118,577	1,288,655
11	91,775	1,492,089
12	50,952	1,303,487
13	10,333	1,096,283
14	0	806,264
15	0	961,737
16	0	997,288
17	0	977,631
18	0	1,054,440
19	0	1,038,782
20	0	606,639

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	RETIREE A	RETIREE B
YEAR	RETURN	RETURN
1	-17.4%	27.3%
2	-29.7%	-6.6%
3	31.5%	26.3%
4	19.1%	4.5%
5	-11.5%	7.1%
6	1.1%	-1.5%
7	12.3%	34.1%
8	25.8%	20.3%
9	-9.7%	31.0%
10	14.8%	26.7%
11	17.3%	19.5%
12	1.4%	-10.1%
13	26.3%	-13.0%
14	14.6%	-23.4%
15	2.0%	26.4%
16	12.4%	9.0%
17	27.3%	3.0%
18	-6.6%	13.6%
19	26.3%	3.5%
20	4.5%	-38.5%

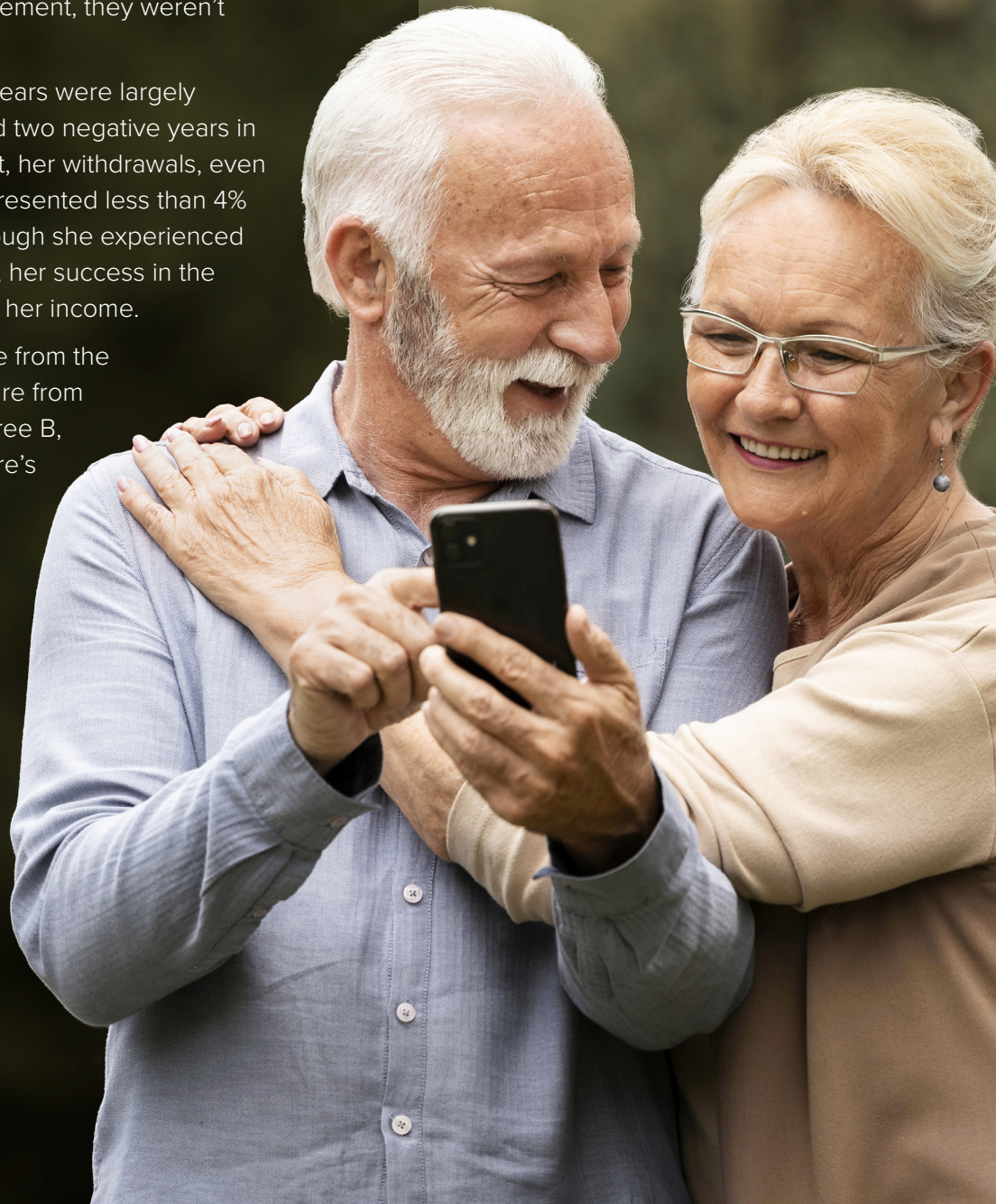
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The answer is something called the sequence of returns.

Retiree A suffered losses in the early years of retirement. In fact, four of the first 10 years were down. And during that time, he continued to increase his withdrawal to combat rising living expenses. By year six, he was withdrawing more than 10% of his account value on an annual basis. Even though he had positive years later in retirement, they weren't enough to help him recover.

By contrast, Retiree B's early years were largely positive. She only experienced two negative years in the first 10. In fact, by that point, her withdrawals, even with the annual increases, represented less than 4% of her account value. Even though she experienced down years later in retirement, her success in the early years helped her sustain her income.

The returns in this example are from the S&P 500. For Retiree A, they are from the period 1973-1992. For Retiree B, they are from 1989-2008. There's no predicting what the market will do once you enter retirement, which is what makes sequence of returns risk such a significant risk to your success.



The Risk of Being Too Conservative

If some risk is beyond your control, how can you fully minimize the risk of corrections and bear markets? At first glance, it may seem like the best strategy is to avoid risk altogether. If you're not invested in the market, you can't lose money.

That's not exactly correct, though. As mentioned earlier, you will likely need some growth to make your assets last several decades and to keep up with your rising income needs. Consider in our previous example that Retiree A had a nearly 7 percent average annual return and still nearly ran out of money after 14 years of retirement.

There's also an opportunity cost to not being in the market. The following data is based on the S&P 500 returns from 12/31/06 to 12/31/21. It illustrates how one's average annual return changed if you missed a certain amount of the best days the index had over that period.¹¹

DAYS MISSED	AVERAGE ANNUAL RETURN
Missed 0 Best Days-Fully Invested	10.66%
Missed 10 Best Days	5.05%
Missed 20 Best Days	1.59%
Missed 30 Best Days	-1.18%
Missed 40 Best Days	-3.58%

As you can see, missing only a few of the best days in the market can significantly reduce your performance. Missing the 10 best days over that period would have cut your average annual return by more than half, from 10.66% to 5.05%.

The problem is that you can't predict when these best days will occur. It's impossible to precisely predict the beginning or end of a bear market.

Often, the best performing days happen in the middle of a downturn. The market never moves in a linear trajectory. There are ups and downs even in the middle of bear markets or bull markets.

How do you capture the upside you need to fund a long, enjoyable retirement without exposing your assets to the risk of bear market?

That's the major challenge that many retirees face. Fortunately, there are some options to help you meet that challenge. One of them is a fixed indexed annuity.



¹¹ <https://www.putnam.com/literature/pdf/11508-ec7166a52bb89b4621f3d2525199b64b.pdf>

*Chart above is a hypothetical example shown for illustrative purposes only.

Fixed Indexed Annuities:

What if you could allocate a portion of your retirement assets to a vehicle that offers interest linked to an external market index, but also no exposure to downside market risk? That's what a fixed indexed annuity (FIA) provides.

An FIA is an insurance product. You contribute a lump sum or a series of payments and a portion or all of the premium can have potential interest linked to the performance of an index like the S&P 500. Your annuity has the potential to earn interest each year, depending on the performance of the index, subject to limits set by the issuing company such as caps, spreads or participation rates.

For example, many annuities have a "participation rate," for example 80%. Assume the index increases by 8% over a specified time period. The interest credits would be equal to 80% of that increase. (The participation rates and other parameters vary by contract.)

FIA contracts also have a guaranteed minimum value, which means you won't lose money due to market declines. If the index declines or has negative performance over the given period, you simply don't earn any interest.

It is possible to lose money in an FIA due to penalties. Like most deferred annuities, FIAs have surrender periods. This is an initial period during the first several years of the contract in which you pay a penalty if you surrender a portion or all of your contract.

However, the penalties go away at the end of the period, at which time you can surrender penalty-free

It's also important to note that FIAs are tax-deferred vehicles. This means your interest can accumulate without you having to pay taxes on growth on an annual basis. Tax deferral is a helpful tool that may allow your growth to compound faster than it would in a taxable vehicle. Like in other tax-deferred vehicles, distributions from FIAs are taxable, and may result in an additional 10% IRS penalty if they're taken before age 59 ½.

An FIA can serve as a useful tool to avoid market volatility and a bear market for a portion of your portfolio. When the index, like the S&P 500, goes up, you can earned indexed interest. When it goes down, your assets stay flat. That protection can help you worry less about the next correction or bear market.

It is an important time to re-evaluate your retirement income plan and make sure you have the right strategies in place.

Let's meet for a one-on-one review of your individual situation.





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