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Biggest Risk Facing Investors Today: Outliving Their Financial Assets

BY JOHN PETRIDES ON *NOVEMBER 20, 2019*

Trade tariffs with China. The Federal Reserve's stance on monetary policy. The slope of the yield curve. Geopolitical risk with North Korea and the Middle East, plus countless other issues are all concerning factors that impact the daily movement of financial markets. This volatility can cause investors to lose sleep at night. However important and uncertain these issues may be, they pale in comparison to the biggest risk we all face, outliving our money.

An aging population is putting strains on the intended legacy of passing down financial assets to support future generations. In addition, people are retiring earlier yet living longer. Healthcare costs continue to rise. The expectation to help fund the education of children and grandchildren to confront the ever-rising costs of college tuition continues. In order to maintain your desired standard of living in retirement, your financial assets are going to be stretched. Moving from the accumulation phase of your financial life to the distribution phase can be unsettling. Given interest rates in the global bond market have been at or near historic lows for over a decade, in general investors have been forced to take on more risk by owning equities, when it might not typically fit their investment profile. We believe that the days when investors could simply take "100 minus your age = your Equity/Fixed Income allocation" are gone and that a more thoughtful approach to risk management and total return is imperative to preserve and grow your financial assets to continue building generational wealth.

According to an analysis by J.P. Morgan, there is a 90% chance that one spouse of a married couple will live into their 80's, and a 49% chance of one of them living into their 90's.[*] Think about that: If you retire at age 65, chances are you and/or your spouse will live for another 20 years. Nearly 30% of your life could be without earning an income. Investors are relying on their financial assets to fund their current cash flow needs yet trying to protect or create generational wealth. However, are your financial assets positioned to achieve this dual objective?

Many assume holding cash is a way to protect against potentially volatile financial markets. This may be true in the short term, but over time, the "silent risk" of holding cash is that inflation and taxes will eat away its purchasing power.

Fixed income has proven to be the port in the storm when equity markets become volatile and provides an important level of diversification for a portfolio. However, with interest rates low, bonds can no longer be solely relied upon for income.

With the need for higher returns comes higher risk, but the scars of 2008, and even the fourth quarter of 2018, are still fresh on investors' minds, so taking on a higher allocation to stocks can be unsettling.

What is the discerning investor to do?

Stay focused on managing risk, but not just among stocks, bonds, and cash. Diversify your cash flow streams. Within the Wealth Management Team's Enhanced Income strategy we look to invest in a mix of securities such as bonds, stocks, REITs, MLPs, preferred stocks, bank loans, emerging markets debt, and high yield bonds that are earning a higher yield than that of an investment grade bond portfolio, yet are historically less volatile than a pure stock portfolio. We are also focused on protecting the "quality" of the income stream by favoring companies with a strong balance sheet, business models that generate high levels of free cash flow, and management teams committed to the dividend.

Today's environment is not "your father's retirement." The financial world was turned upside down in 2008. We are living longer. Younger generations are relying on inheritance to provide for their family. In response, investors need an active approach to their cash flow needs to live out their financial legacy.

John Petrides
Portfolio Manager

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*J.P. Morgan Guide to the Markets, 9/30/2019, pg 63.