

THE RETIREMENT INCOME COMPASS

BECAUSE THERE ARE BIG RISKS ON THE ROAD AHEAD



























Navigating Challenge/Compass Advantage

Should We Weather This Storm? History Tells Us It May Be Worth It

How to deal with the ups and downs

Sixty Years of Stock Market Storms and Fair Weather

Market Cycles Defined by S&P 500 Index Total Return %

Stormy Cycles				Fair Weather Cycles		
Period	Months	Loss		Gain	Months	Period
11/48—6/49	8	-10%	 	429%	97	7/49—7/57
8/57—12/57	5	-15%	 	105%	48	1/58—12/61
1/62—6/62	6	-22%	 	90%	43	7/62—1/66
2/66—9/66	8	-16%	 	52%	26	10/66—11/68
12/68—6/70	19	-29%	 	76%	30	7/70—12/72
1/73—9/74	21	-43%	 	86%	27	10/74—12/76
1/77—2/78	14	-14%	 	86%	33	3/78—11/80
12/80—7/82	20	-17%	 	282%	61	8/82—8/87
9/87—11/87	3	-30%	 	71%	30	12/87—5/90
6/90—10/90	5	-15%	 	345%	90	11/90—4/98
5/98—8/98	4	-13%	 	63%	24	9/98—8/00
9/00—8/02	25	-45%	 	105%	61	9/02—10/07
11/07—11/08	13	-40%	 	??%	??	12/08—?
13 Cycle Avg.	11	-24%		149%	48	12 Cycle Avg.

*Past performance is not indicative of future results.

The Navigating Challenge

There is a saying “The darkest hour is right before the dawn.” However, We’ve been in the dark for quite some time now, and it’s troubling. There seems to be no safe haven for retreat from the storm. Large-cap stocks are down, small-cap stocks are down, foreign markets are down, bonds funds are down. Every option seems to be in the red.

The one silver lining is that red is inevitably followed by green. In our most recent crash when the Tech-Bubble burst, the S&P dropped 45%. Thankfully, a 105% increase followed. While we can never conclusively predict future results based on past performance, this trend seems to be fairly consistent. In fact, the upswing averages an increase of 148% over a four year span. Now that the S&P is down 40%, we could sure use that upswing sometime soon.

Don’t let the idea of 145% take you away from reality. These upswings are necessary

just to get back to normal. Since the market has declined 40% since last November, it will need to rise almost 67% in order to bring us to the point we were at when the decline started.

So where does all that leave us? While it might not be what you want to hear, catching this upswing means we have to stay in the market. Since we need this major upswing just to break even, missing this would be disastrous. Jumping ship at this point may not be the best option. ‘Safe’ investments like bonds, CDs, and money market accounts will take too long to get us back to even; we need the power of stocks to push ourselves into the green again.

Diversification is key to any good portfolio. It is especially important at a time like this. No one knows what will turn around first, so having your money spread across the board will give you the best chance of catching this rise.

Returns Need to Be Stronger Than Declines

Many believe that if the market goes down 40%, then it will just need to go back up to 40% to break even. That is not the case. It will need to go up a lot more than that.

Let’s look at the numbers:

$$100 - 40\% = 60$$

$$60 + 40\% = 84$$

We can see that a 40% return will not be enough, so what will be?

$$60 + 66.7\% = 100$$

Bonds tend to move slowly, so they will take a long time to get us to that 67% number needed to break even. That can only be done through the stock market, which means you need to be in it when it turns.



What to know...
and how to go

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