

# THE RETIREMENT INCOME COMPASS

BECAUSE THERE ARE BIG RISKS ON THE ROAD AHEAD














*Navigating Challenge/Compass Advantage*

## The Historical Stock-Market Weather Chart; It Will Help You Deal with the Market's Ups & Downs.

A picture is worth a thousand words

### 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—2/09	16	-53%		25%	??	3/09—?
13 Cycle Avg.	12	-25%		149%	48	12 Cycle Avg.

Source: Ibbotson S&P Yearbook. Past performance is not indicative of future results.

### The Stock-Market Weather Chart

The historical stock-market weather chart gives a visual of the S&P 500 stock market index's swings between stormy (down market) cycles and fair weather (up market) cycles over the past sixty years. Each line displays a stormy cycle followed by a fair weather cycle and shows the period, months, loss % or gain %, and a bar representing the relative loss or gain in the cycle.

**Stormy Cycles.** The left side of the chart presents 13 stormy cycles. The last stormy cycle started November 2007 and ended February 2009, lasted 16 months, and had a drop of 53% in the value of the S&P 500.

**Fair Weather Cycles.** The right side of the chart presents 13 fair weather cycles. The current cycle started at the start of March 2009, has lasted 3 months and is up 25% through May 2009. Can this cycle last 48 months and rise 149%, the averages of the previous 12 fair weather cycles?

### The Challenge

On average, every 48 months the stock market heads into stormy weather. Sometimes the storm's over quickly. At other times recovery can be painfully long. The unprepared can be tempted to 'jump ship' from their stock allocation in storms, just as they often let allocation to stocks increase during the prior fair weather.

Considering the discomfort, why should you allocate a portion of your retirement portfolio to stocks? Because to provide adequate income during retirement you need your savings to grow during your working years, and throughout retirement. 'Safe' investments like bonds, CDs, and money market cannot be expected to provide 'real' growth after inflation and taxes.

An investment advisor as navigator will help you and your retirement income portfolio through storms and fair weather using the weather chart among many other tools.

### What will it take to get back to even?

If your retirement income portfolio with a significant stock market allocation lost 30% in 2008, you might think a 30% gain in 2009 would get you back to even.

That's not the case. Let's look at the calculation:

$$\begin{aligned} \$100 - \$30 &= \$70 \\ \$30 \div \$70 &= 43\% \end{aligned}$$

The \$30 loss is 43% of the remaining \$70. It will take a return of 43% for the portfolio to regain the 30% loss. '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 recover what was lost because of stock allocation.

And while history is no guarantee of the future, it's comforting to see in the chart that the stock market overdoing itself on the upside and downside offers the prospect of getting back to even and more in a few years.



What to know... and how to go

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