Your Guide to Retirement Planning

Everything you need to know to retire with dignity, independence, and fulfillment

Concentus Wealth Advisors

Your Guide to a Successful Retirement

DO YOU KNOW HOW MUCH RETIREMENT WILL COST?

HAVE YOU CONSIDERED HOW YOU WILL PAY FOR IT?

DO YOU KNOW HOW TO GENERATE THE RETIREMENT INCOME YOU WILL NEED?

For many current and future retirees, these can be stressful questions, which are often put off or left unanswered for way too long. In our 25 years of advising families, we have found that the #1 fear that most investors harbor is that they may run out of money in retirement, losing their dignity and independence.

Our team at Concentus Wealth Advisors works with hundreds of interesting and affluent people, all of whom aspire to enjoy, preserve, and pass on their wealth. One of our most important functions is to help them answer these critical questions as we work together to design and execute a strategy to achieve their financial goals.

We have written this guide to help you evaluate these questions and determine the answers as a starting point for planning your own retirement.

We invite you to use the information in this guide to better manage your own wealth or reach out to us for customized guidance based on our outstanding advisory capabilities and commitment to our clients. As you begin the journey towards retirement, we sincerely hope this guide helps you reach your goals.

Sincerely,

Erik Strid

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Founding Principal

Concentus Wealth Advisors

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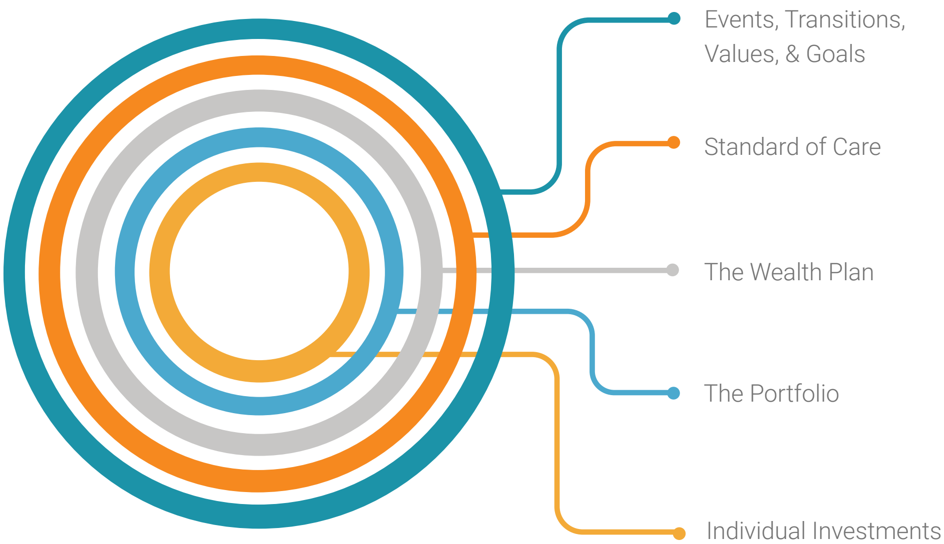
The Wealth Planning Process

At Concentus Wealth Advisors, our value is rooted in our ability to help our clients design and execute a financial strategy based on their core values and life goals, so that they can delegate the management of their wealth to a trusted fiduciary advisor and focus their time and energy on the things in life that are most important to them.

We have created a simple diagram to visually represent the important components of effective wealth management. Each of these circles informs the others, but their size indicates their relative importance. For example, the diagram emphasizes that the portfolio and the products sold within it are only a small part of a strategy.

COMPONENTS OF EFFECTIVE WEALTH MANAGEMENT



INDIVIDUAL INVESTMENTS: Your investments (i.e., the individual stocks, bonds, etc.) that you own are important but play only a small role in the success of an overall strategy.

PORTFOLIO: Your investment portfolio as a whole (i.e., the *amounts and proportions* of the different individual investments). Its structure is the foundation of your future financial security.

WEALTH PLAN: In order to build and preserve wealth over time, you must remain consistently disciplined, building and following a plan—even when it's challenging.

STANDARD OF CARE: Even the best designed wealth plans must be flexible enough to deal with the evolving financial markets.

EVENTS, TRANSITIONS, VALUES, AND GOALS: Life is a constantly evolving journey that presents your family with both predictable and unpredictable challenges. There are normal life transitions and often unexpected events to which we must adapt, both good and bad. Again, your plan must be flexible enough to deal with these changes.

4 Steps to Success

Popular culture and the financial media have taught us that retirement planning and investing require specialized knowledge and insight that most people don't possess. As a result, many people are intimidated and confused, and they put off the vital process of planning their retirement.

In reality, the process of planning for your retirement is straightforward. Below are critical elements that should be included in a successful retirement plan, which we will explore in more detail in the pages that follow:

STEP 1
Begin with the end in mind. The first step is to sit down and identify your long-term goals.

STEP 2
Develop a written financial plan and Wealth Policy Statement.

STEP 3
Fund your plan with the investments that provide you with the greatest probability of achieving the goals of your plan.

STEP 4
Stick with your plan, even when the emotional ups and downs of investment markets tempt you to make a mistake.

TOO MANY PEOPLE OVERSIMPLIFY THE WEATH MANAGEMENT PROCESS, THINKING THAT THE INVESTMENT PORTFOLIO IS THE ONLY THING THAT MATTERS. IN TRUTH, INVESTMENT PRODUCTS AND PORTFOLIO MANAGEMENT ARE COMMODITY SERVICES AND DO NOT PARTICULARLY REPRESENT ANY UNIQUE VALUE.

What Are Your Retirement Goals?

The first step in the retirement planning journey is to begin with the end in mind: assess the goals and objectives that are most important to you.

Start by considering how you will spend your time in retirement. Enjoying the golf course? Traveling? Spending time with grandchildren? Working for fun?

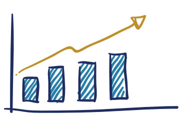
In our experience, everyone's goals for retirement are different, but from a financial perspective, we have found that most people hope to achieve one or more of the following four goals. Before you focus on anything else, it is critical to determine which of these apply to you:

Goal #1: Avoid Running Out of Money

For many, this is their biggest goal and biggest fear. Being forced to turn to your children or go back to work can be a source of anxiety for many current and future retirees. Many believe the key to achieving this goal is to own investments that won't fluctuate in value (like Treasury bonds). As we will discuss, this is not always the best approach.

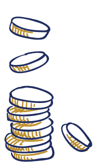
Goal #2: Maintain or Improve Your Lifestyle

Most people have worked hard for their retirement, and they want to enjoy it. As such, it's common to want to maintain or improve your lifestyle during retirement. The key here is to maintain or grow purchasing power over time. This requires income growth to offset the impact of inflation.



Goal #3: Increase Wealth

Some are easily able to enjoy the retirement lifestyle of their choosing with no fear of running out of money. For these fortunate individuals, the goal is often to grow their wealth over the long term—typically for legacy, whether that is children, grandchildren, or charity. Unsurprisingly, most folks with this goal take a growth-oriented approach to their investments.



Goal #4: Spend Every Cent

This isn't a typical goal, but there are some people who think success is spending all of their money before they die. This is often a risky proposition, as there's no way to know exactly how long your retirement will last. People who attempt this may find themselves out of money sooner than they think.

WHICH OF THESE GOALS IS MOST IMPORTANT TO YOU?

What Will Your Retirement Cost?

Once you have figured out what your goals are, you can start to calculate how much it is going to cost to achieve them. Three factors are important to consider:

1. YOUR “NON-DISCRETIONARY” SPENDING
2. YOUR “DISCRETIONARY” SPENDING
3. THE INCOME SOURCES YOU HAVE AVAILABLE TO COUNT ON

Non-Discretionary Spending

This is the spending you don’t have a lot of control over. There may be some wiggle room, but for the most part you can’t avoid these costs:

LIVING EXPENSES: Day-to-day, how much does it cost to maintain your lifestyle? You’ll want to consider everything from groceries to gas to the heating bill. If you aren’t planning on relocating in retirement, you likely have a good idea of what these expenses look like already.

DEBT: This can be credit card debt, your mortgage or car loans, or anything you owe that needs to be accounted for when mapping out your expenses. In retirement, you will have to continue to pay down the principal and make periodic interest payments.

TAXES: While taxes are often lower for retirees, as they shift from salary income to capital gains rates, the government certainly still wants its cut. You’ll want to keep money set aside to settle your tax bill at the end of the year.

INSURANCE AND HEALTHCARE: Healthcare costs have historically risen faster than inflation, and for many investors, they have become a larger share of their budget in retirement. You’ll need to account for insurance payments, as well as any emergencies that might require sizeable payments on short notice.

Discretionary Spending

Once you get past basic living expenses, you have to account for discretionary spending. Discretionary spending is subject to your personal situation. You may view cable TV as discretionary, but golf as a required, non-discretionary expense. This is just an example, but the takeaway is this: if you have a hobby or other expense you can't imagine living without, you'll need to include it in your non-discretionary expenses. Below are some of the more common discretionary line items:

TRAVEL: Many people look forward to traveling in retirement. This could include visiting the grandkids or a more elaborate trip overseas. If you've been thinking about a dream trip for years, now is an ideal time to budget for one.

HOBBIES: Retirement is a great time to rekindle old hobbies or pick up new ones. Ready to finally get your fly casting down or finish researching your family history? Hobbies almost always incur some cost, even if many are small.

LUXURIES: This is somewhat subject to your own budget and definition of luxury. But whether you enjoy fine wines, or simply having coffee out every morning, you'll need to factor non-essential purchases into your expenses.

CHILDREN AND GRANDCHILDREN: For many, this last category includes aspects of all the others. Your family could require travel, luxury purchases, and be your favorite hobby all at once. If you need a generous budget to make children and grandchildren a focus of your retirement, you'll need to think about how much cash flow is needed to support it.

Income Sources

Once you have a sense of how much your retirement will cost, you can start figuring out how you're going to pay for it. We suggest calculating all of the income you generate without relying on your investments. The most common categories of non-investment income are listed below:

SALARY: Will you work at all in retirement? If so, you'll need to estimate how much salary you can expect. For our purposes, don't count money you make from a business investment or partnership, just consider direct financial transfers from your employer to you.

PENSION: If your employer offers a pension, you should determine how much you can expect to receive on a regular basis. Will it increase or decrease over time? 401(k)s and IRAs are not pension plans. Rather, they are types of accounts that hold funds you've invested over the years and will be able to control in retirement.

SOCIAL SECURITY: If you've started taking Social Security, you're familiar with how much to expect. If you haven't yet, you'll want to determine the age you want to start receiving benefits and how much you should expect monthly. The Social Security Administration's website has a free calculator you can use to estimate your payments.

BUSINESS AND REAL ESTATE: If you maintain an interest in a business or investment property, this could produce non-investment income. When calculating how much to expect, consider that these sources of income are more susceptible to market conditions than Social Security or a guaranteed pension.

Determining What You Need from Your Portfolio

Now that you've determined what your expense are likely to be and how much non-investment income to expect, the worksheet below can help you put it all together.

Income		% of Total
NON-INVESTMENT INCOME		
Salary	$	%
Pension	$	%
Social Security	$	%
Business and Real Estate	$	%
Other	$	%
Total Income:	**$**	**%**

Expenses		% of Total
NON-DISCRETIONARY SPENDING		
Basic Living	$	%
Mortgage	$	%
Credit Card Debt	$	%
Taxes	$	%
Insurance	$	%
Healthcare	$	%
Non-Discretionary Subtotal	**$**	**%**
DISCRETIONARY SPENDING		
Travel	$	%
Hobbies	$	%
Luxuries	$	%
Gifts to Family/Charity	$	%
Other	$	%
Non-Discretionary Subtotal	**$**	**%**
Total Expenses: (add both subtotals)	**$**	**%**
Net Savings: (Subtract Total Expenses from Total Income)	**$**	**%**

Put Your Plan in Writing

A [study by Charles Schwab] appears to have unlocked the secret to successful retirement planning: put it in writing. The report found that people who have a written retirement plan were 60 percent more likely to increase their 401(k) contributions and twice as likely to stick to a monthly savings goal. The only problem is that just 24 percent of Americans have a written financial plan.

Once you've identified your goals, your expenses, and your sources of income, now it is time to sit down and put it all on paper in the form of a written financial plan.

It has been said that failing to plan is planning to fail, and this saying certainly holds true when it comes to your wealth. People who sit down and design a date-specific and dollar-specific written wealth plan have a much greater chance of building and preserving wealth than those who don't. The simple truth is that all long-term investment success comes from acting on a plan, while all failure is precipitated by reacting to the markets.

No matter how long you live, or how much money you accumulate, there is likely to come a day for all of us when it is time to retire and harvest from your wealth. When that day comes, there are really only two possible financial outcomes:

Option A:THE MONEY OUTLIVES THE PEOPLE.

Option B: THE PEOPLE OUTLIVE THE MONEY.

The door you get to walk through when that time comes is largely dependent upon whether or not you have adopted and followed a written wealth plan.

Understand the Risks

Any smart retirement plan should anticipate and plan for the primary risks that you may face over the course of your retirement.

If you ask most people to define "risk" when it comes to investing for their retirement, the most common risk they see is losing money in the stock market. Many Americans spend a great deal of time, energy, and emotional stress obsessing with the possibility that they might "lose money." However, as we will explain, the risk of a permanent loss of investment capital has actually never happened in the stock market for investors with the patience and emotional control to ride out the temporary volatility inherent in stock prices. Every bear market in history has faded with time and eventually yielded to much higher stock prices.

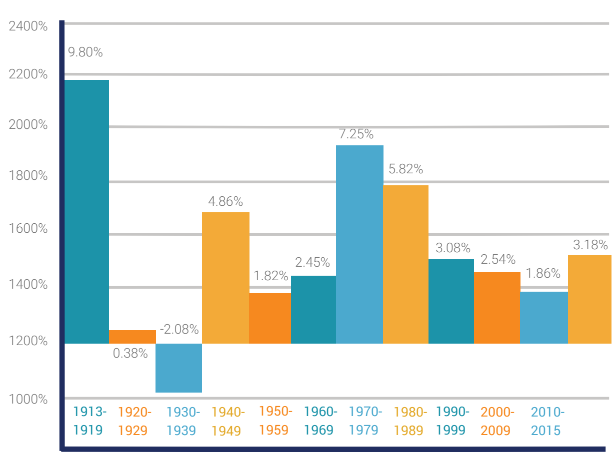
In reality, there are two major risks you need to watch out for in your long-term financial and retirement planning—risks that most people ignore.

Inflation Risk

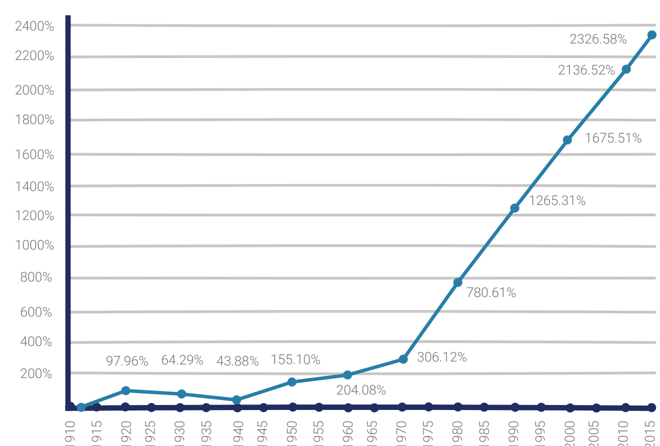
Most people have a complete misunderstanding of the basic definition of the word "money." Most people often confuse "money" with "currency." They mistakenly think that their money is the amount of currency they own, and they obsess over their stash of little green pieces of paper with pictures of dead presidents. What really matters is purchasing power, which is the amount of goods and services we can purchase with each piece of currency at a given time. A green piece of paper with Ben Franklin's picture on it has no intrinsic value. It is only valuable to the extent that you can walk into a restaurant and use it to obtain a nice meal and bottle of wine.

Currency isn't the same thing as purchasing power, as it loses some of its value every day due to inflation. Statistics tell us that most of us will live through a 30-year retirement. Over that period, at a 3 percent rate of inflation, your cost of living will rise by about 250 percent.

AVERAGE ANNUAL INFLATION BY DECADE



CUMULATIVE INFLATION 1913-2015



Imagine the first year of your retirement. Your morning routine includes a daily trip to your local convenience store to purchase a large coffee for $1.00. By the end of your retirement, your beloved cup of coffee will now cost you $2.50. Of course, you could change your habit and buy a small coffee, as your $1.00 will now purchase about 40 percent as much, but if you really enjoy the large size, you will need to come up with $2.50. This same thing will happen to the cost of your housing, food, clothing, golf balls, and vacations!

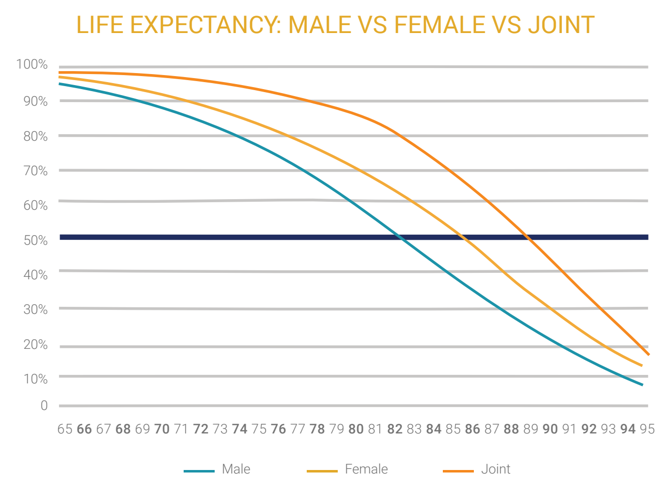
Making matters worse, the impact of inflation may hit hardest when it comes to healthcare. As it is today, healthcare costs are accelerating far more rapidly than the overall rate of inflation, a trend we expect to continue in the future. As you age, the proportion of your household budget that you spend on healthcare is likely to increase, which will expose your household to higher and higher rates of inflation.

Focusing your investment plan only on preserving the amount of currency you own, at the expense of growing the purchasing power of your assets, will force you to make difficult decisions over time. Don't ignore the impact of inflation and endure a deteriorating standard of living.

Life Expectancy Risk

The second risk is the fact that Americans consistently underestimate how long they will live, and in doing so, they risk dramatically underestimating the number of years their nest egg will need to provide for them.

Gordon Moore, the co-founder of Intel, famously observed in 1965 that the computing power of semiconductors doubles about every 18 months. Evidence of the exponential growth of technology is all around us, and it appears that technology is now reaching the point at which the doubling of computing power is creating almost parabolic increases in our technological capability.



One of the most interesting implications of exponential technology is the impact on human life expectancies, which may also be in the early stages of a parabolic growth curve. For most of human history, life expectancies changed very little—but in the last 100 years or so, they have begun to show signs of increasing rapidly.

At the birth of the average American male back in the year 1900, life expectancy was 46.2 years. By the mid-1930's, life expectancy was over 62 years. Fast forward to present day, and we find that, using the Social Security Administration's Actuarial Life Table (the most recent analysis of expected longevity), if you're 50 years old, the average life expectancy is 83 for a woman and 80 for a man. Keep in mind, of course, that these are averages—some people will live longer and some will not.

Life expectancy is a critical part of retirement planning, as you can only determine if you have "enough" to reach your most cherished life goals based on an understanding of how long you will live!

When most people think about how long they will live, they immediately think about how long their parents lived and make a ballpark estimate based on that age. Usually this number comes in right around the low 80's. We suggest that you create your financial plan based upon a joint life expectancy, if you're a couple, with a life expectancy of 95-100. This type of planning will help to mitigate the risk of longevity.

Design Your Wealth Policy Statement

Now that you understand the value of a written plan and the wealth-related risks you may face in your retirement, it's time to design your plan, starting with a Wealth Policy Statement. This statement should clearly articulate the goals of your plan and define the specific strategies and actions requires to achieve them.

A successful Wealth Policy Statement requires an understanding of the history of capital markets, so that you can make intelligent decisions about asset allocation and investments. Most people have significant misconceptions about how markets work, thanks to the influence of the media and popular culture. We suggest that you consider the following as you design your statement.

The Rationality of Markets

Financial markets are rational and guided by specific principles and patterns. This idea is certainly counterintuitive, as popular culture and the financial media have taught us to believe the exact opposite—that markets are ruled by chaos and unpredictability, and that any "order" we might perceive in the markets may cease to function at any moment in time. If this were true, it would make retirement planning impossible because one cannot make an investment policy out of chaos.

The fundamental rationality of the capital markets may be wildly skewed in the short term by human emotion, specifically euphoria and fear, which both may cause you to believe that the natural order of markets has ceased to function and that "this time is different." Don't fall prey to this misperception.

The Long View

The rationality of markets can only be understood when considering a long-term investment horizon. In the short run, markets are indeed unpredictable and chaotic. But, as we extend our vision and time horizon, the unpredictability begins to fade and the rational order becomes clear.

Over the long term, the variability of annual investment results begins to narrow and market returns begin to revert to the mean. All prudent investing must begin with a long-term time horizon in mind. Keep in mind that you are investing for a lifetime, or even over several generations, and success should be measured over years, not by months or quarters. This requires a healthy dose of these two essential investor skills:

PATIENCE: The ability to refrain from reacting during protracted periods when your strategy is not working or is doing nothing.

DISCIPLINE: It is inevitable that there will be periods when your investment strategy is not producing the desired results. During those times, it is critical to remain disciplined.

The investor who truly understands the impact of time, and who accurately targets investments to the proper time horizon, has a secret weapon that doesn't rely upon market predictions or prognostications. You can simply play the probabilities and use low volatility asset classes for goals with a short duration and more volatile, high-growth asset classes for goals with a longer duration. And then sit back and wait.

> THOSE WHO JUDGE THEIR PORTFOLIO BY ITS PERFORMANCE RELATIVE TO SOME NARROW BENCHMARK ARE FOCUSING ON AN ISSUE THAT IS LARGELY IRRELEVANT TO THEIR ULTIMATE FINANCIAL SUCCESS.
>
> THE ONLY BENCHMARK THAT YOU SHOULD CARE ABOUT IS ONE THAT INDICATES WHETHER OR NOT YOU'RE ON TRACK TO ACCOMPLISH YOUR FINANCIAL GOALS.
>
> RISK IS MEASURED AS THE PROBABILITY THAT YOU WON'T MEET YOUR FINANCIAL GOAL. INVESTING SHOULD HAVE THE EXCLUSIVE OBJECTIVE OF MINIMIZING THIS RISK.
>
> - *ADAPTIVE ASSET ALLOCATION*, BUTLER, PHILBRICK, AND GORDILL

The Power of Equities

Equities, or the partial ownership of the great companies of the world, have been more effective than cash, bonds, and other fixed income investments at preserving and enhancing purchasing power.

Since 1926, large company equities in the U.S. have compounded at an annual rate of roughly ten percent per year. The dividend cash flow from those same companies has also grown at a rate of five percent per year. Over the same period of time, high-quality bonds in the U.S. have compounded at about six percent and inflation has been about three percent.

Because we are defining money as purchasing power, we need to consider the three percent rate of price inflation. This means that the real return (after inflation) of owning good companies has historically been about double that of owning bonds.

	Norimal Return	Inflation	Real Return
STOCKS:	10%	3%	7%
BONDS:	6%	3%	3%

So, equities have returned ten percent per year, which reduces to about seven percent after inflation. Bonds have returned six percent per year, which reduces to about three percent after inflation. A real return of seven percent is just about 230 percent of a real return of three percent.

Of course, this analysis also ignores the fact that bond income is taxed as ordinary income, which is taxed at a much higher rate than the capital gains on stocks. The main point, however, is that stocks do not produce an incremental premium return over bonds. Instead, they produce a return that is a multiple of the returns of bonds.

Of course, this discussion is in no way intended to make a projection that these returns or rates of inflation will persist in the future. It is simply a way of identifying the relationship of returns among asset classes over nine decades of history, so that we may continue to build an understanding of how capital markets work. This relationship tells us that historically, when it comes to the maintenance and growth of purchasing power, stocks have a distinct and significant advantage over bonds.

This is the fundamental reason why, for the lifetime and multi-generational investor, it's preferable to be an owner of companies rather than a lender to them. Although most people think of cash and bonds as "conservative" investments, in the quest to conserve our purchasing power after inflation, equities have done a far better job than bonds have historically.

The Role of Volatility

Equity premium returns are a function of—and are caused by—equity volatility.

The return relationships described above show that, despite the short and intermediate overreactions to cyclical economic events (and investors' emotional responses to those events), markets are quite efficient in the long run. Over nine decades marked by war and peace, massive geopolitical turmoil, economic booms and recessions and depressions, inflation and deflation, high interest rates and low interest rates, bull markets and bear markets, the return relationship between stocks and bonds has remained more or less constant.

Why is this so? Why does an efficient market pay a stock holder well over twice in real returns what it pays a bond holder?

Most investors believe that stocks return more than bonds over time because stocks are "risky" and bonds are "safe." The fact that stocks are "risky" is perhaps the most commonly held misconception there is in the investing universe. It is also the misconception that prevents most investors from becoming as successful as they should be.

Stock prices commonly experience a high level of volatility over short periods of time, and often that volatility can cause significant temporary declines in equity values. In fact, since the end of WWII, large company stocks have annually experienced a temporary decline of an average of close to 15 percent. They have also declined by between 15 percent and 20 percent one out of every three years, and by more than 20 percent once every five years. But volatility isn't the same thing as risk, any more than temporary decline is the same as permanent loss. Today, the S&P 500 stands 130 times higher than it was in 1946, when it started the year at about 18. Even the dividend of the S&P 500 is 65 times higher than it was in 1946. Historically, declines in stock prices have been temporary, while the increases in value and dividends have been permanent.

It is unclear why most investors live in constant fear that they will lose money in the stock market, given that equity markets have never produced a permanent loss of capital when given enough time. While stock markets have declined sharply on many occasions, the average bear market over the last 90 years has taken about 40 months to go from market peak to trough, and then back to the prior peak. However, during other times prices have also risen very sharply. The net effect of all of these declines and advances has been a compound return on large company stocks over nine decades of roughly 10 percent per year.

BEAR MARKET CHART

MARKET PEAK (DATE)	MARKET TROUGH (DATE)	MARKET PEAK (VALUE)	MARKET TROUGH (VALUE)	DURATION (MONTHS)	RETURN (%)
05/29/46	06/13/49	19.3	13.6	36.5	-29.5%
08/02/56	10/22/57	49.7	39	14.5	-21.5%
12/12/61	06/26/62	72.6	52.3	6.5	-28.0%
02/09/66	10/07/66	94.1	73.2	8	-22.2%
11/29/68	05/26/70	108.4	69.3	18	-36.0%
01/11/73	10/03/74	120.2	62.3	20.5	-48.0%
09/21/76	03/06/78	107.8	86.9	17.5	-19.4%
11/28/80	08/12/82	140.5	102.4	20.5	-27.0%
08/25/87	12/04/87	336.8	223.9	3.5	-33.5%
07/16/90	10/11/90	369	295.5	3	-20.0%
07/17/98	08/31/98	1186.8	957.3	1.5	-19.3%
03/24/00	10/09/02	1527.5	776.7	30.5	-49.2%
10/09/07	03/09/09	1565.1	676.5	17	-57.0%
04/29/11	10/03/11	1363.6	1099.2	5	-19.4%

Note: All data constructed using the S+P 500 returns. Returns do not include dividends.

Our favorite bear market chart, reproduced above, shows the actual short-term downside volatility that the stock market has produced in the past. Since 1946, there have been 14 bear markets in stocks, which have caused stock prices to drop by anywhere from 19.3 percent to 57 percent, and which have lasted anywhere from 1.5 months to 36.5 months. However, despite all of those short-term periods of volatility, the S&P 500 stands roughly 130 times higher today than it was in 1946.

The Danger of Panic

The investor who has succumbed to a state of full-blown panic is insusceptible to reason and incapable of making good decisions. It is at moments when emotions are high that rationality is low, and that investors make the worst and most regrettable mistakes. So, how can you engineer your investment strategy to avoid the possibility of panic in the face of the volatility outlined above?

It is important to realize that the cause of panic is not the crisis itself. It is in the surprise – the state of being blindsided by a reality for which we were not prepared. To the extent that we can prevent surprise, we can cut off panic. We do this through constant reminders of the difference between volatility (the normal incidence of temporary decline) and risk (the historically nonexistent chance of permanent loss), and by schooling ourselves in the history of market volatility. Specifically, we must understand the historical incidence of stock market corrections, as well as full-blown bear markets.

Stock Market Corrections

A correction in the stock market is a short-term, relatively shallow (20 percent or less) decline in stock prices. While a 10 percent to 20 percent decline in the market may not feel "shallow" as it is happening, that number helps us to differentiate from a "full-blown bear market," which takes prices down by 20 percent or more. Often a "shallow" decline can bring forth much fear and panic among ordinary investors.

Fortunately, such corrections tend to be relatively brief, and usually last for only a month or two before they burn out and markets recover. In fact, it is not uncommon to experience one or more such corrections during the course of a year in which the stock market advances.

IT IS VERY IMPORTANT TO REMEMBER THAT SUCH CORRECTIONS HAPPEN ALL THE TIME, AND THEY SHOULD BE EXPECTED ON AVERAGE AT LEAST ONCE A YEAR.

Bear Markets

A bear market is a more extended, steep (20 percent or more) decline in stock prices. Bear markets are the common nesting ground of full-blown panic and can test the emotions of even the most seasoned investors. They are so scary because they almost always occur during a time when the world is convinced of impending geopolitical or economic catastrophe, which is certain to tear down the fabric of our lives and economy as we know it.

Bear markets take a little longer to end, usually lasting for a year or two before they burn out and markets recover. In fact, the longest bear market since World War II came in 1946-1949, and it took 36.5 months for the S&P 500 to travel from its peak to its trough.

FORTUNATELY, BEAR MARKETS HAPPEN LESS FREQUENTLY, AND THEY SHOULD BE EXPECTED ON AVERAGE ABOUT EVERY FIVE YEARS.

Investment Return vs. Investor Behavior

The final, and most important, element to a successful retirement and wealth plan is that you must actually follow your plan over the long term, even when you are tempted to abandon the plan. Just as a written workout plan won't get you in shape if you don't actually go to the gym, no written financial plan will work unless you continue to follow the plan.

Unfortunately, there are several emotional and behavioral tendencies that are hardwired into most investors, making following a plan much easier said than done.

High Withdrawals

It should go without saying that your plan will not work if you don't follow your budget, and it is easy to become tempted to spend more than your budget allows. Additional discretionary or "one-off" expenses such as luxury vacations, a new car, or a new set of golf clubs will always be attractive, but they may compromise the long-term viability of your plan.

Retirement planning requires tradeoffs and the ability to prioritize the non-discretionary expenses that are most important to you—and that can be handled within your budget. Sometimes you may have multiple expenses that are important to you on a personal level, such as paying for a grandchild's college education or taking a dream trip with your spouse. However, in order to meet your retirement goals, you need to be clear about what is affordable. It is not a good idea to risk depleting your portfolio for non-essential spending. This isn't to say that helping with college or taking a vacation are off the table; rather, they just need to be realistically budgeted in the context of your overall goals.

Investor Behavior

The long-term risk of equities is embedded not in the companies themselves, nor in the global economy, but in the emotions of the investor.

Research shows that the human brain is wired in such a way as to make us naturally terrible investors. In particular, humans instinctively fear that any significant market decline is actually the onset of a disaster, even though as we just learned, all market declines are just temporary. Because we are programmed with an irrational fear of equity ownership, most investors don't own enough equities to fund their life goals, and even when they do, most of us have a tendency to want to sell our stocks when volatility strikes. In fact, genuine panic will result any time the following three conditions are met:

1. The world is experiencing a national or global financial or economic event that nobody can explain or understand.
2. The masses have concluded that the crisis is insoluble – that nothing can stop it from bringing down the world economy.
3. In the resulting panic, the world has come to believe the greatest myth of all: this time it's different.

Panic and terror require a belief that—despite the fact that no financial, political, military, or natural crisis ever in the history of the world has been capable of inflicting permanent loss on stock prices—this one will.

People have a hard time understanding the impact of their emotions on their investing, and for some reason, we all have an inflated opinion of our own ability to make rational investment decisions. The market research firm DALBAR annually publishes a report on investor behavior. Year in and year out for the last 20 years, this study has shown that investors consistently underperform their own investments. In fact, the most recent study found that over the last 20 years, the average equity fund investor underperformed the S&P 500 by a margin of 3.5 percent per year. Over 20 years the S&P returned 8.2 percent per year, but the average investor in stock funds only got 4.7 percent per year.

Historically, these numbers have bounced around slightly from year to year, but the relationship has remained pretty much constant: Over 20-year periods, the average equity fund investor consistently manages to capture just about half of the return of the index. In a society that has become obsessed with "outperformance" and beating the market, the average investor is not only underperforming the market: they are underperforming their own investments!

This happens for a simple reason: the average equity investor is hardwired to jump in and out of their investments at all the wrong times and for all the wrong reasons. Your own behavior as an investor, and your ability to avoid being sabotaged by your own emotions, is likely to be much more important than any other factor in your long-term investing success.

Predictions About the Future

The economy, markets, and future relative performance of investments cannot consistently be predicted. To become a great investor, you must have a healthy acceptance of the fact that investing is an exercise in managing uncertainty about the future, and so it is an "inexact" science at best.

This lack of predictability about the future may seem daunting, but don't let it overwhelm you. Compared to the way your assets are divided between stocks and bonds—and to the overriding issue of your behavior—these variables are relatively unimportant. In practice, the only way to capture the full return of equities has been to ride out their temporary volatility with patience.

> “IT’S IRRATIONAL. IT’S FRANKLY ILLITERATE TO NOT BE OPTIMISTIC. WE’RE GOING TO SEE A BLOSSOMING ACROSS ESSENTIALLY EVERY FRONT, UNPRECEDENTED IN HUMAN TECHNOLOGICAL HISTORY. THIS IS NOT SOMETHING THAT’S HOPED FOR. THIS IS BAKED IN THE CAKE.”
>
> - *LOWELL WOOD,* AMERICA’S MOST PROLIFIC INVENTOR

Optimism Pays

There is no shortage of reasons to feel afraid and pessimistic about the world today. Simply open a newspaper or turn on the television and you will be bombarded with bad news and a scary outlook for the future. Pessimism is indeed in a bull market in the world today.

Despite the popularity of pessimism, the wonderful truth is that human quality of life has gotten better, more or less consistently, for the last 100,000 years.

We don’t recommend optimism in some sort of naive way, but with informed respect for economic history, which demonstrates that long-term optimism is the one worldview that squares with the facts.

The economic trend of progress is an essential expression of human nature. We all have an instinctive impulse to become more. The spirit of capitalism, combined with human ingenuity and technology, are thriving all over the world. Despite government, politics, financial crises, armed conflict, natural disasters, religious strife, and terrorist atrocities. And yes, no matter who is sitting in the Oval Office.

It’s the combination of our human urge to become more, together with our natural ingenuity, that has driven the incredible explosion in quality of life in the last 100,000 years. You can be comfortable investing in a future shaped by human ingenuity because it is a resource that can never run out, and we have not even scratched the surface of what it can accomplish. You may recall that stocks have produced returns which are multiples of the returns achieved with conservative investments. The reason for this is that equity ownership is the only way to invest in human ingenuity.

For various reasons, many investors don’t perceive the nature of stocks as shares of companies, which represent a direct ownership of the earnings, cash flow, and assets of businesses which they themselves patronize. They don’t view the stock market as a portfolio of businesses with real earnings and real dividends, but instead see stock prices as part of a huge casino. In your quest to become a great investor, remember that stocks are actually shares of the profits, earnings, and assets of real companies, made up of real people, with real ingenuity, creativity, and intelligence.

How Can Concentus Wealth Advisors Help?

Our team at Concentus can help you craft an appropriate long-term written financial plan based on your unique life goals and values. That plan will include your written Wealth Policy Statement, specifically outlining your investment goals, time horizon, cash flow needs, and asset allocation strategy.

We will also act as your fiduciary advisor over time, to help you execute that plan in a disciplined way, despite the emotional ups and downs of markets. We offer a level of client service that is rarely seen in the financial services industry.

The following is a list of facts about Concentus, which you might wish to compare to other wealth advisory options you may be considering:

- We are an Independent Registered Investment Advisor, set up to act as your fiduciary, always acting in your best interest. Mutual trust is the only basis for our client relationships.
- We are independent. Because of this, we are able to minimize the conflicts of interest that are often part of working with large financial institutions.
- We align our fees so that we do better only when you do better. We don't sell products or accept commissions from third-party products, so our fee structure is completely transparent and conflict free.
- We have a firm belief that when you work from a written plan that is date- and dollar-specific, you have a better chance of long-term success.
- We believe that financial planning goes way beyond managing an investment portfolio; many factors will influence your family's long-term financial wellbeing. Our advice and execution is comprehensive and incorporates your unique tax, investment, estate planning, borrowing, and cashflow needs.
- We believe that financial planning is not a "one and done" exercise. Your plan must adjust with ongoing changes in your life and your situation. This is why we deliver a customized annual schedule of formal meetings to review your plan and make sure everything is on track.
- We believe that you deserve to work with advisors with the highest level of technical proficiency. This is why all of our client-facing advisors are certified as Certified Financial Planners®, and many of our team members hold multiple designations. Our advisory team has more than 150 years of combined industry experience.
- We believe that our clients deserve an impeccable level of service and communication. Every client is assigned a personal wealth advisor who is available to discuss your plan, answer questions, or put your mind at ease when market volatility causes you stress.

If you think you would benefit from this level of advisory service and support, we can help.

Contact us today at 610-994-9192 to arrange a time to discuss your situation—completely complimentary. Start the conversation today!

About Concentus Wealth Advisors

As a family-based team of independent Registered Investment Advisors, Concentus Wealth Advisors is committed to helping high net worth families achieve their most important financial goals. Our advice goes well beyond the accumulation of assets to address virtually every aspect of their wealth. The detailed and disciplined process we follow with each client results in a personalized wealth management roadmap integrating investment strategy, family governance, estate planning, liability and life insurance solutions, philanthropic endeavors, real estate, and more—for both today and tomorrow. Our completely objective and transparent service model allows us to act in a truly advisory and fiduciary capacity for our clients; each solution we present is drawn from the best of Wall Street and is presented entirely in the best interests of the families we serve. In today's complex financial world, Concentus Wealth Advisors brings welcomed clarity, vision, and results to our clients' financial lives. For more information, please visit www.concentuswealth.com.

BUILD A MORE SECURE FINANCIAL FUTURE WITH CONCENTUS WEALTH ADVISORS.

A second set of eyes on your financial future is always a good idea. If you want an experienced financial professional to review your financial goals with you, we urge you to call us at 610-994-9192 for a complimentary evaluation.