Retire...Relax®

Your Stock Market Survival Guide

ROSENBERG FINANCIAL GROUP, INC.

While this report can apply to all people, it is especially geared for people who: (1) are getting close to retirement; (2) are already retired; or (3) are concerned about taking too much risk. If you have invested in the stock market over the years, you have experienced periods of time when the market suffered significant losses. As a young investor who is investing monthly in a retirement plan, those types of drops will give you the opportunity to invest at lower prices. However, once you get close to retirement, or are already retired, those drops can be disastrous to your financial security.

Many advisors preach “buy and hold.” They say that you should just invest your money and suffer through down periods because the market always comes back. The purpose of this report is to help you look at investing from a different perspective . . . to consider that there are other ways to handle your money besides “buy and hold.” Like any method of investing, “buy and hold” doesn’t always work to your advantage. And in a really bad market, “buy and hold” feels more like “sit and take it.”

Now, this report has nothing to do with some grand scheme that promises superior returns. We’re not pushing annuities or any other product. We are fee-based asset managers who manage our client’s retirement money. All we want to do in this report is to share our thinking with you.

We specialize in working with individuals who are either retired or fairly close to retirement. Once you retire, you’ve crossed from certainty to uncertainty. You have gone from being an accumulator of capital to a spender of capital. You’ve crossed the river, and you don’t want to go back to work again. And you don’t want to face large losses if at all possible.

All of a sudden, you are faced with a number of unknowns, including:

- How long will I live?
- How will my health be?
- When should I take Social Security?
- Is my money going to last?
- Will I need long-term care?

The Big Question

And on top of all that, you must answer this very difficult question: ***“Does it appear that my income will last the rest of my life, and will it support my style of living, taking into account that at 3% inflation, prices will more than double in the next 24 years?”***

And remember, the inflation we experience is generally higher than what the government tells us it is, because they conveniently leave out increases in food and energy. Ronald Regan called inflation a cruel tax. Many people on fixed incomes have watched helplessly as the cruel tax of inflation has eaten into their purchasing power.

This is why we believe that in order to offset the negative effects of inflation, you need to consider investing part of your money in the stock market. Although not guaranteed, history has shown that over the long run investing in the market tends to achieve higher returns than many other investments.

The problem, as witnessed in 2007-2009, is that over time, the stock market goes through some brutal periods. And that means that at certain times, you will want to have less invested in the market than at other times. We like to look at it like a football game. Sometimes you will want to have the offensive team on the field; sometimes you will want to have the defensive team on the field; and at other times you will want to call time out.

Most people don't realize what it takes to recover from losses. They sit and watch their money go away, paralyzed by the loss and not knowing what to do. But we believe it's inaction that gets you into a mess. Only action will get you out. And you can't take action until you know what you're up against.

Sit and Take It?

The investment community (brokerage firms, investment companies, sales people, etc.) has long advocated the concept of "stocks for the long run." Just invest your money and leave it alone. Don't Worry. Be Happy. If they go down in value, hopefully they'll come back before you need the money. And while that might be a good strategy in good markets, it can be a bad strategy in bad markets. And, of course, you never know when a good market will turn into a bad market.

We believe the biggest risk you face as a retiree (or near retiree) is that you will suffer a large loss that can jeopardize your way of life. In other words, losses can significantly shorten the income producing life of your portfolio.

Investment companies want you to remain invested at all times. They tell you that missing the best trading days can cost you a lot of money. In other words, 'timing the market' rarely pays.

The insinuation is that by getting out of the market you won't get back in at the right time, and you might have missed those precious "best days." But while that may be true, what they don't tell you is *if you miss the same number of the worst days, it will increase your returns even more.* Why is it more important to miss the worst days than to be invested during the best? It all has to do with the negative effect that losses have on your returns.

Losing Too Much

If your investments take losses, as many people have experienced over the years, you have to first make back what you lost. Only then you can start making money again. We have a saying at our firm, "Losses hurt you more than gains help you." Here's a chart that shows you what we mean:

If you only lose 10% of the value in your portfolio, you only have to make a return of 11% to get back to even. However, if you lose 50%, you have to make a 100% return to get back to even.

Here's how it works.

Let's assume you have $100,000 and it drops 50%. So now you have only $50,000. To get back to even, it must go up by $50,000. But your investment is worth only $50,000. So you have to make $50,000 on your investment of $50,000. That's how we get 100%.

To Make Up for a Loss of:	You Must Make a Return of:
60%	150%
50%	100%
40%	67%
30%	43%
20%	25%
10%	11%

In a severe market drop, people tend to panic and sell at the bottom. They end up suffering large losses right when the correction might be over. Additionally, when people experience large losses, they sometimes turn around and take on even more risk. If the market goes up, that can work. If the market goes down further, they will get hurt again. Over time, this is referred to as negative compounding.

Negative Compounding

Think about this question: "If you invested $200,000 for six years, and you made 20% in three of those years and lost 20% in the other three, how much money would you have at the end?" Most people assume they will still have their original $200,000. And that makes sense. Make 20% and then lost 20%, and you will end up where you started. But it's not that simple. By the way, it doesn't matter which order the three ups and the three downs occur. This is just math.

Return	$200,000 Becomes
+20%	$240,000
-20%	$192,000
+20%	$230,400
-20%	$184,320
+20%	$211,184
-20%	$176,947

Over a span of six years, you gained 20% in your portfolio three of those years, and lost 20% three of those years. You have an average rate of return of 0. But as the above chart shows, you lost almost $25,000. So it is fairly obvious that if you can limit your losses, you won't have to make so much on the other side. Making 11% is certainly a lot easier than 67%. Keep in mind that taking additional risk doesn't necessarily mean getting additional returns.

Another mistake deals with the use of performance numbers. Brokers and some advisors like to quote long-term rates of return. You might hear something like "since 1926, the stock market has averaged around 10%, depending on what method you use."

However, just because the long-term market average is 10%, it doesn't mean you'll make that every year, or that you'll make it at all for that matter. And keep in mind that past performance does not guarantee future results.

In the last market crash, many people had their money in great investments with great managers with great track records. Despite that, they still lost a lot of money because the stock market trend was down. And, by the way, making that "average 10% return" required that you be 100% in the market. For most retirees, we think that's way too much risk.

We recommend that you have a system for reducing and increasing your exposure to the market. There are times when you will want to have more invested in the market, and times when you will want to have less. But in reality, it's difficult for people to decide when to be in and out of the market, because most people work on emotion. They get excited when the market is going up; they get scared when it is going down.

The problem is knowing when to take action. Remember, when it comes to investing, there is no "magic genie" to grant you three wishes. You need an investment system.

Here's what we believe you need to do, especially if you are a retiree or soon to be retiree:

- Realize that regardless of what you've heard, you shouldn't be fully invested at all times
- Understand the economic trends so you can see if you have a tailwind or a headwind.
- Have a system that potentially reduces your losses – don't just "sit and take it"
- Understand the ongoing stock market forces. Is the trend your friend or your enemy?
- Look to invest in the stronger segments of the economy
- Be aware of anyone making outlandish promises
- If you don't want to do this yourself, find a fee-based manager who has a system that you feel comfortable with.

What if I'm Also Taking Withdrawals?

But wait – there's more. We showed you earlier that you have to make 100% to make up for a 50% drop in value. But what if you are also taking money from your account? Here are the numbers:

Percent Loss	Required to Earn Over 3 Years Assuming 4% annual return
10%	26%
20%	42%
30%	63%
50%	132%
80%	525%

So as this chart shows, instead of having to make 100% to get back to even, you need to make 132%.

Market Volatility

Markets are always going to have ups and downs. As they say, nothing goes up forever. So you want to have a pre-determined exit strategy to protect yourself. You can't control the markets. You can only control your behavior. And we believe that behavior should include minimizing losses.

If you remember the last few market crashes, many investments dropped 50% or more. Investors became paralyzed and waited for it to eventually (hopefully) go back up. Sometimes that worked; but mostly it didn't, unless you were willing to wait years to get back to even. So we use what's called "stop losses" in our management of the portfolios. Without going into any great detail, if a position drops a certain percentage we sell it. Of course it's always possible that it will turn around and go right back up, but that's ok, because "losses hurt you more than gains help you." If at all possible, we don't want to turn profit into a loss, or a small loss into a big loss. So we monitor all the positions and determine when we need to step aside and get out.

The idea is that if you limit your losses, you will still have cash when things eventually turn around. If you suffer huge losses, you won't have money to invest. We generally look at "down from high" stops. We have a screen that shows what we initially paid for each position and how much it is down from its highest point since investing. We monitor that, and then if it drops a certain percentage, we can sell it.

The percentage we use is determined by a number of factors. Different people use different percentages. We've seen percentages as low as 8% up to 25-35%. It all depends on how much you are willing to give up if things turn against you. If you are aggressive, you might be willing to take more risk. However, if you're retired (or close), you really would like to avoid large losses. And to do that, you MUST have a definite strategy.

The question we get a lot is why don't other advisors do this? First, they believe in "buy and hold." It's a lot easier to invest people's money and just leave it there. And second, what we do is very cumbersome and time consuming. However, we have a portfolio manager in the office whose only job is to watch the accounts on a daily basis and make changes when necessary.

Please understand that because other advisors don't do what we do doesn't make them bad people. Hopefully they are trying to do what is best for their clients. This is more of a philosophical issue rather than one of good and bad, or right and wrong.

Conclusion

We can't tell you what to do, because we don't know you and we can't provide blanket advice in this report. All we can do is tell you what we do. This is only meant to be our philosophy and a general description of what we do for our managed accounts. It's not specific advice as to what you should do. It does not guarantee that you will always make money using these strategies. It does not guarantee you will avoid losses. It is a risk reduction strategy, and when you're retired, that's what's most important.

What Does Rosenberg Financial Group, Inc. Do?

We believe that most investors want a specialist. They want to call and talk to a person that understands them and can provide for their needs. They don't want a person who represents a company that is trying to push more of their products through their sales system.

At Rosenberg Financial Group, Inc., we have created the **RetireRelax Solution ™** that assists us in managing our clients' money. This disciplined investment approach for retirees and pre-retirees includes an exit strategy when we feel that risk is high. Keeping an eye on the investment landscape for our clients is something we do each and every day.

To learn more about us, just download the report: ***"What Do I Need To Know About Rosenberg Financial Group, Inc.?"*** from our website.

To learn about complementary consultations, just download the report: ***"What Can You Expect When You Come In For Your Complementary Consultation?"*** from our website.

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2517 Moody Road, Suite 100 · Warner Robins, GA 310788 · (478) 922-8100 · (800) 777-0867

4875 Riverside Drove · Macon, GA 31210 · (478) 741-4457 · (800) 777-0867

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