PRIVATE WEALTH MANAGEMENT & CONSULTING, LLC

WEEKLY FINANCIAL UPDATE

Providing Direction and Guidance for All Your Financial Needs

For the Week of July 6, 2020

THE MARKETS

Stocks rose Thursday following an unexpectedly positive June jobs report. Nonfarm payrolls rose by 4.8 million from May's 2.7 million, achieving the largest single-month increase in history. Encouraging news about Pfizer's coronavirus vaccine trial also buoyed investors. For the week, the Dow rose 0.36 percent to close at 25,827.36. The S&P gained 1.55 percent to finish at 3,130.01, and the NASDAQ climbed 1.93 percent to end the week at 10,207.63.

Returns Through 7/02/20	1 Week	YTD	1 Year	3 Year	5 Year
Dow Jones Industrials (TR)	0.36	-8.34	-1.13	9.12	10.49
NASDAQ Composite (TR)	1.93	14.35	27.19	19.73	16.60
S&P 500 (TR)	1.55	-2.13	7.42	11.09	10.79
Barclays US Agg Bond (TR)	0.31	6.26	8.70	5.36	4.37
MSCI EAFE (TR)	1.48	-10.13	-4.99	1.19	2.26

Source: Morningstar.com. *Past performance is no guarantee of future results. Indexes are unmanaged and cannot be invested into directly. Three- and five-year returns are annualized. The Dow Jones Industrials, MSCI EAFE, Barclays US Agg Bond, NASDAQ and S&P, excluding "1 Week" returns, are based on total return, which is a reflection of return to an investor by reinvesting dividends after the deduction of withholding tax. (TR) indicates total return. MSCI EAFE returns stated in U.S. dollars.

Where It Comes From — The money used by the Federal Reserve in its lending programs and asset-buying programs was "digitally created" by the Fed, i.e., the Fed does not technically "print" money (it does not have a printing press) but rather it creates money with the press of a button on a keyboard. The Fed is forecasted to create $5 trillion of new money between March 2020 and December 2020 (source: BTN, Federal Reserve).

Massive Job Losses — First-time applications for unemployment benefits in the last 3 months through June 20, 2020 (47.2 million) were more than 15 times the number of first-time applications for jobless benefits filed (3.1 million) in the 3 months before the pandemic struck the United States (source: BTN, Department of Labor).

Gone — Household wealth in the United States fell by $6.5 trillion (from $117.3 trillion to $110.8 trillion) during the first three months of 2020 (source: Federal Reserve, BTN Research).

WEEKLY FOCUS – Sequence of Returns Risk

From young adults beginning a career to current retirees, most Americans share a common concern. Will they be able to maintain their desired lifestyle throughout retirement? They are aware of common obstacles: longevity, health care costs, inflation and potential long-term care. Recent market volatility is drawing attention to a less understood challenge – sequence of returns risk – among those preparing to retire or those who recently retired.

Here is a simple explanation of sequence of returns risk: how the stock market performs in the years directly preceding and shortly after retirement can have a disproportionate impact on how quickly or slowly an investor's money is consumed.

If the value of a new retiree's investments has increased around the time of retirement, necessary withdrawals to cover their fixed costs will amount to a smaller percentage of their retirement assets, leaving more in their accounts to grow in coming years. The reverse also applies. If the new retiree's investments have recently decreased in value, they will need to withdraw a greater percentage of assets for living expenses, and they'll have fewer assets left to grow.

Imagine how much more a 30 percent drop would hurt a 65-year-old with a $2 million portfolio than it would hit a 45-year-old with $400,000 in investments. The 65-year-old loses more immediately while they are withdrawing living expenses from their portfolio at the same time, plus they have less time to recover their losses. Consequently, two different individuals with the same portfolios who retire at the same age and spend the same amount but retire at different times could have dramatically different situations 20 years into retirement – even if the long-term market averages are similar.

There are several approaches to minimize sequence of returns risk. One is to consider withdrawing a constant percentage from your nest egg, regardless of inflation or whether the portfolio has shrunk due to falling stock prices. Another is to reduce volatility on assets you'll need to tap in the early years using a "bucket" approach, which separates five to 10 years of income into lower-risk accounts with the remainder invested in higher risk accounts to be used for income later in the plan.

Whether you're already retired, you're approaching retirement or it's a long way off, we can help you evaluate different approaches to minimize sequence of returns risk and create an asset allocation strategy designed to safeguard your future.

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* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Morgan Stanley Capital International Europe, Australia and Far East Index (MSCI EAFE Index) is a widely recognized benchmark of non-U.S. stock markets. It is an unmanaged index composed of a sample of companies representative of the market structure of 20 European and Pacific Basin countries and includes reinvestment of all dividends. Barclays Capital Aggregate Bond Index is an unmanaged index comprised of U.S. investment-grade, fixed-rate bond market securities, including government, government agency, corporate and mortgage-backed securities between one and 10 years.