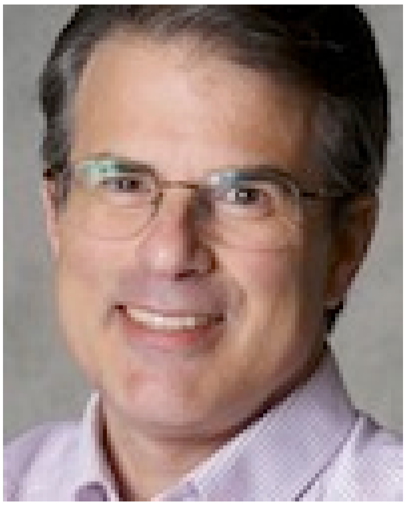
A Reminder that Market Risk Is Real

By Kerry Pechter *Thu, Mar 12, 2020*

This equity slump can serve as a teaching moment for near-retirees who underestimated their need to develop a solid retirement income plan.



Panic is not a productive response to any situation, no matter how serious. Panic *attacks* are often abject cries for help that, by themselves, are purely counter-productive. Better to remind yourself that “intelligence is knowing what to do when you don’t know what to do.”

Then relax and wait for your brain to suggest the next move. It will.

But what about your panic-stricken clients? A lot depends on how old they are. One adviser I know faced a phone meeting this week with a fairly new client whose assets he hadn’t yet had a chance to reallocate. The client, a 62-year-old business owner, had had $700,000 in equities until 10 days ago.

“I’ll tell him three things,” the adviser said. “‘First, at your age, you should have been more diversified. Second, you can do nothing and ride it out. Or you can move 40% of that account to a fixed indexed annuity right now.'”

I don’t know yet how the client reacted. The client apparently also owns a fair amount of whole life insurance. This particular adviser often recommends life insurance for affluent retirees, both as a source of cash during moments like these and as a counterweight to a life-only single premium immediate annuity.

Of course, there’s an upside to downturns. “Stay the course” is the Boglehead response. But the bigger the drop, the bigger the opportunity for those with cash or near-cash. We love other products when they’re “on sale”: why not equities? If you were 50:50 in stocks and bonds before this correction, maybe you should rebalance toward stocks. Think of it this way: the market just regained a lot of equity risk premium.

Life insurers/annuity issuers can use this crisis to gently remind retirement savers and investors that risk is still real—and that insurance products and managed volatility products can help them sleep easier. (The Alliance for Lifetime Income should be busy this week with a follow-up to its "**M.U.G.**" promotion.) For life insurers who are buying back their own stocks, I assume this slide to be a windfall. For firms with big books of variable annuity business, the slump probably hurts fee revenue. Another interest rate cut certainly won't help the sale of new fixed annuities.

The retirement conference schedule is being disrupted as we speak. The March 22 Adviser2X conference in New Orleans has been postponed until late July. I'm waiting for updates from Investment News, LIMRA, and the American Retirement Association about their retirement summits, all of them set for late April.

For basketball fans, March Madness is turning into March Sadness. As a college hoops fan, I'm following developments this week. The Ivy League cancelled its tournament. So far, the NCAA appears to have decided that the show will go on, but not before live audiences. Victory over the virus is more important.

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