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CORONAVIRUS AND FINANCES

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Coronavirus and Finances

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Another Reminder About the Importance of Financial Defense

To say that March 2020 was a volatile month for the stock market would be an understatement. With the outbreak of the coronavirus and ensuing economic lockdown, the market ultimately dropped by some 40% before rebounding with the help of government-approved artificial stimulus. Financial markets around the globe were equally volatile — and to some degree, that volatility continued for years afterward.

The speed and severity of the COVID-19 outbreak, combined with the massive social and economic consequences, were a reminder about the importance of understanding risk and protecting your financial assets as best you can. Historically speaking, they weren't the first such reminder, and you can bet they won't be the last.

In this report, I'll discuss how some of the most recent market crises have influenced my philosophy and business model and awakened an entire generation to the practical value of investing for income.

A Look Back in History

On a personal level, the coronavirus crisis reminded me of when I watched the dot com-com implosion tear apart the markets in 2000, and when I saw so many peoples' fortunes decimated during the 2007-2009 stock market collapse. Those events, like the coronavirus, took many advisors and investors by surprise — but not me.

In 1999, while most Wall Street cheerleaders seemed to believe that the sky was the limit, I believed something completely different. My knowledge of stock market history led me to believe that a big market correction was right around the corner. I knew from my interpretation of basic historical trends that the market was going to take a turn for the worse. The trends also told me that there would be a series of dips over the next 15-to-20-plus years.

It was at this time that I decided to change my business model and build my practice around defensive, income-based financial strategies designed to help protect clients from dramatic stock market fluctuations and economic uncertainties. That decision has served me well — and enabled me to serve my clients well — ever since. It's also allowed me to grow my business and expand my message about the benefits of investing for income to a national level.

The Birth of the Income Generation

In 2015, I founded Sound Income Strategies, LLC, a Registered Investment Advisory firm made up of experienced investment management specialists. Together, we actively manage client portfolios to maximize income first and seize opportunities for growth second.

Although Sound Income Strategies works with a broad range of clients, we specialize in working with those who are retired or near retirement. That means we work primarily with Americans in the Baby Boomer and early Generation X demographic (a.k.a. The Income Generation), who understand that the game has changed significantly when it comes to planning for retirement.

For most Americans, traditional employer-based pensions no longer exist. And in the wake of two major stock market drops since the year 2000 (three if you count the coronavirus correction), many have learned the hard way that the mutual funds in their retirement accounts are vulnerable. The Income Generation understands that the onus is on them, more than ever before, to prepare financially for retirement and try to protect their assets. With that in mind, at Sound Income Strategies we put a strong emphasis on active portfolio management and client education, working with all our clients to ensure they have the best possible investment strategy in place to meet their goals.

Additionally, we make sure our clients understand all their investment options, the importance of financial defense, the alarming facts about stock market history, and how changing interest rates can impact their investments.

Comparable Return, Less Stress

Believe it or not, since the turn of the century, fixed-income investors have achieved an average return that is very similar, if not slightly better, to that of buy-and-hold stock market investors. These growth-oriented stock market investors averaged roughly 4.75% with dividends factored in and accounting for inflation through the end of 2017.[1]

By comparison, many income-based investors whose portfolios have been properly managed have achieved close to 5% income and greater than a 5% total return.[2] Plus, they've done it with far less risk of a major loss during the two major market corrections that occurred from 2000-to-2002 and 2007-to-2009. These figures have remained similar since 2017.

What's even more important is that income investors have been able to endure all these market storms (including the coronavirus crisis) with far less stress than investors whose strategies have been geared toward growth stocks and mutual funds.

Conclusion

The bottom line is that the coronavirus was only the latest reminder about how quickly a major global or domestic crisis can send the financial markets reeling. We saw it with the Great Depression, “Black Monday,” the bursting of the dot-com bubble, 9/11, and the Financial Crisis. Throughout market history, the list goes on.

These kinds of events underscore the importance of reducing your investment risk once you’re over age 50 or so and are progressively losing the time you would need to recover from a major financial loss before retirement. While no investment or financial strategy is completely risk-free, it is possible to reduce your overall level of risk through strategies specifically designed to protect your principal and generate a return in the form of interest and dividend income. Getting started is as easy as contacting a financial advisor who specializes in retirement income.

Sources:

1. Annualized growth rate of the S&P 500 January 1, 2000 – December 30, 2017: http://moneychimp.com/features/market_cagr.htm

2. https://www.advisoryhq.com/articles/best-fixed-income-investment;

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