

# The Meridian Memo

Meridian Financial Advisory

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## *Risk, Risk, & Risk*

### **Dear Meridian Clients and Friends:**

The year 2020 presented us with unique challenges. Never has a singular event had such wide-ranging repercussions as the Covid-19 pandemic.

It has touched nearly every area of our lives including schooling, socializing, family gatherings, travel, and more. Many of the restraints from social distancing and restrictions implemented to slow the spread of Covid-19 remain in place. Of course, it wasn't just our daily routines that were impacted. The economy and our investments saw unprecedented swings in 2020.

The government effectively closed large portions of the economy. We had not seen the economy contract like it did since the Great Depression. Even the Financial Crisis and the subsequent Great Recession of 2008-09 in terms of its impact on economic activity was mild compared to what we experienced in 2020.

Consequently, to price in the unknown, in March the markets sold off violently and plummeted by 35% in a very short span of time.

Through an unprecedented level of government support both fiscally and monetarily in a multiple of Trillions (with a "T") of Dollars, the markets recovered and people gained a semblance of stability, though many were not so fortunate.

I want to show you that the market can crash and take a long time to come back. After the Tech bubble popped in 2000, it took nearly 15 years for the NASDAQ Composite Index to recover. Even the broader S&P 500 took many years to break even and almost as soon as it did, it crashed again (that time by 50%) when the 2008-09 Financial Crisis came along. If you look at the stock market's average annualized returns from March 2000 to December 2020, it comes out to 4.09% and less than 2% once you factor in inflation. That's what you were

### **How to Deal With Risk:**

- ✓ Employ Multiple Strategies to achieve **real** diversification (which is the only free lunch). This includes tactical management with a broad unconstrained mandate.
- ✓ Use Structured & Insured Products: consider alternative investments, insured and/or structured investments, & long-term gov't bonds that provide actual (not perceived) diversification.
- ✓ Watch Out for Interest Rate Risk: a small move in yields can wipe out a lot of principal of "low risk" investments.
- ✓ Risk Size: Take risk, but as little as necessary to achieve your objectives. Get rid of unnecessary risks; mitigate the rest.



compensated on average per year for the last 20 years for holding a risky asset.

Many of the people that we work with are either retirees or pre-retirees and they

cannot afford this level of risk and they don't have 10 or 15 or 20 years for the market to recover before they start drawing on those investments. There are acceptable market losses and then there are what are known as "*fatal fluctuations*" which are enough to keep you from retiring when you want to or force you to radically change your retirement plans and lifestyle in retirement. One principle you will hear us repeat if you work with us is that "**losses will hurt you more than gains help you.**" There are many applications of this principle.

The goal for this group of people begins and ends with risk management and has an eye on income. The goal is to translate what you have worked so hard to accumulate during your careers, and position it in a way that it will provide income each and every month and year to meet your retirement needs and live your retirement dreams. The reason we are doing this is to help people achieve their goals.

The retirement planning process has to be goal oriented. That's the whole point of everything we are doing whether it is cash flow management, investment positioning, tax planning, or estate preservation. It is to help you realize your goals, do the things you want to do, protect yourself, and create

a legacy that is important to you.

Any retirement income plan worth its salt has to have several components. It cannot be overly dependent on the market for income. It has to plan for gaps (i.e. "what if" adverse scenarios, such as death, long term care event, bear market, inflation, a "black swan" event, etc) that could manifest in the future. Also, it must provide enough income to cover your lifestyle needs, now and in the future.

Of course, every situation is different and requires a tailored and individualized retirement plan. However, one thing we can say is that everybody in this group has to do more with their wealth than what is entailed by simply utilizing a 'run of the mill' standard asset allocation portfolio such as you might get by using a Vanguard Target Date Fund or through a robo advisor. These can be great tools so workers can go on auto pilot during their careers during the accumulation phase when risk doesn't matter as much, but these tools usually require households to take on much more risk than is acceptable during their retirements and can very easily result in the fatal fluctuation I discussed earlier.

There are numerous risk management tools and investment strategies we

utilize at Meridian to manage the downside, while still benefiting from market gains.

We believe that we have access to the best financial strategies you can implement. We will continue to study, learn and improve so we can better serve you. The year 2021 will bring many opportunities to solidify your financial plans, and it would be our honor and privilege to be on your team to put the plans in place that you can count on, no matter what the markets and economy bring.

We wish you a wonderful and blessed 2021. Please know we are thinking about you and are here for you.



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