Casey Mullooly: Welcome back to the Mullooly Asset Podcast. This is episode 399, one away from 400. I'm your host, Casey Mullooly, joined here again by Tom.

Tom Mullooly: Hello there.

Casey Mullooly: Hello to everybody out there as well. So this week we're going to take a break from what we've been doing over the last couple weeks. We wanted to talk about something that we talk about often, but not in the context that we're going to talk about it today, and that is not ripping up the script. I know we talk about ripping up the script usually in the context of not shifting your investment risk tolerance around during markets like we're seeing right now, meaning don't react to how you're feeling about the market. Don't make investing decisions based on how you're feeling about the market. Stick to what you're doing before you had those fears and worries. But I think it's important to address not ripping up the script in terms of communicating about when you are going to need money from your investment accounts.

Casey Mullooly: We invest very differently when we know the money is going to be needed at some point down the road. We might not even tell you to invest it in the first place. But taking large lump sum withdrawals from your accounts is something we like to plan for and know about well in advance of it happening. Of course, we know that things change, and if you need the money, then you need the money. But Tom, could you just walk through specifically how and why we plan for short term needs and specifically what impacts these surprise withdrawals have on a portfolio and broader financial plan?

Tom Mullooly: We've had not a lot, but we've had some circumstances over the years, especially over the last two years, where the story has changed with some folks. And this is why it's really important to, once you're starting to think about changes that you're going to be making, and I'm not talking about selling IBM and buying Exxon, I'm talking about when you're going to make changes in your life, you really need to include your advisor, even if it's only a thought at that stage. We get the call that, "Hey, we're going to take this money out," by then the decision's been made.

Tom Mullooly: So the problem that we're running into now is here in late June of 2022, we may be selling at or near the absolute bottom in the market. We don't know if the bottom is going to be in July or December. We don't really know that, but this money was earmarked for long term investments, not short term needs. So when the story shifts, you need to talk to your advisor about what the ramifications may be, because steps could have been taken along the way to reduce the exposure to risks, to maybe take some money off the table when there were some gains and we could pair gains with losses. There are some things that, besides long term planning, part of the planning process is short term planning.

Casey Mullooly: Yeah, our very own Brendan Mullooly was quoted in MarketWatch recently. I actually have the quote in front of me because I think it applies perfectly to the situation. We'll link up to that article, so you can go check it out. The MarketWatch article was asking advisors what they're doing amidst the high inflation ratings, and Brendan gave the following answer. "I continue to channel savings earmarked for less than three years into online savings accounts. Just because inflation is up from recent years, doesn't mean it's any more prudent to put short term dollars into long-term assets. Neglecting to take an investment's time horizon into account at the onset is playing with fire. For savings that have a longer runway, I continue to believe a diversified portfolio of stock ETFs will provide the best possible hedge against inflation over my multi-decade time horizon. So, I have a barbell approach with online savings accounts on one end for short-term goals and retirement accounts with diversified stock ETF portfolios for long-term goals on the other end."

Tom Mullooly: That's a perfect answer. So the problem, I think that many people have is they think in bucket approaches. Well, I've got this bucket over here of stocks. I've got this bucket of money in the bank that's not doing anything. And for many years, we had folks calling us saying, "I've got this money that I don't really have any plans for, but I feel silly because I'm not earning anything at the bank. So I know the stock market goes up every day, right, Tom?"

Casey Mullooly: I can expect a smooth six to 10% per year. Right?

Tom Mullooly: Right. And things change.

Casey Mullooly: Right. It's tough, because on the one hand, I think we do have to take people at their word when they're saying, "Oh, I don't plan on using this money." We take that and invest accordingly. If there is even that possibility, then I think that would change how we approach the situation.

Tom Mullooly: We need to have a conversation because we can make changes to help smooth that process. And instead of the other way the process often works is a client, and not necessarily our client, someone who's investing in the market, they're thinking about an upcoming project or investment, real estate or something like that. And they rip open their statement on a Saturday afternoon and they see losses, losses, losses. And they're like, "That's it. This is where I'm getting the money from." And everything has now changed.

Tom Mullooly: We just had a client who insisted as recently as December, six months ago, that he was not going to be tapping into his retirement account for years, maybe never. It's for his kids, he said. So in the last six months he's taken two withdrawals and he informed us the other day that he's taking the rest of his money to buy a franchise.

Casey Mullooly: Yeah. We believe in communicating and talking about these things. And it's tough because I feel like our hands are tied behind our back there.

Tom Mullooly: And we know that things change, plans change. One of the best conversations we have are people who say, "Hey, I have been putting all this money away with your help to retire, and now I can move up my retirement date because the plans are falling into place perfectly." I love those kind of conversations. So, it's not all negative. We have a lot of good things that happen, but we also are in a business where plans change and can change frequently. So you need to keep your advisor in the loop.

Casey Mullooly: I think it's especially interesting the timing of these conversations and how, if we had this conversation 12 months ago, things might not be happening the way that they are.

Tom Mullooly: No, just the opposite. 12 months ago, we had people asking us how they could borrow against the securities in their investment account to take money out and do things because they have such inflated gains and they don't want to sell it and pay the taxes. And now, now that the market has changed, and it's temporary, but now that the market has changed, people are now changing their plans along with it. People, that's a mistake. You should be talking to somebody, not necessarily us, but think it through, talk about it. Hopefully talk with your advisor because if you do plan to move forward with that new approach where you're going to tap into your investments, things can be done to help mitigate the losses.

Casey Mullooly: I think you've got to think about it in terms of, we talk about the 4% rule. That's not really a rule, but we talk about it in terms of portfolio withdrawal rates when people are drawing down their accounts in retirement. And 5% of the account last year was way different than 5% of the account this year.

Tom Mullooly: Yeah. Let's talk about that because I think a lot of people don't understand how the 4% rule actually works. So, the 4% rule was something that our industry helped promote in the mid '80s. So basically if you had a balanced portfolio, say 60% in stocks and 40% in bonds, you were still getting income from your bonds, you could, on the day you retire, look at the balance, and say you have a million dollars in your retirement pool. 4% of that is $40,000. You can safely take out $40,000 per year going forward and-

Casey Mullooly: Adjusted for inflation.

Tom Mullooly: Yeah. And then you would be okay.

Casey Mullooly: Yeah. Meaning you wouldn't run out of money.

Tom Mullooly: Right.

Casey Mullooly: But, sorry, I just want to ... Let's say you're doing that. And then you, surprise, take out $50,000 from your account, or let's say $100,000.

Tom Mullooly: 200,000.

Casey Mullooly: And the account is down 20% overall. That just throws it completely out of whack. And when we build retirement plans for people, I think we tend to be on the conservative side of portfolio withdrawal rates because of that, because we want to build that margin of error in there.

Tom Mullooly: Margin of safety. Yeah, that's really important. I mean, there are folks that have come into our office with illustrations from their life insurance guy who shows the value of their insurance product, an annuity or some kind of insurance contract, growing infinitely into the sky and showing them a projected amount that they could take out safely per year. And honestly, it's not worth the paper that it's written on. It's scary. It really is. And these are things that a planner can really help clients understand. We've lost business because our projections have been too conservative and the insurance guy, or the guy at a big brokerage firm is showing them, hey, this money's going to grow at 9 or 10% a year forever with no downturns. Honestly, that was Bernie Madoff's ticket.

Casey Mullooly: I don't know how they got that through compliance, but.

Tom Mullooly: You know what I'm saying.

Casey Mullooly: Yeah.

Tom Mullooly: So they just show them pie in the sky numbers. We want to be more realistic because it's a painful conversation when people call and say, "I need to do this and I've waited too long." That's also part of the conversation, is we hear someone say, "I waited too long to address this." So, don't wait. Don't wait.

Casey Mullooly: Yeah. I think what you said there about having a painful conversation, it's so important to have these conversations upfront and-

Tom Mullooly: And they suck. I'll also add, they're usually at 7:45 on a Monday morning. I hate that, when the phone rings that early on a Monday, because it means someone's been losing sleep over this for at least ... It's destroyed their weekend. They've probably been thinking about it for a while. I hate that.

Casey Mullooly: While they're difficult to have, I think that it goes a long way in terms of making financial plans and investment portfolios more sustainable over the longterm, which is really what we're trying to accomplish here. So like you said in the beginning, even if you're thinking about taking a large lump sum from your portfolio, your advisor needs to be in the loop on that as soon as you have the thought, because it really does affect how we're, us specifically, how we allocate the portfolio and just the overall strategy as a whole.

Casey Mullooly: So, just wanted to drive that home and ask you guys out there, if you're thinking about making a big change to get on the phone, shoot us an email, let us know what you're thinking. Let us know what changes might be on the horizon for you, and we'll talk things through with you. So, that's going to do it for episode 399 of the Mullooly Asset Podcast. We'll see you for 400.