Working Longer, Retirement Plans, & Market Downturns - Transcript

Tom: Welcome to the Mullooly Asset Management podcast. I'm one of your co-hosts, Tom Mullooly and with me today is Brendan Mullooly.

Brendan: Let's get it started. Right?

Tom: So welcome to episode 230. Today, we've got a couple of topics that we want to talk about. We want to address the recent volatility in the stock market, but Brendan, I think to begin, episode 230, we want to talk about this Forbes article that we were talking about before we turned the microphones on. It seems that in this article that we saw in Forbes, about 52 percent of older workers are getting, like it or not, pushed out of their jobs. And it's a topic that we talk about as planners. It comes up a lot.

Brendan: Yes, it's something I think you want to discuss as retirement is approaching because oftentimes you're baking into a plan that things are going to continue as they do today, like the job is still going to be there three years out, or four years out, or five years out, and you'll continue making the same amounts. It's worth considering that things could change over that period of time and what that might look like.

Tom: Right.

Brendan: There are obviously like a couple of levers you can pull when you're sitting down to do a financial plan and working longer or living on less are two that you can pull, but to say without even trying to do a plan like, "Oh, I'll just work longer," it doesn't work that way.

Tom: Well, it doesn't work that way in the sense that you think you're going to keep your current job. Like it or not, it seems like there's age discrimination in the workplace. This is going to sound really trite to say, but the first time I ever saw it in living color was in the movie Wall Street. And so that was filmed in 1987, and there was an old broker, used to wear a suit and tie every day, nice little pocket square. And he just never did any production. He just sat around all day, and at one point during the movie, they dismissed him because he was just taking up space.

Brendan: I don't know if that's the case. I think a lot of companies are just faced with the decision that, what would be more offensive to the worker who's been somewhere for a long time? We're letting you go or you have to take a 50 percent pay cut to stay? I think most of them would walk out the door if you told them they were getting a 50 percent pay cut, so they would quit anyway.

Tom: I just heard a story about that last night. And that prompted someone that we know to get up and walk out because they were actually looking at additional work being put on their plate and certainly no pay increase in the future and the possibility of a change in salary, lower.

Brendan: Right. So from the company standpoint, sending people off to greener pastures when they've reached a certain point in their career just makes sense because you're going to offend them either way. Whether you say their job is not going to be there anymore or they're going to give it to somebody who they can pay half that much who is 30 years younger than them-

Tom: It's heartless.

Brendan: Yeah, but are they supposed to ... A lot of people in today's world will also leave their job for $10,000 more a year. So that's kind of heartless too. There's just no loyalty between employees and employers anymore in either direction.

Tom: It doesn't seem that way.

Brendan: So just to say that, "Oh, I will work longer," yes, your point is that they could do that, but it may not be how they want. It may not be in the exact same job they're in now. It might be-

Tom: Doing something else.

Brendan: Something else that they believe to be beneath them or something.

Tom: Working at Home Depot.

Brendan: Right, like there's nothing wrong with that at all, but you have to be receptive to the idea. So if you're forced out of a job or a career that you've had for 20 or 30 years and your financial plan was that you were going to work for five or even 10 more years when this happens to you, are you going to be receptive to the idea that it's going to be doing something like that as opposed to the desk job that you had before that or whatever it is that you were coming from?

Tom: That's a good point, and it's something that I feel certain that many people don't even think about that when they say, "Oh, I'll just work a few more years."

Brendan: It's good to do this as part of a planning process. Not to toot our own horn, but to have these conversations with somebody who might be able to just like bring up the idea that we're discussing, that it may not be in the exact format that it exists today. It could be doing something else. What would that be for you? What would be fulfilling for you and be maybe a partial retirement and something that you would still bring in an income doing so you don't have to completely begin drawing from your retirement savings a decade earlier than you thought or five years sooner than you thought when it's not going to work?

Tom: Well, Robert De Niro filmed The Intern and I think he was 74 when he made that movie.

Brendan: Yeah, I was going to tail off in quality with De Niro films, huh?

Tom: It's gone pretty much straight downhill since Goodfellas.

Brendan: No, I liked Meet The Parents.

Tom: Oh, that's true. I forgot about that.

Brendan: I think he was already cresting at that point, maybe.

Tom: He made a couple of so so movies in the nineties. Casey and I still laugh about Midnight Run, that movie with Charles Grodin.

Brendan: Yeah.

Tom: That was like a campy movie. It was one of those ones that you watch with like three cups of coffee on a Saturday morning and it's like, "I just can't seem to put this, like I can't seem to turn the channel," because it's actually interesting. It was pretty good, but now even that movie's over 25 years old.

Brendan: Yeah. Meet The Parents for me, at least the first. The second one was okay. The first one, the original, if that is on TV, it's one of those movies that I like, I have to stop on it.

Tom: Yeah. How's your portfolio, Greg?

DISCLAIMER: Tom Mullooly is an investment advisor representative with Mullooly Asset Management. All opinions expressed by Tom and his podcast guests are solely their own opinions and do not necessarily reflect the opinions of Mullooly Asset Management. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions. Clients of Mullooly Asset Management may maintain positions and securities discussed in this podcast.

Brendan: So this was a Forbes article and it said that what sparked all of this was the article in Forbes said 52 percent of older workers are pushed out of their jobs.

Tom: So coin toss. Look to your left, look to your right. One of these people will be forced out of their jobs.

Brendan: Yeah. Don't bank on being able to work longer because it may not happen. And as we've just said, it may not happen in the structure or format that you think. I think that's, but I think your point is important though. Just because you're forced out of the current job that you have right now doesn't mean that you're incapable of working in any capacity in the future. It just may not make as much or it may be in a totally different role or both. Maybe just being open to the idea that that may happen. Like it's basically coin toss odds that that happens to anybody, and it doesn't mean anything negative about you. It's just the way the world is right now.

Tom: I think another part of that topic that people rarely talk about and they absolutely never talk about with their financial planner is the keeping busy part. So you get to a certain age, you have to keep busy or if you really slow down, your body slows down, and you can get illnesses, and get sick and lazy, and you are accelerating towards the end of your life.

Brendan: What do you think about this, though? I think there are some people out there that retire or are approaching retirement and they're like, "Nah, I'm just going to hang out." But what do you think about working in retirement, like being something that you kind of have to like find on your own? Like you could start retirement with the plan of, I'm just going to hang out, and then maybe the percentage of people who start with that is high, the percentage is high that ended up returning to do work or volunteer work part-time, something they care about. Because it's tough to know beforehand, "Yeah, I'm going to retire from my full-time job and this is exactly what I want to do part-time in retirement." Some people have an idea, but I think a lot of them have no clue because why would you think about that?

Tom: I agree with you. I think a lot of people don't have the thought yet because they're so busy working that they're not thinking about this stuff. And then once they stop and they can kind of smell the roses a little bit, then they say, "Okay, now what do I really want to do?"

Brendan: It's like you take like six months or a year after like the first retirement and then kind of figure out that, at least for I think the majority of people, that it's kind of boring not having something to do every day, even if it was a relief to retire from your first career.

Tom: This kind of thing tips over or spills over into a topic that we actually do talk about with clients as they're preparing to retire. You may go on a shopping spree, so to speak, your first two, three years while you're retired. You may do these trips that you always dreamed about doing. You may do things that you never had time to do, or now you have the time and the money to do it. You're going to put an addition on the house. You're going to downsize. You're going to travel like you've never traveled before. I hate to use the phrase, "get it out of your system," but you spend those first two, five, maybe even 10 years after you're retired, where you do all of this stuff and then you settle into a routine.

So we've gone through with clients recently here in the office where we show them how their spending may actually accelerate and increase the first few years of their retirement and then go below the normal that they have now. You average it all out. They're going to have, they're going to be spending probably close to or just a little less than they're currently spending now over time.

Brendan: Yeah. So I think that's where you have these conversations. You want to explain what we just explained, and you can project that by using one baseline number that just stretches out into the future, but that's, you could operate with that as the baseline assumption, but this is why planning is like a process that you return to.

So maybe you run a plan initially with all of these things being discussed and then each year, you want to see, okay, so what did we do? Did you go on the trips? Did you do this or that? What do we think? Are you going to do it again next year? Was it a blast? Did you go on a cruise? Did you love it? Do we want to bake that into next year's assumptions? And you can begin to, you start with a plan in mind, but you obviously have to course correct along the way and building room for error, not that it's an error to spend more or less than projected.

But the building in some fluff, so to speak, in these numbers and not giving it a false sense of precision in the sense that we're going to project out to every penny you're going to spend and every 10th of a percentage point the investments are going to return because we're always operating under assumptions and we're making projections that may or may not come true, but it doesn't mean the exercise itself is pointless or that you shouldn't plan for it at all. Because I think having the discussions and laying these things out is incredibly important because it gets it out in the open and then everybody's aware of the different possibilities that lay ahead of us.

Tom: So you mentioned talking about returns and how we can't accurately pinpoint what returns are going to be. We've had a little bit of volatility recently in the market. A friend of the firm, Ben Carlson, wrote a terrific post, and we'll link to it in the show notes, about looking back at some of the big down days in the market. We had a day in the middle of October here in 2018 where the market, the Dow Jones, fell 820 points or something like that. It was over 800 points, and then the following day, the market fell another 550 points.

Brendan: We pretty much got a five, six percent draw down over the course of two days.

Tom: Right.

Brendan: The peak of where you're measuring that from actually is a couple of weeks ago at this point, but all of the moves came at once, which makes it seem so much worse than just five or six percent. Saying it was just five or six percent, that doesn't do it justice because what you see in a one day period just feels like it can't possibly only be that bad.

Tom: There were plenty of things that we both saw on Twitter that said, "Oh, we're back to where we were in August."

Brendan: This is the first three percent down day since the one that we had in February.

Tom: See, that's something else that I think a lot of people overlooked. And I think it was Jason Zweig who also tweeted something that said, "This is the last time we had a move like this was back in February that everybody got about."

Brendan: Yeah, this is the first three percent draw down since the last one that you don't remember anymore.

Tom: Right.

Brendan: Which is true. It sounds flip to put it that way, but like-

Tom: You forgot about it.

Brendan: It's true. We have moved on with our lives.

Tom: Yeah, and that was about eight months ago. Not that long. It was this calendar year. For folks who are listening, we had a terrific first three weeks of January where the market went up very nicely to start the year.

Brendan: Nicely. We went up like 10 percent for no reason at all.

Tom: Right.

Brendan: So we overshot to the upside, and then we overshot to the downside, and then we kind of meandered our way back up over the course of the year, and now we're taking a dip back down again. We'll see what happens. Nobody knows what the next, even today or Monday or whatever it may be, what it holds for us. But I mean, yeah, we're going to see these moves from time to time. It's easy to forget after a year like 2017 where I think the max draw down on the SNP was two point eight percent for calendar year 2017.

Tom: That sounds about right.

Brendan: I remember at the end of the year, and again, we were dropping this out in February when we were dropping it, but last year was the part that wasn't normal, not what we're experiencing now.

Tom: It's important to remember that we have a year like 2017 where the market just seemed to very quietly without big giant steps, just quietly continued to move higher with not a lot of big draw downs. That is the fluke.

Brendan: Not reality. The printing press is the exception to the rule.

Tom: So Ben's article talked about how, he actually took a look at days where the markets dropped three percent or more going all the way back to 1928. So we now have 90 years of data in front of us, and he found that over 90 years, we've seen 325 days with losses of three percent or more, which means it happens roughly three and a half times a year, on average. And as he said, it's rare, but it's not completely out of the ordinary.

He actually went on in the course of his article to show that a lot of these volatile days happened during the Great Depression, so from 1928 through 1939. A significant chunk of these happened early on. And so he actually re-ran the numbers and said that, "Hey, if you look at these numbers from 1939 going forward, it would show that there was from 1939 through today, there's a 143 days where the market dropped three percent or more."

Brendan: Still something that's happening on average once or twice a year.

Tom: Right, once or twice a year. So from 1939 on 102 of those days were during, he also mentioned that they were during double digit drops in the market.

Brendan: That's interesting too. We know, don't have the exact numbers, but that double digit drops, meaning something greater than 10 percent, happen on average once a year.

Tom: Once a year.

Brendan: The fact that these things happened during those instances make sense. And I think he looked at like the other side of the coin too. How many three percent or more up days has the market seen? And you see them during similar patches so that a lot of those, more than half of them I think, Ben found occurred during 10 percent or more draw downs too. So you're going to have these violent moves back and forth during periods of volatility in the market. Volatile days happen during volatile periods.

Tom: Right, and so we have those volatile down days followed by volatile up days all in the same period of time. So you can't pick and choose your spots.

Brendan: I think this is a good way to think about it. It's never a good time to be making changes to your strategy during periods like this because if you react to a big move down and say, "I can't handle this, we need to readjust," you could adjust and then the next day couldn't rip up three or four percent right after you bail out. I think the time to be making adjustments is not during periods of volatility. So it's okay to recognize over the course of the last couple of days or the last time the market pulled back in February like, "Wow, that was really uncomfortable for me, and we moved along just fine after it, but I couldn't handle that. So maybe I should be taking like less risk in my portfolio."

Tom: Right.

Brendan: Or like, "Oh, that was a blip. I wasn't even paying attention. I'm okay."

Tom: It really depends on a case by case basis with investors on, what's the right approach for them? I think the thing that really frustrates most people in and around the investing world is the answer to, why? Why did this happen? Why did it happen on a Wednesday and a Thursday? Is this the beginning? Is this the end of something? Let's face it. Stocks have been weak for a couple of weeks now. We've seen it just watching our own internal markers.

Brendan: Nobody knew this was coming, though.

Tom: No, and I think the most frustrating part for investors is-

Brendan: There's no reason why.

Tom: They're trying to find the answer to, why?

Brendan: They're trying to answer an unanswerable question, and I think it's dangerous to think that you have the answer to the question because it's easy to take away the wrong lessons from why something happened. Like if you assigned a reason to this pull back, what do you learn from that, and what does it cause you to do in the future? Does it lead you to believe that you could predict the next time that whatever the thing you assign the blame to for this one, when that happens again, are you going to react to it preemptively when next time it could just be a false signal?

Tom: Right.

Brendan: And it's probably going to be because if there were reliable signals to avoid five percent dips in the market, then I think everybody would do it because they're uncomfortable no matter who you are.

Tom: Yeah, it's always tough. Everybody looks for clues to try and string together reasons in their mind why it worked. That's why we have things like the Super Bowl indicator. It doesn't work a does.

Brendan: Until it does and then you try to use it to make money and it doesn't work. So I'm not sure, yeah.

Tom: Yeah.

Brendan: Basically, it does or it doesn't work based on the last test of whether it worked or not.

Tom: Of the theory.

Brendan: Right. And so if it doesn't work reliably, then why are we trying to explain things with it?

Tom: So Ben closed his article with, I would love to say this from time to time, seems almost too simple to say, but it's the truth. Sometimes the reason stocks fall is because they rose too much before they fell. And sometimes the reason stocks rise too much is because they fell too much before.

Brendan: It's kind of interesting though, like why ... We always need reasons for like a five percent down move, but like I had said before, the market ripped up like 10 percent in January this year. Why did that happen?

Tom: Good question.

Brendan: And no one ever asked that question. We're okay with it. We're like, "Oh yeah, of course stocks should have gone up 10 percent. I deserve to make-"

Tom: If they're year like 2017-

Brendan: I deserve to make more money. We never asked the question on that side of the equation. It's always, "Oh, but why did we go down six percent in just a couple of days here?" Like we need an explanation for that, but then we should need an explanation for why the market was up so much too because there was no reason for that, and we were totally cool with it.

Tom: I think we all need to steal a steal a page from Jeff Wilpon. Apparently in Jeff's world, it's a good day only when the Mets win and the Yankees lose. In our world, it would be great if we had market up, no news. It has to be a double.

Brendan: I actually thought of that a little differently because that's such, that is the mentality that investors have. They want to they want to make money and they also want to see everybody else lose. They have to win too. So that is like the epitome of the way most people view investing. Not only do I have to win, but my enemies have to lose, as if we have enemies or nemesis in the market or something.

Tom: We'll have to get out of Jeff's world and come back to reality in our next episode, but thanks for listening to episode 230 and we will catch up with you on the next one.