A Mid-Decade Letter to Retirement-Focused Clients

by Jonathan Guyton, CFP®

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***Editor's note:** Longtime* Journal *columnist and retirement planning expert Jonathan Guyton wrote his column for this issue as an open letter to retirement-focused clients everywhere who have a sound plan and a relationship with their adviser—what Guyton likes to call "retirement financial planning done well."*

Dear clients (whether retired or soon-to-be),

It is always a pleasure to send you greetings and well wishes of the season. From where I sit, on this bleak midwinter night where—to borrow language from poet Christina Rossetti—snow is falling, snow on snow, I'm not sure which is harder to believe: that another year is nearly complete, or that this decade's halfway mark is just days away. Each is a fine reason to pause and reflect, though it's the latter that currently has my attention. I find myself thinking back to the end of 2009 and this decade's dawn.

Economically and financially, things were a mess. True, the global financial system had recently pulled back from the abyss of late 2008. However, unemployment was over 10 percent. Housing prices had been falling for more than three years. Economic medicine in the form of TARP, the recently passed stimulus package, and Federal Reserve actions seemed impotent at best in the face of the deepest recession (not yet named the Great Recession) since the Great Depression. Economic historians were warning that recessions like this one, which included a credit crisis, typically needed six to seven years for everything to return to pre-crisis levels. To make matters worse, the stock market (in S&P 500 terms) had just completed a rare, 10-year cumulative loss and was still 23 percent below its 2007 peak, even after a large, nine-month rally. Plus, prognosticators were uniformly predicting both below-average stock market returns and rising inflation for the foreseeable future.

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As for the best-laid retirement financial plans, if the adage, "to make God laugh, tell Him your five-year plan" contains any truth, then God surely must have been having a good laugh at retirement planning in late 2009!

Fast-forward five years to today. By many measures (though surely not all) recovery has occurred or things are at least headed in the right direction. Housing prices are two-thirds of the way back to their 2006 highs. Civilian employment has crawled back above its 2007 peak. The last five years' inflation came in as one of the lowest such periods on record. And as for those below-average equity returns for this decade, that's going to be pretty difficult to achieve with more than a 15 percent annual average in the books at its halfway mark. In fact, for those who did not panic at just the wrong moment, retirement financial plans are essentially back on track.

Just as a calm moment at year's end is well suited for reflective as well as forward-looking thoughts, so does the relative calm after such a whale of a storm seem a prudent moment to pause before whenever it may be that things get rough again.

It is good to ponder some questions. What did we learn? What can (and can't) we hold onto? How can we (better) prepare for the next storm? With conditions so benign for now, I'd like to share a few thoughts in response to such questions.

First, impress upon yourself that people in general, and you in particular, are resilient. Were it not so, you would not be where you are in your life today, physically, emotionally, psychologically, spiritually, or financially. Your abilities at resiliency, whatever their sources, have helped make it so. It's not just that you have shown resiliency. You are resilient.

Financially speaking, if you've spent years implementing a sound plan for your future, then I know there have been times when you needed to summon a combination of courage, creativity, flexibility, and self-discipline. So you did. And you will again the next time fears rise and circumstances seem shaky. Whatever is happening around you in any given moment matters less than what happens inside you. Your well-honed resilience is a priceless asset that does not easily depreciate. That you are resilient matters in an incalculable way.

Second, your retirement plan is itself resilient and has withstood significant stress testing. At the height of the hurricane-force financial winds that howled in October 2008, I did a town-hall meeting with Chris Farrell of Bloomberg, Marketplace Money, and Minnesota Public Radio. He asked me what people should do. Though eschewing anything remotely resembling a crystal ball, I responded as you might have imagined: don't panic; stay the course; if your plan is sound, stick to it. "So," he asked, "people shouldn't do anything at all?" "No," I replied, "it's not that they shouldn't do anything. It's that if their plan was well-built before this storm broke, there isn't anything significant they need to do now that they didn't do then." That's a big difference.

And if this was true five-plus years ago, it is even more likely to be true when the next financial storm breaks. Why? Because our prior planning rested on research and empirical evidence that was successfully tested in simulations even more stressful than during the Great Recession. We now know that, although your plan bent (as we always knew it could), it didn't break. It more than held up during last decade's real-world stress test. None of our retired or ready-to-retire clients had to significantly change either their plan or their lifestyle. In recent years, we have also been able to further strengthen your retirement plan in light of new research. So although your plan was built in relatively calm waters, know that it is seaworthy even in the roughest of storms.

And third, as we offered retirement planning and financial advice, we grew professionally as we weathered this still-recent storm with you and our retired clients. It will take something even more severe to give us our next "first-time" experience.

Painfully and with humility, we were given the opportunity to learn and grow in knowledge and ability. We experienced conditions rougher than perhaps we imagined possible, and we witnessed how things can change in a very short time. As advisers, we felt what it was like to bend and discover that neither we nor our clients' plans had broken. We learned from reading the stories of others about the plan flaws and human mistakes that did, unfortunately, bring about bending and breaking. We understand far better the conditions that—if ever they did begin to occur—would signal a true cause for alarm. And we discovered the dangerous (though enticing) mistake that is critical to avoid at all costs lest it extract the highest of costs: the extremely slippery (and utterly false) slope of believing that before we could provide good advice, we first had to predict the future. In short, now with the benefit of time, we can see that we glimpsed our own professional resilience. And like yours, it isn't going anywhere.

In hopes that none of this will matter again like it did not so long ago, and with confidence in what you and we will each be able to rely upon if ever it does, I send warm wishes and gratitude for our next half-decade of working together.

Yours truly,

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