THE GENERATOR

An investment in knowledge pays the best interest – Benjamin Franklin.

Q2/22

THE *SECRETS* OF A HAPPY RETIREMENT

SOME PEOPLE WHO IMAGINED THEY'D LEAVE ALL THEIR WORRIES BEHIND ONCE THEY QUIT WORKING ARE FINDING RETIREMENT ISN'T QUITE AS BLISSFUL AS THEY DREAMED IT WOULD BE.

In the USA, 2018 data from the Employee Benefit Research Institute (EBRI) suggests the average retirement satisfaction of Americans is falling, regardless of whether they are wealthy or not.

Whilst we don't have comparable data for New Zealand, we do have this thing called retirement(!), so we should see whether we can learn anything from the USA data.

It's not clear what's causing the reduced retirement satisfaction, but part of the problem might be the nature of retirement is changing, and it's taking people's expectations a while to catch up. Retirement can stretch for decades, health care costs are rising, and people are more likely to want (or need) to keep a foot in the working world rather than transitioning straight to a life of fulltime leisure.

That transition from busy worker to relaxed retiree isn't always simple. Although retirement boosts happiness overall, some retirees are happier than others.

What separates the happy from the less satisfied? Perhaps it's simply that some worked out ahead of time the ten biggest secrets of a happy retirement...

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DID YOU KNOW?

The average length of recessions going all the way back to 1857 is 17.5 months.

If we look at the period since World War II, recessions have become less harsh, lasting an average of 11.1 months.

The longest post-World War II recession was the most recent one, which began in December 2007 and ended in June 2009 – a total of 18 months.

Inside

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1. **Don't assume it's all about money**
   It's a cliché to say money can't buy happiness, but it's true when it comes to retirement. A big bank balance won't translate to stress free retirement if there are other problems lurking below the surface. Sometimes, the problems are financial, such as debt. In other cases, they're personal. Whatever the cause, you shouldn't assume money alone will make other problems in your life disappear.
2. **But don't ignore your finances**
   Money might not be everything, but a steady source of retirement income can go a long way to reducing retirement stress. People with consistent sources of retirement income, such as a pension, are generally more financially confident and less likely to feel pressure to cut spending than those who rely solely on income from their investments.
3. **Stay healthy.** The better a person's health, the more likely they were to say they were having a happy retirement, EBRI found 80% of retirees who rated their health as excellent said they were very satisfied with their retirement, compared to 26% of those who rated their health as poor. The good news is, for many, retirement offers an opportunity to refocus on health and wellness as people have more time to pay attention to nutrition, exercise and living a healthy lifestyle.
4. **Find your purpose.** Retirement frees up your schedule, but for some people all that unstructured time can be overwhelming. An absence of purpose can lead to boredom, depression and relationship stress. That can be especially true for people whose identity was closely tied to their career. Think carefully about what your retirement purpose will be before you stop working. That might mean setting yourself up to start a business, looking into volunteer work, or turning a spare bedroom into an artist's studio.
5. **Don't try to keep up with the Joneses.** Pressure to keep up with your friends and neighbours when it comes to holidays, home improvements and hobbies can derail your retirement finances, and your happiness. If you move in a social circle where people tend to live large and you can't handle the pressure to keep up, you might need to refocus your energy elsewhere.
6. **Give back.** Many people plan to dedicate time and money in retirement to giving back. That generosity doesn't just benefit those you help, but it also increases your own sense of wellbeing. Volunteer work and other charitable activities are also a great way to find new purpose and meet new people.
7. **Stay social.** Not having much of a social life can be bad for your health. Studies have linked low social interaction with a greater risk of heart disease and cognitive decline. To stay happy and healthy in retirement, make time to develop new relationships and nurture existing ones, especially if your social life previously revolved around work.
8. **Communicate with your spouse**
   Even couples with strong relationships can find the transition to retirement is a bumpy road. Suddenly, the person you're used to spending evenings and weekends with is around all the time. Even if you're looking forward to getting to know your partner again, you might need to set some boundaries. Sometimes, that means one person goes back to work, even part time. It also might mean sitting down and having a conversation about what you both really expect from retirement, so neither person ends up unhappy or resentful.
9. **Think twice before relocating**
   Picking the wrong place to move is one of the biggest sources of retirement unhappiness. Choosing a location because it has a low cost of living or you loved holidaying there without considering other factors – such as whether you'll enjoy the community or have friends or family nearby – can be a mistake that's expensive to undo. Pulling up stakes without considering all the potential consequences can be one of the biggest retirement regrets.
10. **Be satisfied with what you have**
    Your retirement nest egg might not be quite as large as you hoped it would be, but that doesn't have to mean spending your golden years in misery. Assuming you have enough to live comfortably, there are plenty of ways to enjoy your retirement, even if you can't afford all the luxuries you might have dreamed of.

The key is to appreciate what you do have – whether it's your health, family or hobbies —and not stress too much about what you might lack. Once you come to terms with your own retirement reality, you'll be well on your way to retirement happiness.

Life's tips/1

"The intelligent investor is a realist who sells to optimists and buys from pessimists."

– Benjamin Graham

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Summing up

- Have a sound financial plan and stick to it.
- Find your purpose and stay engaged.
- Give back if you can.
- Be satisfied with what you have.

ARE YOU FEELING ANXIOUS ABOUT YOUR PORTFOLIO?

NO ONE LIKES SEEING THEIR INVESTMENT PORTFOLIO GO DOWN. HOW CAN YOU MANAGE YOUR EMOTIONS TO STAY ON TRACK FOR INVESTING SUCCESS?

It's normal to want to 'do something'
In times like this, the impulse when the stock market falls hard for a few months in a row is to do something. Anything. Our life savings are often on the line, after all. Changing your investments during this time could end up costing your future-self thousands or even tens of thousands. As well as that, feeling stressed and emotional is not a fun place to be, so learning some techniques can help.

Staying rational is key to your success
Staying calm and rational when it comes to your investments is a key part of long-term success. Many of us will be investors for most of our lives. Investing can be a good way to build wealth over the long term, but it is not worth losing sleep or getting upset over. Market ups and downs will happen many times during your investment lifetime, and sometimes these downs will be severe and dramatic. The important thing is to take it in your stride, and try to avoid getting angry, anxious or upset.

BEING PATIENT MEANS YOU ARE WILLING TO WAIT UNTIL YOUR PLAN MATERIALISES. BUILDING WEALTH AND FINANCIAL SECURITY TAKES TIME AND YOU'LL LIKELY ENCOUNTER FINANCIAL CHALLENGES ALONG THE WAY.

Investing is for the long term
Investing is more about emotions than it is a high IQ. Even though we say we won't, many in the heat of the battle decide to sell in the face of fear. Many of us know we shouldn't react, but emotions overcome us and we do. Looking back at 2008 during the recession, the best investors were those who hung in and didn't panic and withdraw their investments, therefore locking in their losses. I know too many 65-year-olds who sold all of their shares in 2009 and moved to conservative portfolios and are healthy enough to live to 90. They'd be going on a lot more vacations now and be worrying less about long-term care if they had held firm.

Even better were those who were buying when the world was selling. It wasn't easy, let's make that very clear, but they benefited significantly over the next few years as markets rebounded. Knee-jerk reaction changes based on the market can have significant financial consequences further on. Long-term investors have time to recover. Volatility is simply part and parcel of the business of investing, and that staying focused – and educated – is the key to seeing through difficult times.

Patience is the key
Being patient means you are willing to wait until your plan materialises. Building wealth and financial security takes time and you'll likely encounter challenges along the way. But viewing your finances and investment portfolio as a lifelong journey can help you remain patient and stay on course despite these challenges. If you haven't received financial advice and the last few months have been particularly unsettling, maybe it's the time to talk with an expert. There is inherent value in a trusted relationship with someone who can travel with you on your investment journey. Another reason for anxiety could be your portfolio is not set up to suit your personal situation and risk tolerance. An adviser can help with this.

Tips for staying calm in a market dip
- Don't check your investments too often – every six or 12 months is good for most people.
- Turn your thinking around. For example instead of thinking "My portfolio is dropping", change to say "My investments are buying more shares at better prices, which will help my future."
- If Facebook groups and other discussion forums are making you anxious, reduce the time spent here.
- Be careful who you receive advice from. Trusted professionals are always best.
- Focus on the long term. Think of goals that are 5 or 10 years away.
- Making decisions about your portfolio is best done when markets are calm.

Speak to your financial adviser – they can be a great support during tough times.

Life's tips/2

"Building wealth is a marathon, not a sprint. Discipline is the key ingredient."

– *Dave Ramsey*

Summing up

- Try not to stress about things you can't change.
- Stick to your investment strategy – it was put together with the knowledge that these sort of markets would occur.

THE *WORST YEARS EVER* IN THE STOCK MARKET

ON JANUARY 3 OF THIS YEAR, THE FIRST TRADING DAY OF 2022, THE S&P 500 CLOSED AT AN ALL-TIME HIGH OF 4,796.56...

The market was up 0.64% that day. It would turn out to be the only day this year the market finished in the black. It's been all downhill ever since. The S&P is in the midst of a 23% drawdown from those highs (as of 17 June). Not great.

Table 1 shows the annual returns every year going back to 1928. One thing stands out when looking at this chart – lots of big gains and a decent number of big losses.

The stock market is prone to extremes.

I included the 2022 year-to-date return on this chart. You can see that it rivals some of the worst years in history (so far).

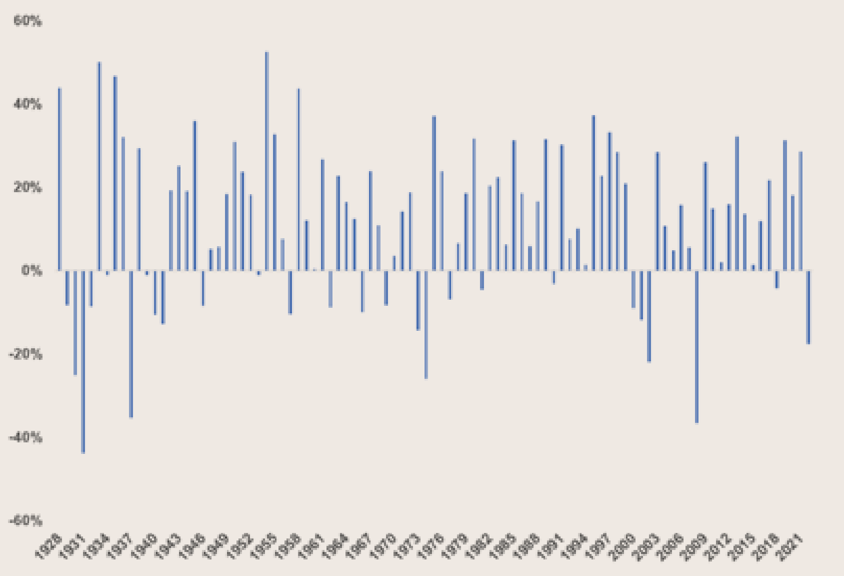
Table 2 (on page 5) lists of worst annual returns in the U.S. stock market going back to 1928. This list includes the only double-digit losses for the S&P in this time frame. It's happened 11 times. There's a running theme here – the worst years have occurred during market crashes, war or economic upheaval. This year has a little of each category. If the year were to end today, 2022 would rank as the 6th worst calendar year return for the U.S. stock market since just before the Great Depression. Again, not great.

There is still plenty of time left before the year is over but there's no denying this has been a terrible, no good year in the stock market to date.

What are you gonna do? It happens.

TABLE 1: S&P 500 ANNUAL RETURNS 1928-2022

ENLARGE



Just out of curiosity, I looked at the returns in the years after the worst annual performance on the stock market to see what happened next. Table 3 shows the forward one, three and five year total returns following the previous 11 worst annual returns for U.S. stocks. The one year returns are decent, not great. The average returns were 6.4% while just 6 out of 11 times performance was positive It's rare for the stock market to fall two years in a row but not out of the question. It's happened 8 times since 1928. The problem is, most of the time when it happens, it occurs around one of these awful years.

Stocks fell 4 years in a row from 1929-1933. Then they fell 3 years in a row from 1939-1941. It didn't happen again until 1973-1974. The next time was from 2000-2002.

And that's it. Those are the only times the stock market has fallen two years in a row or more. It's rare but it happens.

Could the current situation turn into one of the all-timer kinds of market crashes? It's possible. We're dealing with four-decade high inflation, war, a pandemic, labour shortages, supply chain issues, central banks tightening rates and more.

That's the bad news. Here's the good news – the longer-term returns after the worst years ever are pretty good.

The average 3 year forward return is +35%. The average 5 year forward returns is a gain of almost 80%.

There was only one 3-year period with negative returns following a poor down year and it was in the aftermath of the Great Depression. Every 5-year return following one of these dreadful down years saw positive returns.

There's nothing you can do about the losses we've already experienced. It's a sunk cost at this point. The important thing to remember is the lower stocks go the higher your expected returns are going out into the future.

Lower stock prices are a good thing for long-term investors. You just have to be patient.

Next step

··· See us about the best investment options for you.

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TABLE 2: THE WORST YEARS EVER FOR THE U.S. STOCK MARKET

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Year	S&P 500	Reason	Next Year	3 Years	5 Years
1931	-43.8%	Great Depression	-8.6%	35.4%	162.1%
2008	-36.6%	Great Financial Crisis	25.9%	47.6%	126.1%
1937	-35.3%	1937 Crash	29.3%	14.2%	18.7%
1974	-25.9%	1973-74 Bear Market	37.0%	57.8%	99.2%
1930	-25.1%	Great Depression	-43.8%	-23.0%	11.6%
2002	-22.0%	Dot-Com Crash	28.4%	49.0%	81.7%
1973	-14.3%	1973-74 Bear Market	-25.9%	25.7%	24.5%
1941	-12.8%	WWII	19.2%	77.4%	120.6%
2001	-11.9%	Dot-Com Crash	-22.0%	10.9%	34.4%
1940	-10.7%	WWII	-12.8%	30.0%	110.2%
1957	-10.5%	1957-58 Recession	43.7%	61.6%	86.6%

TABLE 3: RETURNS IN THE YEARS AFTER THE WORST ANNUAL PERFORMANCE ON THE STOCK MARKET

ENLARGE

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