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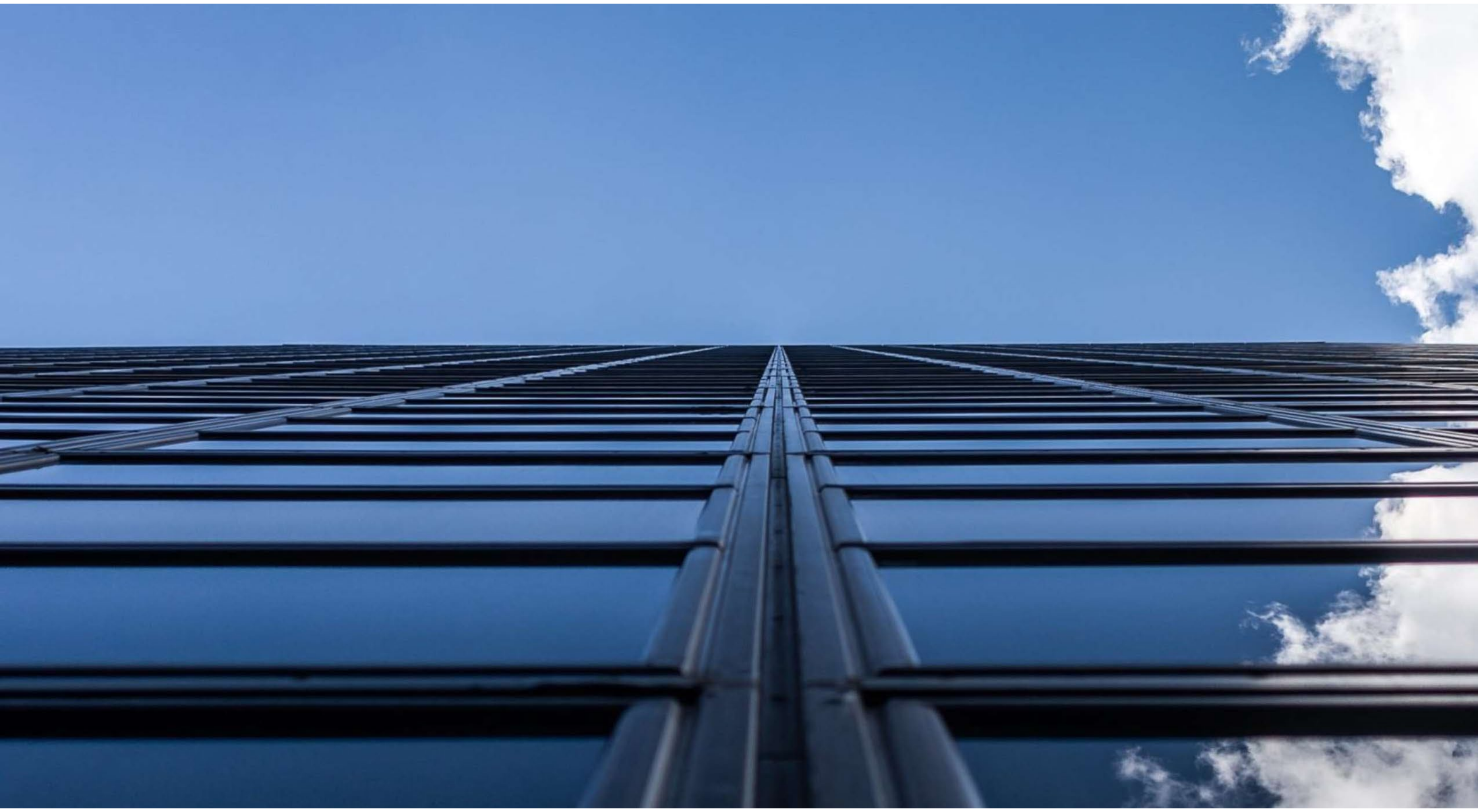

An Investor's Guide To Recessions During Retirement

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When Is the Next Recession Coming?

No one can say when the U.S. will enter its next recession, or how long it will last. But if history serves as a guide, we can be certain a recession will affect the majority of us during our retirement.

Recessions used to be defined as two consecutive quarters of economic decline, as reflected by GDP in conjunction with monthly indicators such as a rise in unemployment. Recently, The National Bureau of Economic Research defined them as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real gross domestic product (GDP), real income, employment, industrial production and wholesale-retail sales."[1]

In short, recessions hit nearly every aspect of the economy, and they negatively affect millions of people each time. This is especially true for retirees.

History tells us a recession will arrive eventually.
Why not prepare for the inevitable?
Here's how ...

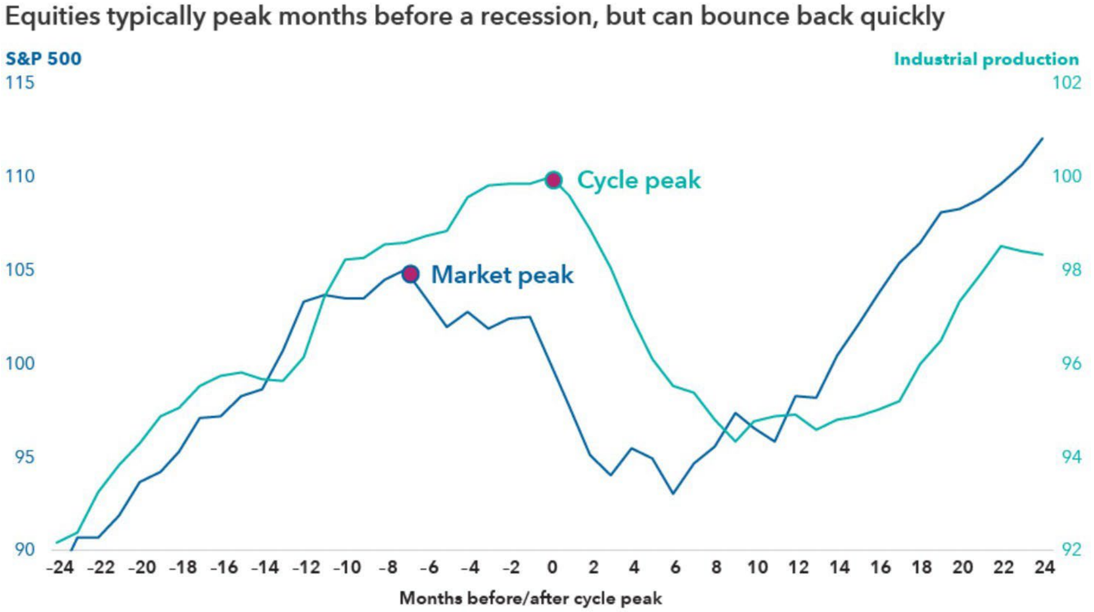
Create a Recession Strategy

Understand the Scope and Impact of Recessions

While recessions in general may seem scary, It's important to remember that not every recession is created equal: While they all bring terrible hardship and involve widespread job losses—disproportionately hurting the low end of the income distribution—some are worse than others.

Over the last 65 years, for instance, the United States has been in a recession less than 15% of the time. In the 10 business cycles between 1950 and today, recessions have only lasted an average of 11 months. The economic impact, while negative, hardly compares to what has been gained historically during expansions: the average U.S. expansion increases GDP by 24%, while the average recession reduces it by 2%.

As for the stock market, the following statistic will probably surprise many readers: the average return for the S&P 500 during a recession is +3%. You read that correctly! The reason is that the market has been a leading indicator, meaning that it generally starts to rise (on average six or seven months) before the economic recession ends. The chart below gives readers visual insight for how this works:



Sources: Capital Group, Federal Reserve Board, Haver Analytics, National Bureau of Economic Research, Standard &Poor's.

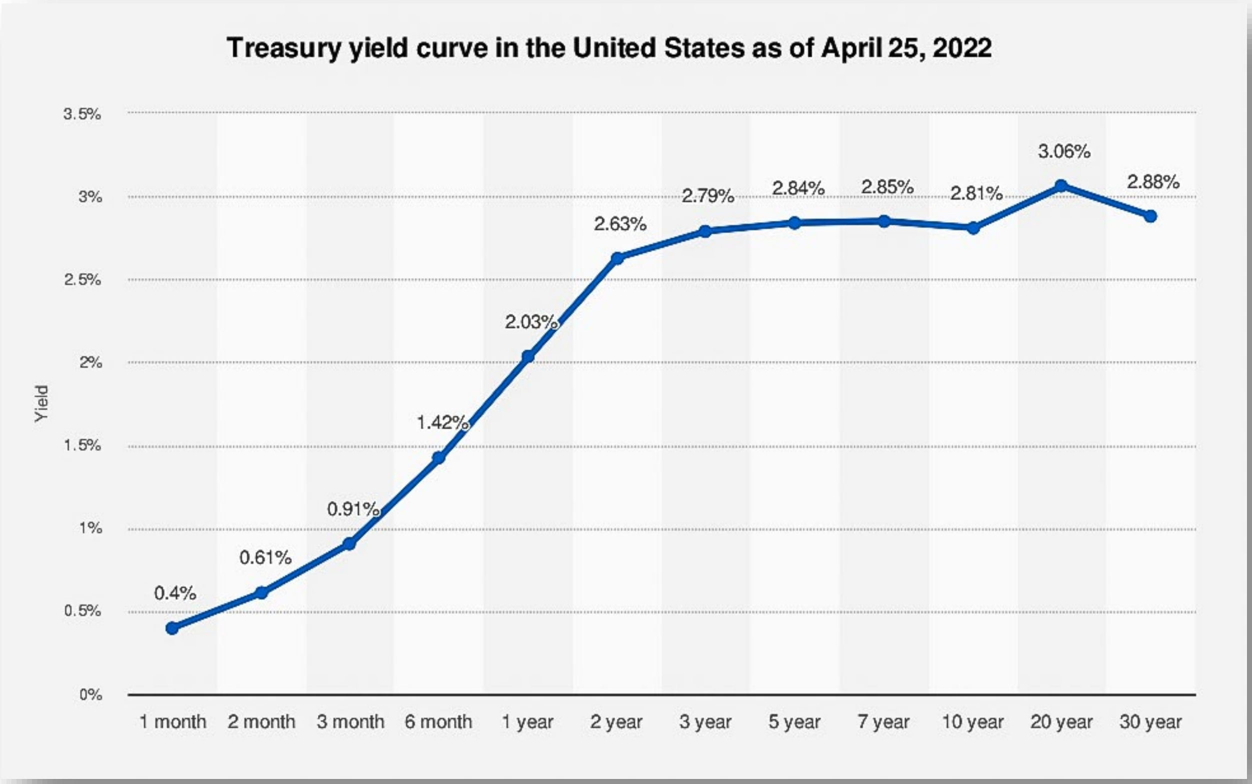
Data reflects the average of all cycles from 1950 to present, indexed to 100 at each cycle peak. [2]

Recessions are almost always unpleasant and can hurt people financially. But the economy and market have often recovered fairly quickly – knowing this and keeping a long-term perspective can help investors cushion the blow.

Knowing Recession Indicators and Signs

An Inverted Yield Curve

One of the most often cited recession indicators, probably because it has been one of the most reliable signals historically. An inverted yield curve has preceded every U.S. recession in the last 50 years, which makes sense – an inverted yield curve generally means that banks' net interest margins approach zero, making lending basically unprofitable. Negative sloping yield curves also tend to indicate that investors are shifting to the safety of long-term government bonds versus investing in risk assets.



Source: U.S. Department of the Treasury

Corporate Profit Declines

Investors can also look to corporate profit declines as a recession indicator. An early sign can be when the pace of corporate profit growth declines, which may eventually give way to losses. Lower or negative profits can lead to less business investment and cost cutting mea-sures, which often means letting workers go.

Knowing Recession Indicators and Signs

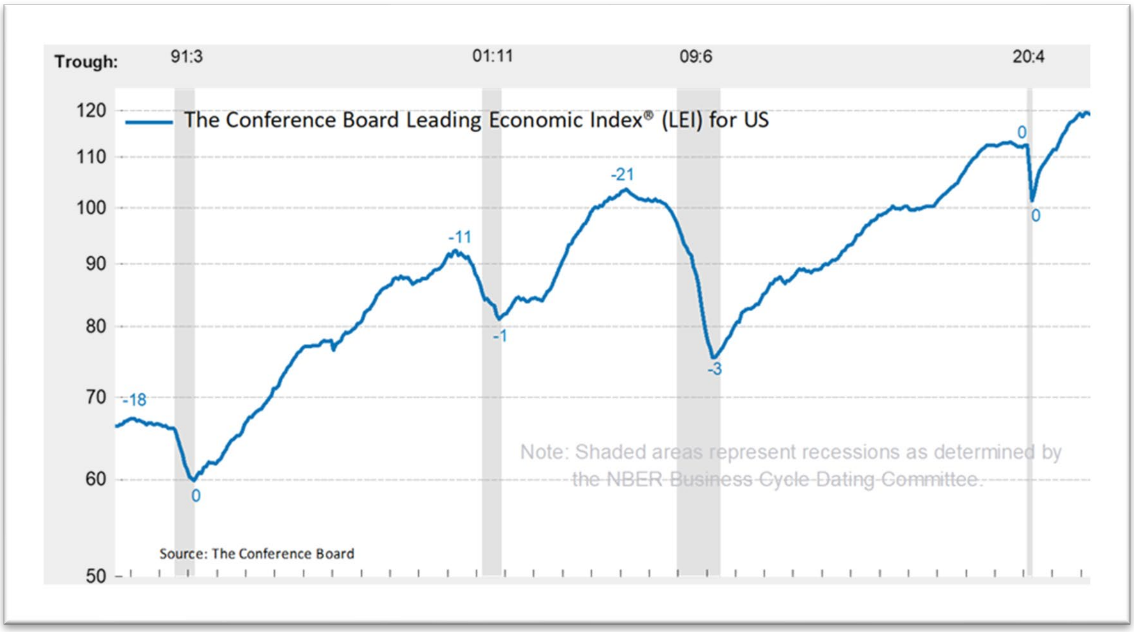
Unemployment Numbers

Unemployment numbers typically rise during recessions, which seems obvious. But when using unemployment as a recession indicator, what investors need to look for is when the unemployment rate starts to move off a cycle trough.

In the current business cycle, for instance, the unemployment trough might be 3.8% or 3.9%. When we start to see the unemployment rate tick above 4% and slowly move higher, it could be a sign that a recession is on the way. Historically, when unemployment moves off a cycle trough, the recession takes hold about six months later.

Conference Board Leading Economic Index (LEI)

In the Conference Board LEI's 50+ year history, a recession has never occurred when the LEI is high and rising. The LEI aggregates a variety of key leading economic indicators in the U.S., like new orders, the leading credit index, average weekly manufacturing hours, building permits, and unemployment insurance claims.



Source: The Conference Board [3]

Create a Recession Strategy

Keep a Year's Worth of Expenses Saved as Cash

The average recession has historically lasted about 11 months. With that in mind, it may be a good idea for people to keep one year's worth of expenses in cash, perhaps in a savings account in your bank. If a recession hits, having an emergency reserve can keep the family afloat – while also helping you avoid tapping into your investments or retirement savings.

Diversify, Diversify, Diversify

Diversification is always important, as a tool for controlling risk while allowing for exposure to different types of asset classes. Over time on a performance basis, some categories of securities 'zig' while others tend to 'zag,' which essentially smooths out performance for investors with a broadly diversified approach. Diversification in preparation for a recession, however, can look a little different.

STOCKS

- **Dividend stocks can also offer a volatility cushion since they pay cash to a portfolio over time.**
- **Large cap stocks – which have tended to have more stable earnings and higher cash balances than small- or mid-cap stocks – generally have outperformed late in a business cycle and during a recession.**

At the end of the day, what an investor wants to look for are companies that can continue to post earnings and profits even during difficult economic times.

BONDS

- **Bonds may help an investor diversify away from equities, and they can also be a source of income and inflation protection.**
- **Actively managed fixed income looks for opportunities in Treasuries, municipal bonds, and corporate bonds.**
- **A tactical bond strategy adjusts to find areas of strength within Treasuries, municipal bonds, and corporate bonds. It may also move the portfolio to cash when no other fixed-income opportunities are identified**

The key for investors is to identify the best total return opportunities while using optimal exit techniques for downside risk protection.

We can help you get started

A C T

Analysis and Recommendation Process

Inventory

We begin taking an inventory of your current financial landscape to make sure there is a clear picture of your entire situation. Without a complete understanding of your current financial situation and what is important to you, we cannot create a suitable solution for you to achieve your goals.

Establish Objectives

Defining your unique investment goals is the first step in formulating an investment plan. Cash flow, expenses, liquidity, taxes, and risk are just a few of the factors to consider. A good investment plan should start with an appropriate asset allocation based on your financial objectives and circumstances.

Analyze

Portfolio analysis is the process of studying an investment portfolio to determine its appropriateness for a given investor's needs, preferences, and resources. It also evaluates the probability of meeting the goals and intentions of a given investment mandate on a risk-adjusted basis and compares it to historical asset class performance, inflation, and other factors.

Review

IAMS Wealth Management will provide you with a written Investment Plan. It is a full risk analysis of your current portfolio and presents detailed recommendations that match your risk tolerance and can help achieve your goals.

Commit

Once you approve the written Investment Plan, simply complete a few documents and your Account Specialist will take it from there. IAMS Wealth Management handles the entire process from account opening, transfer of assets, funding, to implementation of your customized investment strategy.

Monitor

We conduct ongoing reviews of your account to ensure that your portfolio stays focused on your goals and within your assigned risk tolerance. If your goals or risk tolerance ever change as time goes on, so can your portfolio.

Once a Recession Starts, Buckle Up

Hang tight, stay cool, and avoid knee-jerk reactions

If you hear on the news that a recession is officially underway, then guess what – it probably means that the bear market has been underway for some time, maybe even months. By the same token, the bear market typically ends well before the recession does, meaning that the window for 'market timing' is usually very narrow for investors. It's probably just best to wait it out.

Since World War II, the average bear market has lasted an average of 14 months with the S&P 500 falling an average of 33%. Those numbers may feel big. But in the grand scheme of a 50-year investment horizon, they should not be so alarming. [4]

Recessions and bear markets are challenging times that can also be pretty scary. But history instructs us that even the worst recessions (the 2008 Financial Crisis being a key example) have given way to economic recoveries, expansions, and new record highs for the stock market, economic output, and personal household wealth.

Keeping a long-term focus during trying times can help an investor avoid emotional decision-making, which in turn can help the investor avoid mistakes that hurt long-term returns. Knowing history, knowing how to prepare, and knowing how to respond to recessions can help you navigate them with confidence.

What you Should Expect – and get – Out of Your Financial Advisor

Frequent and Clear Communication

We will spend as much time as you want discussing your portfolio, and reasons for making investment related decisions without trying to sell you something every time we talk. You can call or email us with questions and we will work hard to provide a timely response.

Transparency

You have 24/7 access to financial accounts, via an online client portal. We want you to see all the components that make up your portfolio, have a firm understanding of why it is structured that way, and know exactly where you stand relative to your long-term objectives.

Reliable Service

You shouldn't have to wait if you have an operational need or a question about your account. We have a dedicated client service team supporting you. Having to call or email more than once for something you need should never happen.

A Constant Focus on Your Long-Term Goals

Every client is unique and has different ideas and goals for where they want to go in their financial lives. We talk to you about these ideas and goals regularly.

Security

You should have no doubt that your assets and financial information are secure. We work with TD Ameritrade, a third party, globally recognized custodian where your assets are held.

Results

It is not necessarily important for your advisor to outperform every single year. But what is important is that over longer stretches of time, like 10 or 20 or even 30 years, your advisor has been able to deliver results that help you reach your objectives.

STRATEGICALLY DESIGNED

RESULTS DRIVEN

CLIENT FOCUSED

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[1] The National Bureau of Economic Research, July 23, 2019. https://www.nber.org/cycles/jan08bcdc_memo.html

[2] Capital Ideas, March 13, 2019. https://www.thecapitalideas.com/articles/guide-to-recessions?cid=sm_pd_li_ad-a_capi_ci_730228262

[3] The Conference Board, May 19, 2022. https://www.conference-board.org/topics/us-leading-indicators

[4] CBS News, December 26, 2018. https://www.cbsnews.com/news/whats-a-bear-market-and-how-long-might-it-last/