AHWATUKEE FOOTHILLS NEWS

How To Protect Yourself From Stock Market Downturn

July 6, 2022 by Dr. Harold Wong

On 6/13/2022, a CNBC article by Samantha Subin and Fred Imbert was titled "S&P 500 tumbles nearly 4% to new low for the year, closes in bear market territory". The S&P 500 Index was down 21% from its January, 2021 record. The Dow-Jones Index was down 17% off its record high and the NASDAQ Composite dropped by more than 33%. When the stock market indices drop by 10%, it's considered a "correction" and when it drops at least 20%, it's considered a "Bear Market".

In the following two weeks, the stock market had a small recovery, but on 6/30/2022, this article in yahoo.finance.com by Emily McCormick said "Stock market news live updates: Stocks fall, S&P 500 heads for worst first half in 52 years".

This leaves investors in a dilemma: Do I ride the stock market all the way down and have to wait years for the stock market to recover; OR Do I cut my losses and sell much of my stock market holdings right now?

Let's clarify this discussion with a live example. A reader of my newspaper column called me and stated that she had $550,000 total financial assets and virtually all was in the stock market. It dropped to $450,000 and she decided to pull it out entirely from the stock market and it's sitting in a money market fund. She asked whether this was the right decision. I asked her "How much steady income do you need in retirement to cover all your living expenses, fun money, and hopefully bucket list dream money?" She said $90,000/year would be fantastic.

The average dividend yield in the S&P 500 Index companies since January 1, 2000, has only been 2.02% and the average interest rate you can receive from a US 10-year or 30-year Treasury bond was around 3%.

Here are more details about this single lady: She normally earns $150,000 selling houses and is age 62. She has three major decisions: keep her total $450,000 out of or in the stock market; work longer; and when to take her Social Security retirement benefits.

Scenario 1: Retire at age 64 but take Social Security at age 62, like most do, and put her $450,000 back into the stock market. Her Social Security income will be $1,600/month and she has no old-fashioned pension. Assume that she can save $25,000 in the next 2 years and this will be her emergency fund that is deposited in a bank. If her $450,000 of financial assets earns 2%, this generates $9,000 of annual dividend income. Her total income is now $28,200 and is nowhere close to her current $90,000 of annual spending.

Scenario 2: She retires at 70 and starts major savings and income tax reduction. She's able to save $50,000 per year over the next 8 years; averages an 8% return; and this adds $574,378 to her retirement fund. If this can continue to earn 8%, this is $45,950 of income at age 70. By waiting until age 70 to take Social Security (SS), and counting major cost-of-living increases due to current high inflation, assume that her SS will be $3,500/month or $42,000/year. Now her total retirement income is $87,950. If $350,000 of her current $450,000 assets were deposited today in a private pension, by age 70 it would generate $35,000/year. Now her total annual retirement income would be $122,950 and she can afford her bucket list dreams.

Conclusion: More important than gambling in the stock market is: Protecting principal from stock market crashes; waiting until age 70 to take SS; saving lots of income tax; and substantially increasing your annual savings.

Free Information on Retirement Planning, Solar Business Investments, and Tax Savings can be found at www.drharoldwong.com or www.solarbusinessinvestments.com.

To schedule your Free Consultation Contact Dr. Harold Wong at (480) 706-0177 or harold_wong@hotmail.com to RSVP.

Dr. Harold Wong earned his Ph.D. in Economics at the University of California/Berkeley and has appeared on over 400 TV/Radio programs.