# *Fidelity Viewpoints®*: Market Sense

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**TRANSCRIPT**

**SPEAKERS:**

Jim Armstrong Jurrien Timmer Randelle Lenoir

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**Jim Armstrong:** All right. Hello, and welcome to Market Sense. Thanks for joining us. I'm Jim Armstrong with Fidelity. If you're a frequent viewer of this webcast, you may have seen our conversation about the great resignation a few weeks back—still available via replay, by the way. Millions of Americans are changing jobs. Millions are quitting work altogether. And since it's such a big topic, we wanted to talk more about how someone might go about navigating a move like that. So that's exactly what we're discussing today. What you might want to think about, if you're interested in retiring sooner rather than later, however you define sooner, just some good things to keep in mind, whether you're thinking about retiring this year, next year, or a decade or two from now. We're going to be talking about getting your plans in order.

So to have that conversation, we're happy to be joined, as usual, by Fidelity's Jurrien Timmer. He'll be providing some big-picture insights about what's happening on Wall Street, in Washington, and around the world as it relates to our economy here at home. We're also excited to welcome back Fidelity's Randelle Lenoir. Randelle helps lead a Fidelity branch just outside Chicago. So she and her team really work with people one-on-one pretty much every working day of the week trying to help them navigate their own financial circumstances and make financial plans. So Randelle, Jurrien, thanks for making time to be with us today.

**Randelle Lenoir:** Thanks. It's great to be here.

**Jurrien Timmer:** Good to see you, everyone.

**JIM:** So Jurrien, let's start with you, if we could. It is Tuesday, October 12th. I wanted to check in on the, you know, as you've called it, the so-called "seasonal wobble" in the stock market that we've been observing over the past few weeks. I just wanted to get your sense of how well history predicted what's happening so far this autumn and sort of what it means to us as investors going forward.

**JURRIEN:** Yeah, well as you know, it's the season to worry. You know, usually, during September into early to mid-October, the market can have a wobble, and you can see it in the purple bar there that the market has actually fulfilled that seasonal tendency almost to the day, which is pretty remarkable because this is a pattern that everyone knows about and has known about for many, many decades. So you'd figure that, eventually, the market would just kind of overcome that.

But we're in a bit of a transition for the cycle. And the markets, you know, like chapters in a book, is changing from what we call early cycle phase where the markets go up a lot because we've come down a lot. Before that, that was, of course, a year and a half ago during the lockdown of the COVID days. And then the market starts to improve. But then at some point, earnings start to peak on a rate of change basis, and we'll talk about that in a second. But we go from kind of a valuation-driven market to a more sustainable but slightly less dramatic phase of the market where earnings are growing but at a lower rate, and valuations start to come down. And so there's been a number of other things, of course, the debt ceiling, which we talked about. And there was, of course, the Delta variant—news out of China.

And so there have been a lot of things to worry about—or not to worry about, depending on your frame of mind—but the markets usually do overcome this. And typically, after those worse seasonal days in September and early October, actually, the best returns happen after. And that's not a prediction by any means. But usually, these wobbles are just mid-cycle corrections, and I think that that's what will happen in this case as well.

**JIM:** Listen, thanks—thanks for that perspective. I think that's a big part of what people like to hear, just sort of that context of why things are happening, potentially, the way they are. You did mention earnings season, so I wanted to draw your attention to that question as well. We're just—just getting started now, companies telling us how well they did, or maybe didn't do, over the past three months. Any early indications about what we'll see in the next few weeks?

**JURRIEN:** Well earnings season starts this week. And so that's for third quarter earnings, of course. And what typically happens is, when you see this in this chart, you see the progression of consensus earnings estimate. So this is from Wall Street analysts. Usually, those numbers come down into the beginning of the earnings season. That's the vertical line there on the chart. And then lo and behold, companies tend to beat their earnings estimates, and then the line starts to go up.

But of course, this having been an era of the period of the pandemic, those rules have kind of been thrown out. So a year ago, the numbers were coming down a lot, and then over the last few quarters, the numbers really hadn't moved. And then companies beat the estimates by a huge margin. And by huge, I mean for the second quarter, the starting estimate was for 64% growth, and we ended up at 96%. These are truly, truly remarkable numbers. You know, normally, you're looking at 8%, or 10%, or 5%—same with the first quarter, started at 24%, ended at 54%. So currently, the third quarter estimate, so the growth—estimated growth rate from a year ago is at 28% right as we start earnings season this week.

And so maybe the line will go up like the last few quarters. But what I think will be different is, we're in that chapter now where the cycle is transitioning from early to mid, where the rate of growth in earnings is likely peaking. And again, that doesn't mean that earnings are going to fall from here—you know, very far from it, but they're not going to be growing probably at the same very, very steep rate of change as the last couple of quarters. And that's just simple the base effect from—which means that a year ago, the numbers were so low that any improvement kind of looks exaggerated, almost. And now, that we're a year after the bottom in earnings, those growth rates are just going to come back down to Earth. And that's happening right as valuations, the PE ratios, also are coming down. So it just suggests that prices, stock prices, are probably still going to move up, but not at that huge rate of change that we've seen over the last year. So don't expect the last 12 to 18 months to be repeated over the next 12 to 18 months.

**JIM:** Great. Thank you for that context, again, because I think that, as usual, it sort of sets up what might be in an investor's mind as we turn to the topic of the week. So Randelle, I want to bring you into the conversation now to talk about this idea of—of retiring, maybe retiring early. And again, for folks who have really big nest eggs saved up, that decision might be relatively easy compared to those of us who might need to find a way to maybe generate some income from our savings, perhaps until social security kicks in for that little extra money there. I do also want to point out before I ask for you to weigh in, Randelle, sort of almost putting retiring early in quotes because that just obviously means something different to each of us. You might be watching now and retiring early—could be your mid to late 50s. For somebody else, it could be 66, might be what they see as early. So it really is so unique to the person.

**RANDELLE:** Yeah, and regardless of the person, choosing when to retire is a major decision, right? It's one of the biggest financial decisions many of us will make in our lives. And it serves those who depend on us, and ourselves as well, to have a clear idea of what our needs are and what our desires are in retirement. And there's also a benefit to starting early and working with professionals who can help us clear those barriers to make way, right—those barriers that we know about and those barriers that are unknown, right?

So first, you'll want to build a plan with key financial building blocks. Where are you going to live, right? So the cost of living varies a lot from state to state—sometimes, in state, and taxes can vary too. So that's a consideration to make. You'll need to figure out your budget as well. So make sure you're saving enough money to have your accounts ready to support a long retirement. And determine what your income plans are to cover those expenses. And this next one's tough, but how long could you live? So life expectancy, surprisingly enough, is something that a lot of my customers forget to include in their planning. So if you've reached age 65, there's a pretty good chance that you're going to live well into your 80s and 90s, but you have to plan for that, right? What's your health like now? Just consider how old were your parents when they've passed away, when they—if they have passed away, what was their health like, right? All of this can help you with your planning.

And finally, a big part of your income plan could be nailed down to Social Security claiming strategy. And we've got a fantastic website that really takes a deep dive into this topic. And you can watch at Fidelity.com/understaningsocialsecurity.

**JIM:** Thanks for the—thanks for the website promo there. Yeah, that's a really good website. I will say, the host, also, is very, very handsome and knowledgeable. I'll just—so I've heard. That webcast is really worth watching. But for now, let's talk a little bit about Social Security claiming strategies, Randelle. I know that's something that you know a bit about. Just sort of at a high level, what do folks need to know? Because it does have the potential to get complex.

**RANDELLE:** Yeah, it can get tricky. But we'll use a hypothetical person to walk you through the basics. So generally, you can claim Social Security starting at age 62. So in the case of our hypothetical friend here, Sasha, this could mean a Social Security check of $2,000 a month. Now, claiming at 62 locks you into a lower monthly benefit for life as compared to waiting until full retirement age. And what that age is varies from person to person a little bit. For most of us, it's 67 though. So if Sasha waits to claim until she's 67, her monthly Social Security check will be $2,800. So we see waiting to claim your Social Security can result in a higher monthly benefit. And for every year that you wait past full retirement age, you get an 8% increase in your monthly benefit. That could be up to 24% higher of a monthly benefit if you delay claiming until the maximum age, which is 70—70. So if Sasha waits that long, her check would be $3,500 a month. Now, that's quite a bit more than $2,000, right?

**JIM:** Right.

**RANDELLE:** But she waited eight years to claim, if you compare it to the first example. So when you claim the benefits, also determine how much social security you'll receive throughout your life. So if you look at the right side of this chart here, in Sasha's example, claiming at age 62 means that she'll receive a lifetime Social Security benefit of $770,000. And claiming at age 70 increases that lifetime benefit to more than a million dollars. So there are a lot of numbers and things that you'll want to consider when making the choice about retiring early.

**JIM:** Yeah, so many variables. So thanks for putting some numbers on there and that example with Sasha. Jurrien, I want to bring you back into the conversation just because, again, running out of money, I think it's a real fear for most people heading into retirement or as they start to work maybe not full-time or work part-time. What would you say for those who are inching closer to retirement, maybe deciding to enter it early, what are your thoughts sort of on strategies, especially, in today's economy?

**JURRIEN:** Yeah, you know, it's a really tough question. And especially, as Randelle just said, there's such a prize to waiting to claim those Social Security benefits. I mean, those are remarkable differences for a not—I mean, it's a long time to wait. But you know, in the old days, when interest rates were much higher than they are today, you kind of transition when you go from growth to preferring income as you get older and closer to retirement. And that 60/40 would be right smack in the middle of just being an income or growth. And it was really a sweet spot, and it still is. But in the old days when interest rates were higher, we would get paid to diversify because you would—the 40 side of a 60/40, which is the bond side, you would get that kind of insurance against drawdowns on the equity side. And of course, as you get closer to retirement, those drawdowns can have an impact because you can't just necessarily wait them out, right? The stock market goes down 40% of the time, and sometimes, it takes a number of years to recover.

And so if you're 30 and you've got 30 years to retire, you can easily ride those out. But if you're 60, it's a different question. So having that buffer in there from the 40, that kind of is negatively correlated to the 60, is very, very helpful. But with interest rates so low, the ten-year Treasury is at 1.6%. Real rates, after inflation, are negative. Inflation is running at over 5%. So it's a real dilemma. So these days, to be in a 60/40 portfolio, we kind of have to pay for the insurance, which is no different from paying for your car insurance because you have to pay for that. But it's a different ballgame than being paid to insure as opposed to paying to insure. And so we have to think more creatively about what's in the 40, what's in the 60. But it still works.

And you can see from this curve, right, that this shows the volatility of returns on the horizontal and the actual return, the annualized return, on the vertical. All the way on the left, lower left, you have cash. Towards the middle you have stocks, the S&P 500. And you see 60/40 is right on that curve where you're optimizing risk versus return. So it's still a good place to be, but a lot of that comes from the stock side doing so well and overcoming the lack of return on the bond side. And that, of course, could change. But it's a challenging time to be in that 60/40 just because the 40 side, you know, with rates low and inflation on the high side, it—you're not getting that—you're only getting the insurance buffer but not the income buffer.

**JIM:** Got it. And so on the one hand, it's good to know that you have options about how to proceed, but on the other hand, sort of, there could be so many options, it's hard to narrow them down. So Randelle, I wanted to ask you maybe for two or three suggestions on what sort of practical tips that our viewers, who, again, might be considering an early retirement, might think about, just to sort of get a little bit of extra income needed. I mean, there's the obvious ones like cutting your spending a little bit or a lot, getting a part-time job. But how about other sort of investment-type strategies that somebody might consider?

**RANDELLE:** And let me say, before I get into the three, this is where I think working with somebody from Fidelity can provide a lot of value. Unfortunately, far too many clients that we encounter don't even consider retirement planning until maybe they're a couple years off from retirement or better yet—or worse yet, I should say—retiring at that point, right? And I like what

Jurrien said about providing a buffer. If you're not in an optimal place when you begin your retirement planning that late, we have less opportunities to recover, less options to get you on the right track. So I think we do well to engage with retirement planning early. Also, I mean, we spend a lot of time in our day-to-day being experts at our jobs, right, which is not always being a financial consultant. Therefore, it could be important to consider running your plan by a consultant to make sure that your plan makes sense and to make sure that your expectations are reasonable before it gets too late, right?

So with that said, high level, I'll touch on three things that can help bridge that gap. So first, withdrawals from savings—you can automatically take money out of the Fidelity or any other account on a regular basis, monthly, quarterly, or yearly, whatever your needs are to help pay for your ongoing expenses in retirement. This may mean that you have to sell securities on a regular basis, so these are decisions that you have to make. And if you take it from an IRA or a workplace plan like a 401(k) or 403 (b), your withdrawals will, typically, be taxed, again, depending on the type of account. Again, this is a great example of how you should consider working with a financial professional to determine things like timing, sequence, which amounts you take from where from different accounts, right?

The next thing to consider is annuity. So there are so many types of annuities, a few that may be of particular interest to investigate, okay? But I'll name a few: deferred periods, certain annuities, period certain annuities, immediate income annuities, just to name a few. But we could talk for a full webcast on each of these. But for now, just know that there's something worth learning more about, right?

And then the final option I'll mention are bond and CD ladders. So basically, what you're doing here is you're creating a predictable income strength by buying a series of bonds or CDs with maturity dates that extend into the future. They expand that period of time where you need the money. And bonds or CDs, they pay a fixed income and then they return the principal as each bond matures. So if you think about all of this coming together, you should know that maintaining a bond ladder takes a lot of time and attention. So if you don't have the will, skill, or time, as we say, to maintain this, you might want to consider professional management of this strategy. And with this or any other strategy, working with a financial professional like me or the people in my offices at Fidelity can help you understand the possibilities for your situation.

**JURRIEN:** Yeah, you know, and I would just add to that. I think Randelle makes a great point that it's one thing, again, if you're 25 and you're contributing to your 401(k) and you're in growth because you have a long time to go, it's relatively straightforward. Or if you're retired and interest rates are at normal levels, it's relatively straightforward. You just buy short-term bonds. But if you're in that twilight zone of kind of approaching retirement and you're in a market that's at all-time highs, and bond yields are near all-time lows, it's certainly understandable that it may seem like a daunting task. And it's just good to know that you don't have to do it alone. I mean, we have people like Randelle and many of her colleagues that do nothing but these things, and that there is help to be had.

**JIM:** Yeah, and I also just love the idea of Randelle's suggestion, not waiting until the last minute. If you've got the luxury of being able to predict a couple, three years out, better to start planning now or even sooner than that so that you're not caught by surprise and you don't have to try to play catchup when the time comes. So again, thank you both for sharing your knowledge with us today. And for our viewers, again, thank you for taking the time to be with us as well. Just a reminder that if you need help with your financial planning or you've got questions about how Fidelity can help, you can certainly visit our website or download our app to begin exploring ways to learn more about the topics we covered today, get answers to your questions, and then also, explore Fidelity's planning solutions.

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