

ADVANCED FOLIO

How To Get Off The Wall Street Roller Coaster



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It is often accepted that you can't beat the market or that you've got to suffer the downs in order to experience the upside. Or as the kids like to say, you need to ride the Wall Street Roller coaster.

But what if there was a better way?

It is no secret that Warren Buffett seems to outperform the market consistently. In fact, if you were to have purchased a single share of Berkshire Hathaway Stock in 1983 (\$785 at the time) it would be worth just south of \$500,000 today!

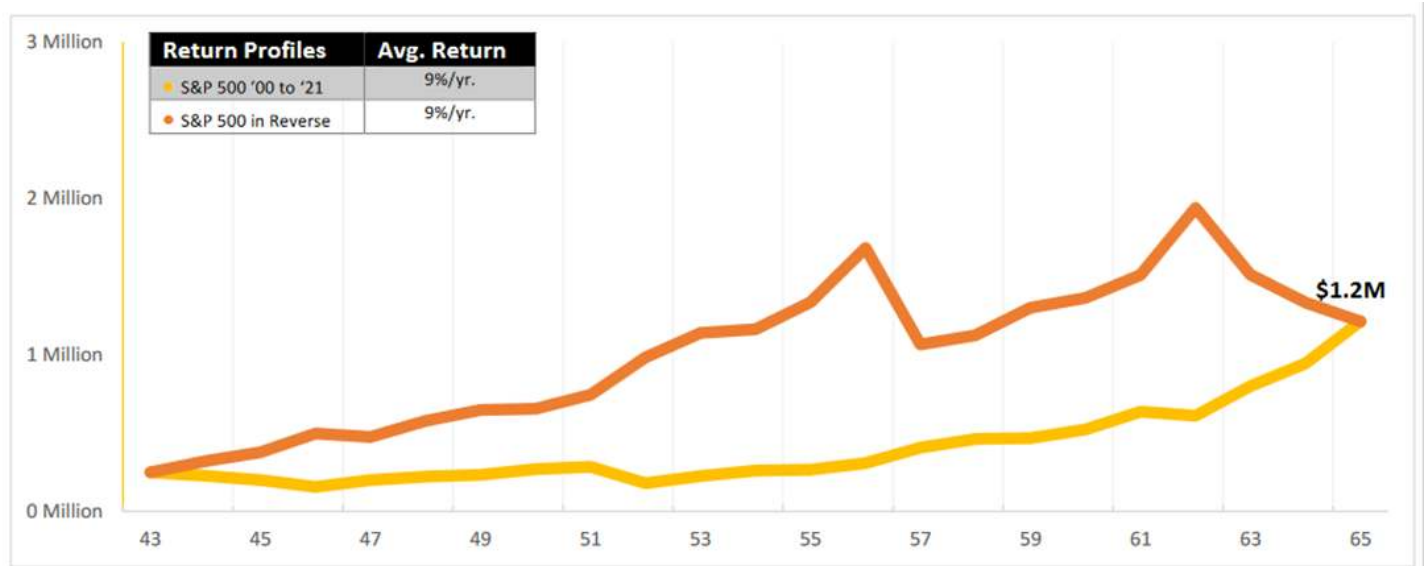


When asked what's the secret to his success, Warren espouses a simple investment philosophy: buy great companies, hold them for the long run, and don't worry about the news.

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During our working years. During our saving and accumulating years, there is no better strategy. As the pros like to say, "buy low and sell high." It's the simple secret to accumulating wealth.

Buying low and selling high, is the simple secret to making money in the markets, and when we are saving money, it's pretty easy. Invest. Invest. Invest. It's the name of the game. And as long as we continually invest in the market and we don't sell...at the wrong time..our money will always grow.



As you can clearly see in the chart above, regardless of what the market does, as long as we can HOLD our investment, our savings grow, and we can "capture" the bulk of the market's performance. This is the secret of America's greatness. This is the key to our ability to retire!

...but what happens when we need that money?

For instance, in retirement? What happens when we need to turn our hard-earned savings into income for life? Does that same "buy & hold" strategy hold up? As with all great questions in life, the answer lies in asking the hard questions and examining the data.

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So, let's take a look. What happens when we apply the same "buy & hold" strategy to retirement? What happens when we are taking income from our portfolio?



The chart above is the same as the awesome growth chart. The only difference, now we are taking out \$50,000 a year in income, adjusted each year for inflation. And as we can clearly see, one investor runs out of money pretty quickly while the other has their assets grow.

The only difference between the two..the sequence in which they experienced the market. One retired at the right time, one did not.

Do you have a magic eight ball that will tell you when the perfect time to retire is?

In industry lingo, this is known as Sequence Risk.

Sequence risk is what happens when we take money out of our portfolio at the wrong time...like when the market is down. Or when we are in a high tax bracket...or when our investment returns are less than inflation.

Phrased another way, sequence risk is the danger that our income withdrawals will compound and accelerate our market losses. Leaving us with a shortfall in retirement, necessitating us to return to the workforce or further reduce our spending in retirement.

SEQUENCE RISK \$100K EXAMPLE

Year	Return	No Income		4% Income	
1	-25%	\$	75,000.00	\$	72,000.00
2	10%	\$	82,500.00	\$	76,320.00
3	10%	\$	90,750.00	\$	80,899.20
4	10%	\$	99,825.00	\$	85,753.15
5	10%	\$	109,807.50	\$	90,898.34
Return:			9.8%		-10.01%

How to Not Run Out of Money in Retirement?

As investors who rely on our savings for retirement, we need to have a strategy that ensures that we never outlive our money, no matter the sequence of returns. We need to have a retirement income strategy that:

- Ensures we don't run out of money, even in extreme market conditions
- Maximizes our lifetime use of our savings
- Automatically adjusts to market conditions (up and down)
- Tax efficiently withdraws our income
- Provides the maximum amount of retirement income for life

The Traditional Solution - The 4% Rule...

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In 1994, (almost 30 years ago) a financial advisor named William Bengen proposed a novel solution to the retirement problem. His solution was clever and simple. He proposed a strategy he called the 4% Rule. The idea of the 4% Rule is if you invest your retirement savings into a mix of 50% stocks and 50% bonds, and you withdraw no more than 4% of your portfolio in retirement. In theory, you would not run out of money after 30 years.

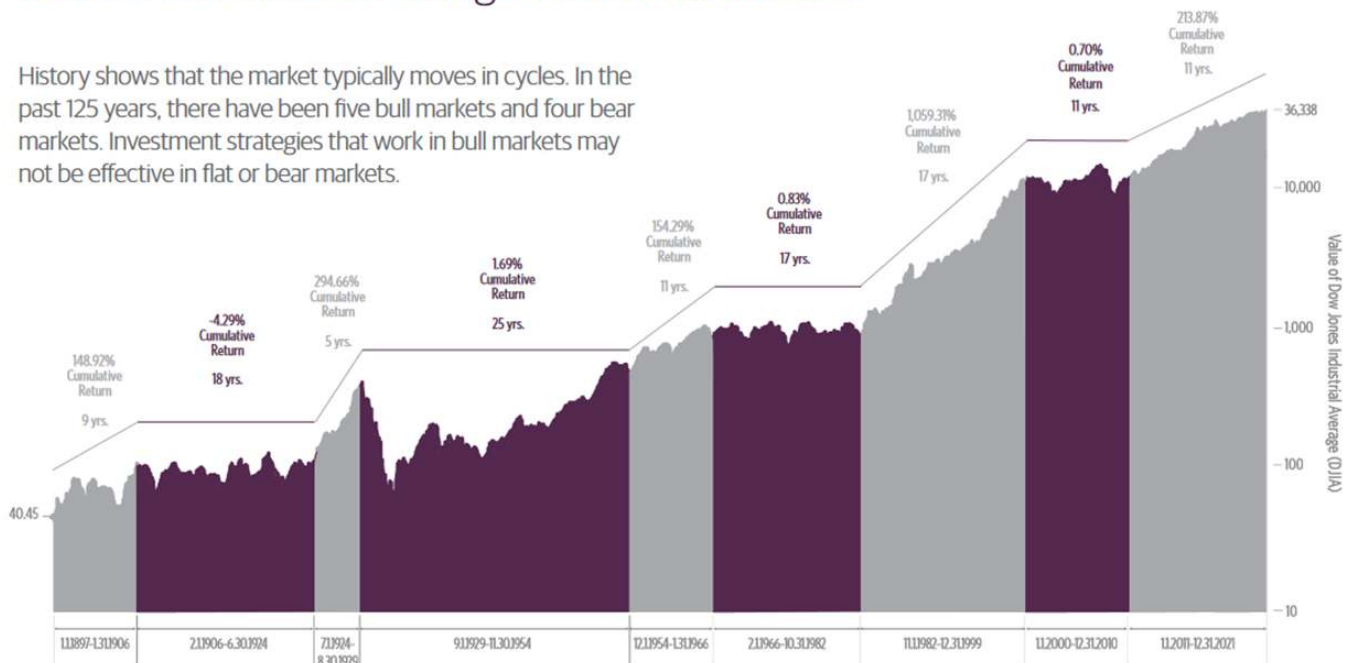
Of course, it was based on the premise that the future will look like the past. It was based on the premise that inflation wouldn't be at record highs. It was based on a world where phones were connected by wires, and the internet was about chat rooms and email.

The Future Will Not Look Like the past!

20 years ago, AOL was still the main internet provider. Yahoo! was the dominant search engine, text messages cost 25 cents, TikTok was something that only clocks did, and Blackberry was the cutting edge phone. Today Yahoo! is on life support, Blackberry is out of business, and people can't seem to pry themselves away from their phones. The future will NOT look like the past. What will the market bring in the next 10 years? Will it be another bull market? Or perhaps an extended bear market like the early 2000s, or the 80s.

Dow Jones Industrial Average **Historical Trends**

History shows that the market typically moves in cycles. In the past 125 years, there have been five bull markets and four bear markets. Investment strategies that work in bull markets may not be effective in flat or bear markets.



From 2000 to 2010 on this chart, that was called the lost decade because it was a 10 year period that investors that had their money in the markets made zero. Think about that. If you were pulling money out of your portfolio and over a 10 year period you earned nothing on top of it, that wouldn't be so good! That might mean a lifestyle change...and if you are thinking that the 4% rule means you can't run out of money in retirement. Think again.

The 4% Rule is a Failure of Modern Portfolio Theory

The truth is that the 4% rule is a product of an even older relic, the Modern Portfolio Theory or MPT for short. See, back when Warren Buffett was cutting his teeth on Wall Street, MPT was the gold standard. It still is, to a degree.



Modern Portfolio Theory was initially proposed by Harry Markowitz in 1952. At the time, it was a revolutionary idea. Simply put, Markowitz decided to apply a little-known discipline of mathematics, known as statistics, to investment selection. Really (that is pretty much all he did.)

The result has been decades of high-power investors "re-discovering" basic math and calling it an investment breakthrough. Which historically has worked out pretty well. After all, if you actually take an evidence-based approach to investments, you only invest in sound companies with a reasonable expectation for success, you diversify your risk, and you hold your investment long enough - you will win.

Guess what...Warren Buffett already knew this. His mentor Benjamin Graham, born in 1894, also knew it. In fact, most investors knew it because it was common sense.

MPT Meets Retirement

In 1994, a financial advisor named William Bengen asked a simple question, "what is the ideal investment mix for retirement?"

Bengen wanted to know how he should allocate his clients so that they do not run out of money in retirement. Using some basic math, he tested various mixes of stocks and bond portfolios, as well as income levels. He found that by using an initial 4% withdrawal amount and investing 50% in stocks and 50% in bonds, a hypothetical portfolio, over a 30-year period, would not have historically run out of money.

Notice all the qualifiers.

Also, what most people fail to mention about Bengen's work, and the subsequent work done by Trinity University and others are that they used hypothetical investment returns based on investments in broad-based indexes - that were not available or possible for much of the time periods tested.

In many ways, it would be no different than saying that a high-speed trader would have crushed it in 1929. Of course, you would crush it when you have a supercomputer in the palm of your hand...but no investor in 1929 would have access to the data or technology. So, while being a great hypothetical framework, its historical success must be taken with a grain of salt.

Of course, we must credit Bengen as being a pioneer in financial planning. Bengen was one of the first financial advisors who began taking an evidence-based approach to financial planning. A novel concept at the time. An approach that in many ways is still novel today.

THE DEATH OF 'MODERN PORTFOLIO THEORY'

Today, in 2023, many states still don't recognize financial planning as a legitimate service. The Financial Planning Association, a trade group for financial planners, is lobbying states to recognize and regulate financial planning as a legitimate practice. To many state regulators, investment management, stock selection, buying and trading of securities, and the now ancient science of "Modern Portfolio Theory" are the only valid forms of financial advice.

...but as individuals who quite literally live or die by the financial decisions we make, we know that this is a fallacy. We know that the right financial decision is the one that allows us to live the life of our dreams, spend more time with our loved ones, and do the things that we love - and usually has little to do with making "more money."

Additionally, as reasonable human beings who have watched the world we live in change, who lived in a pre-9/11 world, who have watched countries come and go, the reality is that markets have changed since 1952,

when Modern Portfolio Theory was first proposed, or even 1994, when the 4% Rule was introduced. We've

experienced highs and lows in the market, the emergence of new industries, technologies, and periods of extreme inflation. We have seen life expectancies increase, and a range of economic conditions that nobody could have predicted.

THE HISTORY OF THE 60/40 PORTFOLIO

1957 – Modern Portfolio Theory

1965 – No Internet (Berkshire Hathaway)

1975 – No Internet (Vanguard)

1985 – No Internet (Rise of Tech)

1994 – 4% Rule (60/40 Portfolio)

2004 – Interest Rates Drop – Lost Decade

2014 – Greatest Bull Market in History

2022 – Interest Rates Return to '80s Level

Hope & Prayer Is Not a Retirement Strategy

The 4% Rule, while simple and easy to understand, fails to adapt to real life, leading advisors and investors to create "modifications" and "adjustments" to the rule...MorningStar publishes a regular report "updating" the rule..usually with a proposal to use alternative income strategies. William Bengen himself is often quoted in the media stating that the rule has changed, and lately has even said that he's using a different strategy altogether.

At this point, if one were to ask Wall Street how a retiree should be allocated or how much one could reasonably take from their portfolio, your answers would vary wildly from advisor to advisor and amounts to little more than hoping and praying, or just plain old guessing. I don't know about you, but I would not trust my financial security to guesswork!



Finding The Real Experts

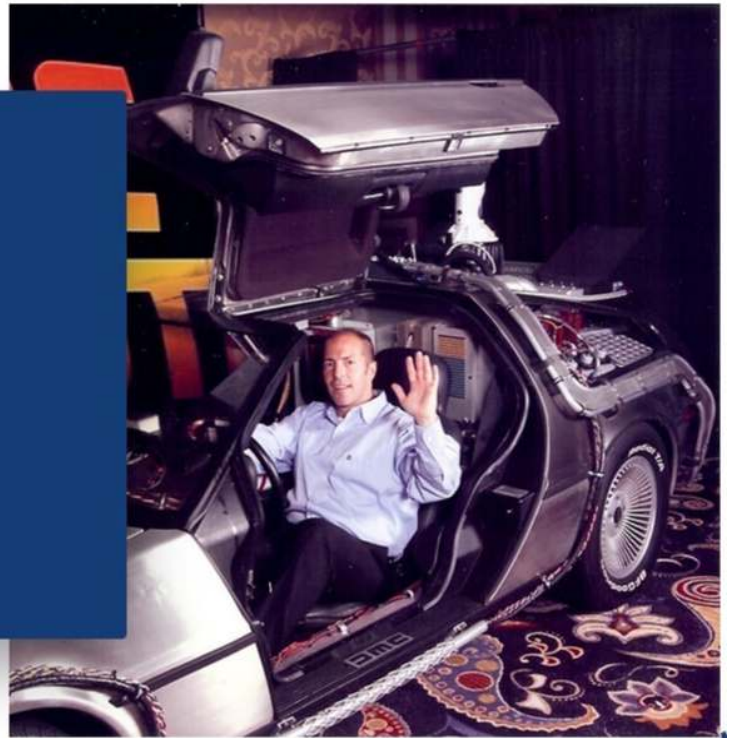
At this point, you might be wondering to yourself, is there even an answer? There has to be a solution for retirees.

As a long-time Wall Street insider, my mother taught me early on, find the smartest people in the room and copy what they are doing.

This strategy has worked well for me. In my younger years, I looked up to the big Wall Street players. The institutions, the endowments, and the investment banks. What were they buying? What were they selling?

**“Find The Smartest
People in The Room
and Copy Them”**

My Mother, Wall Street Trader in The '60s



As my clients got older and more and more of them transitioned into retirement, I found myself once again looking to the big boys for inspiration. Retirement is not an easy challenge. It is probably one of the most difficult financial decisions any investor will ever make. How do we turn a finite sum of money into a never-ending stream of income in retirement? How do we ensure that we outpace inflation? How do we ensure that we can financially survive whatever life throws our way?

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I searched high and low to seek out the experts. I looked to the Dave Ramsey and Suzy Orman's of the world. I looked at hedge funds and what I found were salespeople. Salespeople everywhere. Each with their philosophy, each with their own theories...but when I started asking the hard questions, I got blank stares back.

And so I found myself asking the question: who has walked this road before? Who has figured out how to live on a finite sum of money? Who has figured out how to manage an investment account that was producing income?



And then it hit me one day. I was dropping my princess off at college when it hit me, like a bolt of lightning...The solution couldn't be clearer! See, when you think about it, who do you know who has a similar investment problem? Who needs to figure out how to take a finite sum of money and turn it into a resource that will last for a long time?

Universities and Charities!

See, both rely on a limited pool of money to fund their expenses. For universities and charities, this is their endowments. For retirees, this is their life savings.

Being a good steward of their finances means that both universities and retirees will not only cover their expenses but hopefully leave a living legacy for future generations.

Universities that fail to manage their finances properly usually end up going bust, relegated to history, or becoming wards of the state. Not a fate any of us would want for our retirement.

When I started looking into how charities and universities invest their money, one university, in particular, stood out, and that is Yale.

The Yale Solution to Retirement

So how did Yale become the gold standard for endowments? For investment managers in general? And can we use the Yale strategy to build a retirement income portfolio that provides us with peace of mind in retirement?

Yale is an interesting investment story. Over the course of its 300-year history, Yale has tried just about every investment management style. It tried outsourcing. It tried investing in just "income-producing bonds." It tried pooling its resources with other universities. It even tried creating its own investment management company. And while all these strategies worked for a time, they all eventually went belly up. They all failed catastrophically at some point.

In 1985, a visionary named David Swensen joined the Yale endowment team. David got his PhD in economics and studied under the legendary Nobel Laureate James Tobin. After graduation, David climbed the Wall Street ladder, working at Salomon Brothers, where he structured the first Swap trade. He was then hired away to Yale, at an 80% pay cut to help them manage their dwindling endowment. According to David, and the current Yale endowment managers, the success of the Yale endowment fund post 1985, is due to the following;

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Yale endowment's asset allocation

% share of investments by type



Source: company
© FT

Source: Financial Times, May 2021 – “David Swensen, the Yale pioneer who reshaped investing”

“...The Yale Model arrived when **most universities** hewed to a then **standard stocks-and-bond portfolio** — often with an unimaginative **60/40 split...**”

“...**The results were stellar.** The Yale Investments Office — averaging **annual returns of 12.4% over the past three decades** — and contributes more than a third of the university's budget...”

Yale's portfolio is structured using a combination of academic theory and informed market judgment. The theoretical framework relies on mean-variance analysis, an approach developed by Nobel laureates James Tobin and Harry Markowitz. Because investment management involves as much art as science, qualitative considerations play an extremely important role in portfolio decisions.

Like Warren Buffett, the philosophy is simple, yet it seems to be elusive for many people to implement. At its core, the Yale endowment strategy focuses on building a diversified portfolio that historically provided good risk-adjusted returns - and that have a reasonable expectation for future success.

I think one of the key factors here and something that they frequently repeat in their annual report is that judgment is critical. Yale relies heavily on the expertise of their investment committee to help them navigate changing market conditions.

Or phrased another way, the success of Yale lies in the fact that they **KNOW** that the future will not look like the past, and they invest in tomorrow's winners rather than yesterday's successes.

The Three Principles of Success

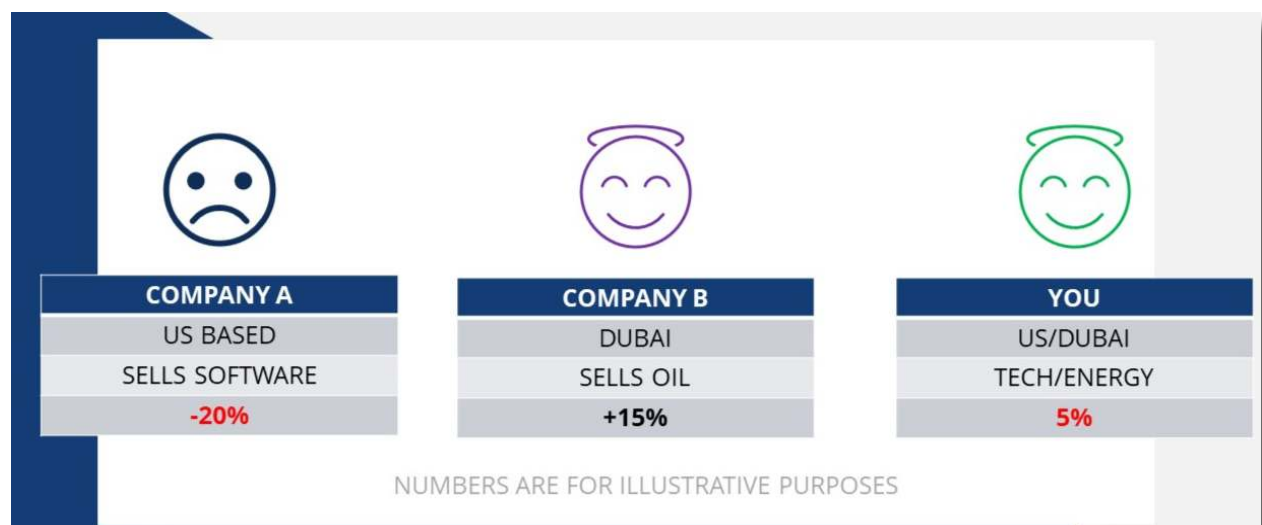
In studying Warren Buffett, Ray Dalio, Yale, and the other super endowments, it quickly becomes apparent that there is a simple set of rules they all follow:

1. Diversify Your Risk
2. Look to the Future
3. Stress Test Your Assumptions

It sounds simple on the face of it. It is something we all know. It is a "duh" no-brainer movement. But, it is so easy to forget. It is also why super successful investors sound like broken records because the basic rules of investing haven't changed in thousands of years. How they apply those rules may have shifted, but the fundamentals are sound, sturdy, and in many ways, infallible.

Rule #1: Diversifying Your Risk

We all understand the concept of diversification. Simply put, it is the embodiment of the adage "don't put all your eggs in one basket." The idea is simple, if something goes wrong, I won't lose all my money! For a farmer, this might mean planting different crops. For the typical investor, this means buying different stocks so that if one company goes bankrupt, they won't lose all their savings.



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However, there is a potentially catastrophic truth about diversification that many advisors would like to keep hidden.

To diversify effectively, one must be able to identify the "baskets" of your investments accurately. Most people opt for stocks and bonds; some get more daring by adding real estate or other alternatives into their mix.

Unfortunately, as investors painfully discovered in 2020 and throughout history during other market crashes like 2002 and 2008, most assets are correlated with one another. Meaning, when one asset crashes, the others follow suit. Furthermore, the correlations between these assets can change drastically over time.

Lesson: The real key to success is to achieve TRUE diversification in your portfolio, and as Ray Dalio, founder of the \$150 billion dollar hedge fund group Breakwater Associates says, "stress test your correlations over different time periods and different economic conditions."

How will your investments perform in a bear market? How will they perform in a bull market? What happens if China goes to war with Taiwan? Or Russia with Ukraine? What if there is another Oil war? Or Interest rates skyrocket by more than 18 times their 20-year average?



Rule #2: Look to the Future:

Many advisors get stuck in the past. They tell you to buy what worked last year and then hope for a repeat performance. This is like driving a car looking only through your rearview mirror – you can't see what's coming up ahead, so you might hit something.

Successful investors look forward, not just backwards. They understand that the future will bring different economic conditions, different consumer behaviors, and different investment opportunities than what we have seen in the past. They look for investments that can grow in value as these conditions change, such as technology or renewable energy stocks or other emerging industries; they take calculated risks on assets with a potential upside but also accept the possibility of a downside.

EXHIBIT 7: Looking at sectors throughout the business cycle

Every business cycle is different, and so are the relative performance patterns among equity sectors. While it is important to note out-performance, it is also helpful to recognize sectors with consistent underperformance. Sector investing is not only tactical, but can also help to position portfolios for the next business cycle shift.

ECONOMIC GROWTH	EARLY: Rebounds	MID: Peaks	LATE: Moderates	RECESSION: Contracts
OUTPERFORM THE U.S. EQUITY MARKET	 CONSUMER DISCRETIONARY  FINANCIALS  INDUSTRIALS  INFORMATION TECHNOLOGY	 INDUSTRIALS  INFORMATION TECHNOLOGY	 CONSUMER STAPLES  ENERGY  HEALTH CARE  MATERIALS  UTILITIES	 CONSUMER STAPLES  HEALTH CARE  TELECOMMUNICATIONS  UTILITIES
UNDERPERFORM THE U.S. EQUITY MARKET	 ENERGY  TELECOMMUNICATIONS  UTILITIES  HEALTH CARE  CONSUMER STAPLES	 MATERIALS  UTILITIES	 CONSUMER DISCRETIONARY  INFORMATION TECHNOLOGY	 INDUSTRIALS  INFORMATION TECHNOLOGY  FINANCIALS  MATERIALS

Early Cycle

Economically sensitive sectors may tend to outperform, while more defensive sectors have tended to underperform.

Mid Cycle

Making marginal portfolio allocation changes to manage drawdown risk with sectors may enhance risk-adjusted returns during this cycle.

Late Cycle

Defensive and inflation-resistant sectors tend to perform better, while more cyclical sectors underperform.

Recession

Since performance is generally negative in recessions, investors should focus on the most defensive, historically stable sectors.

Lesson: Don't be afraid of change. Look for opportunities in the future that traditional investors may not yet see. Don't get stuck in your past successes. Have a process for adapting to changing marketing conditions. The last 14 years have been a historic bull market, do you think the next 14 years will be the same? What happens if the market goes sideways? What happens if the market goes down and doesn't recover? What is your strategy? If you are just a "buy & hold" or "hope & prayer" kind of guy, you may find yourself waiting a long time to retire. What's your strategy? Is it backward looking or forward-thinking?

Rule #3: Stress Test Your Assumptions

This is the final step in building a solid retirement strategy – stress testing your assumptions. This means running different scenarios to see how your investments might perform under different economic conditions. It's like running multiple simulations of an airplane crash to make sure that it can withstand the worst possible scenario. It helps you identify weak points in your strategy and strengthens the ones that are working.

For example, what happens if the stock market goes down by 30%? What if inflation rises to 4%? Or interest rates spike to 10%? Will my retirement savings still be enough for me to retire comfortably? Are there any investments I can make that will protect my wealth in these extreme scenarios?

By doing this type of analysis, you can ensure that your retirement strategy is well-rounded and able to withstand any potential surprises. You'll have peace of mind knowing that you have a plan for whatever the future may bring. And when it comes time to retire, you'll be able to do so confidently.



How We Help Retirees Secure Their Financial Future

At AdvancedFolio Capital Management, we believe that success doesn't happen by accident. It happens because you have a great plan. And that plan starts with a sound investment policy. An investment policy that clearly outlines our goals and objectives, and how we are going to accomplish them.

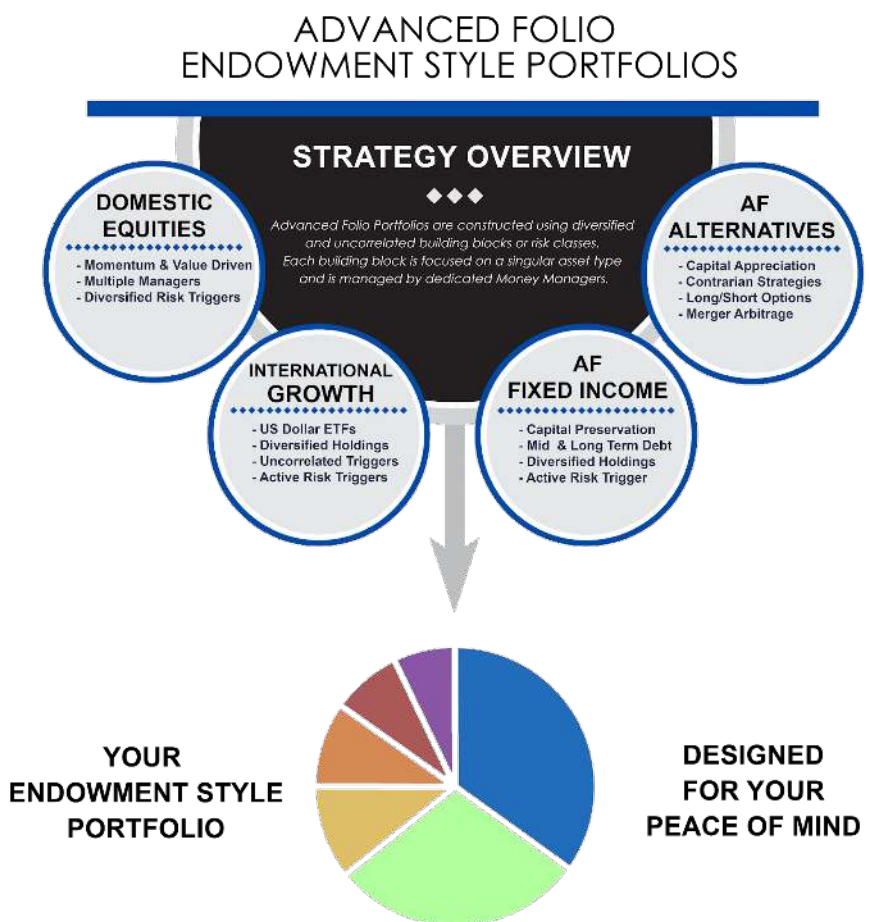
A plan that is continually monitored, and adjusts to changing market conditions, because we know the future will not look like the past!

At AdvancedFolio, we've partnered with industry experts to help us build out Endowment style strategies, based on the Harvard and Yale investment philosophies.

These strategies are different than your typical "Hope & Prayer" strategies. They are constructed using diversified and uncorrelated building blocks, or risk classes. Each building block is focused on a singular asset type, and is managed by a dedicated strategist.

And most importantly it needs to have an exit

strategy! Hope & Prayer is not a strategy. When the market starts tanking, you need a plan. A plan that will allow you to be defensive as well as opportunistic. Times of volatility is when wealth is transferred from the inpatient to the patient. Which will you be?



Holistic & Integrated Investment Strategies

In addition to the diversification across risk categories, the AdvancedFolio retirement platform utilizes sophisticated and independent risk signals. These signals allow us to be nimble and react quickly to changing market conditions. Being defensive or opportunistic as the markets shift, while working to limit our downside risk at all times.

Over the last 10 years, this strategy has consistently outperformed the traditional 60/40 portfolio, and provided comparable returns to the Yale endowment fund.



Past performance is no guarantee of future results.

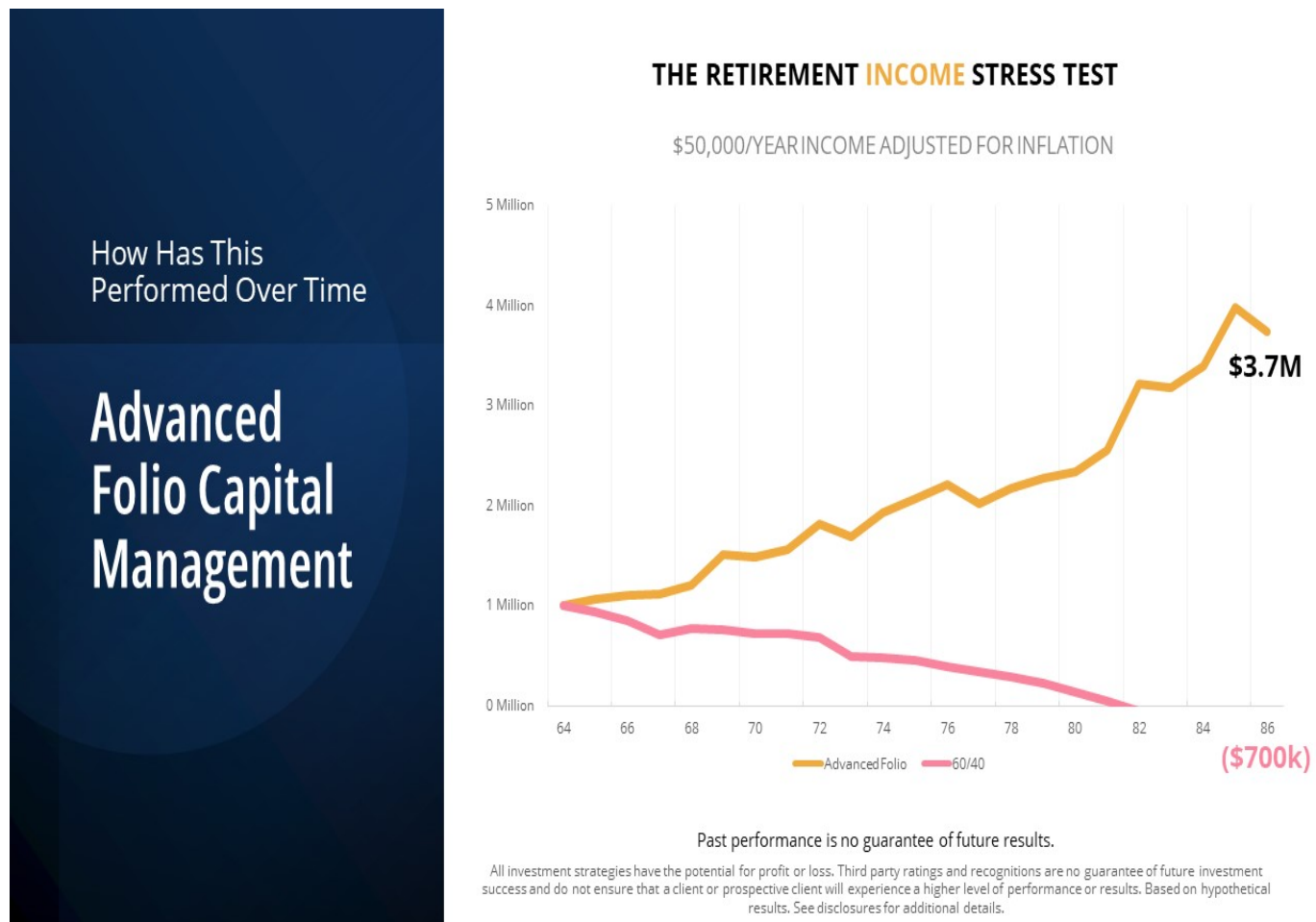
All investment strategies have the potential for profit or loss. Third party ratings and recognitions are no guarantee of future investment success and do not ensure that a client or prospective client will experience a higher level of performance or results. Based on hypothetical results. See disclosures for additional details.

The Retirement Stress Test

Of course, the real challenge is not in the accumulation of wealth...but in it's ultimate distribution as income in retirement.

When we start taking money out of our 60/40 portfolio, if we experience a repeat of the last 10 years, the 60/40 portfolio would quickly run out of money, while the AdvancedFolio portfolio grows in value.

This can be directly attributed to it's TRUE diversification, and it's ability to sniff out opportunities in any market and capitalize on the shifting tides. As Warren Buffet is famous for saying, "it is only when the tide goes out that you see who is swimming without trunks."



Questions To Ask Yourself

Do you have a retirement plan that will protect your wealth and provide income in retirement?

Are you able to adapt to changing market conditions?

Will you be able to retire with the lifestyle you desire?

These are all questions that we can help answer as you look to create a retirement plan that will work for you.

At AdvancedFolio, we believe that consistent returns are just as important as high returns. So, if you want to know more about building a retirement strategy that is forward-looking and will adapt to what's coming next - contact us today. We can help you create a plan to secure your financial future.

We believe in empowering our clients with the knowledge they need to make informed decisions.

THE ADVANCEDFOLIO PROCESS

— Helping Investors Since 1994 —

1

15 Minute Intro Call

During this meet and greet call, we will answer any question you have and discover if we're a fit.

2

Your Investment Plan

We'll create your personalized plan to generate the income you need in retirement.

3

Welcome!

Once we are both happy with the plan, we'll open your accounts and the magic begins.

NEXT STEPS

At AdvancedFolio Capital Management we've been helping families since 1994, the first step for every client is a 15 minute intro call. During this time, we'll meet, talk on the phone, or we'll go on a Zoom. We'll answer any questions that you have and discover if we're a good fit.

Then we'll create a personalized plan to generate growth and income in retirement. That plan is dictated based on us getting to know you and finding out your needs and your goals and your wants. And then stage three is once we're both happy with the plan, we'll open accounts for you, and that's when the real magic begins. We will be excited to help you and that's why we're here today, to bring real value, and to help you attain a much better financial future for you and your family.

So let's talk. Discover how our portfolios can help you create a personalized strategy designed for peace of mind.

Discover a better way of investing.

Contact us now! Let's get started on building an investment portfolio that works for YOU! Let's build a brighter tomorrow together!



click to

Schedule a Consultation

ABOUT ERIC & ADVANCED FOLIO



Eric Weschke and his family in front of the Nasdaq building in Times Square.

Eric has taught thousands of classes on financial education in the New York area, with over 29 years of experience in the financial services industry.

Eric is the former host of "Smart Planning Radio," a popular financial radio show in New York. Through his radio show, publications, and numerous free educational seminars and workshops, Eric has helped countless individuals, families, and businesses address their financial needs and goals.

Eric's mother was one of the first women to work on the floor of the New York Stock Exchange in the late 60's. Helping people achieve a

secure future and having confidence in their financial plan are the primary reasons why Eric became a financial advisor.

Eric has an extensive background in institutional investment theory and comprehensive financial planning focusing on tax-efficient retirement income solutions, asset protection and risk management.

His background includes a Bachelor of Science Double Major in Finance and Management Information Systems with Honors from University at Albany.

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Some of Eric's accomplishments include:

- Former National speaker for various corporations throughout U.S. regarding Financial Strategies for a Successful Retirement;
- Formerly the Chief Technical Analyst for the Swing-Trader Market News Letter;
- Member of a Senior Executive Syndicate Underwriting team for a 20 million dollar Initial Public Bond Offering;
- Overlooked and executed orders for the Institutional Pension Fund IGHL;
- Formerly the SR Executive VP Lending Officer and North East Regional Planner for First National Bank of Arizona;
- Published Nationally as the #1 Representative in the USA for Northwestern Mutual
- Eric was retail manager and senior financial advisor with a Series 24, 7, 63 license
- Eric holds numerous industry awards and has achieved national recognition in his field of study with his affiliations.
- Eric is a 1031 Exchange Specialist and is licensed in Investment Advisory Services and Life/Health and Disability Insurance as well!

Eric lives in Long Island, NY with his wife of twenty-six years and his two daughters.

Eric's passion is helping his clients achieve the financial stability and peace of mind in retirement that they rightfully deserve.

To learn more about Eric visit his website AdvancedFolio.com

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The SEC mandates that we state: The investment strategy that the backtested results were based upon can (theoretically) be changed at any time with the benefit of hindsight in order to show better backtested results, and (theoretically) the strategy can continue to be tested and adjusted until the desired results are achieved. Please note that Alpha has not made any data-fitting adjustments to its managed account model. The model performance results do not reflect the impact of taxes. This presentation should not be regarded as a complete analysis of the subjects discussed. All expressions of opinion reflect the judgment of the adviser as of the date of the presentation and are subject to change.

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