SINGER
WEALTH
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Retirees should think twice about relying on stock market

The S&P 500 Index has done very well over the last 50 years. One hundred dollars invested in the S&P 500 in 1972 with dividends reinvested would be worth just more than $15,000, which amounts to an annual return of 10.44% per year. Even adjusted for inflation, that return would have been 6.27% per year. A statistic like that is why most financial advisors recommend a heavy allocation to stocks.

However, consider this.

After factoring in inflation, the S&P 500 dropped 70% between 1900 and 1921 and between 1929 and 1949. Between 1966 and 1982 the S&P 500 fell 60% in value after inflation. Most recently, between 2000 and 2008 the S&P 500 lost 43% of its value.

Any assumption that stocks will perform at their historical averages for the next 10 years, or even a conservative assumption that stocks will perform at 6% to 8%, is likely to have little to no accuracy and provide little to no value.

The reality is that stocks are more likely to have outsized performance or potentially negative real returns during any given decade. Investors who need an 8% return, or even a 4% return on their stocks, to make their retirement plan work are facing a considerable risk that they could run out of money. We recommend diversifying into asset classes that are less unpredictable.

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Private real estate has historically provided investors with steady tax-favored income, as well as more stable returns than stocks. Private credit funds have also provided high levels of income with much less volatility than stocks. Index annuities can provide attractive expected returns in the 6% to 8% range without investment risk. Look for index annuities that track the S&P 500 index with annual resets because those contracts typically deliver the most consistent performance, especially in a bad decade.

Bottom line: If you want to protect yourself from a bad stock market and increase the probability that you will not run out of money, then you should decrease exposure to stocks and diversify into other strategies that are more predictable.

Sources: UndervaluedEquity.com, Invesco, and Blackstone

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