NEWSLETTER THIRD QUARTER

spectrum
FINANCIAL PARTNERS

2019 IT'S MORE THAN THE MATH. IT'S THE PATH.

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This Third Quarter Newsletter Covers:

- Second office open in Seattle
- Foundations: a new planning option
- Pay attention to when the markets perform

SECOND OFFICE NOW OPEN IN SEATTLE – COLUMBIA CITY

Spectrum Financial Partners continues to grow. In June, we opened a second office in Seattle, in the heart of the Columbia City neighborhood business district. This additional location may be more convenient for some clients. It also ties us more closely with a growing neighborhood to which we look forward to contributing. There are many restaurants and pubs nearby for a pre or post-meeting meal or drink, and the Columbia City Light Rail station is a ten-minute walk.

(Continued on next page)

PAY ATTENTION TO WHEN

When thinking of the performance of our portfolios, most of us think of how they are performing. Did they go up? By how much? However, the timing of this performance, when the markets go up and when they go down, can have an enormous impact on your financial plan over a lifetime of investing. The impact is especially large and difficult to manage in the five years before and the five years after retirement, "the critical decade."

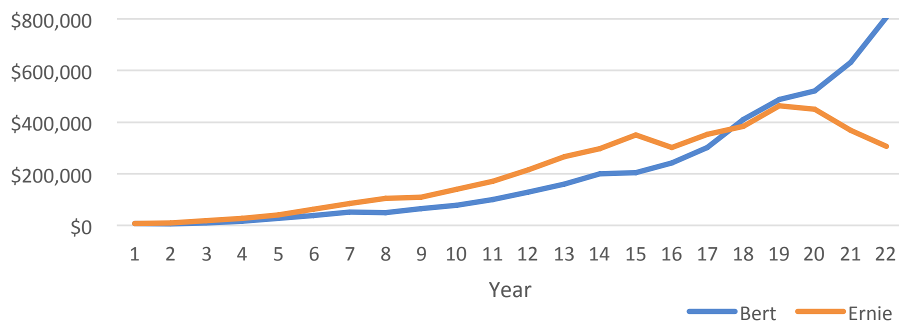
SAVING

Consider two friends, Bert and Ernie, who both save $7,000 per year for 21 years. Both friends experience the exact same average return of 10.4% over these 21 years. But the order of the returns, known as the "sequence of returns," is reversed. Bert suffers negative returns in the early years and ends with large positive returns. Ernie begins with those large positive returns in the first few years and then finishes with the negative returns.

In figure 1 you can see that Bert ended with a much higher total portfolio of $807,000 versus only $307,000 for Ernie: a $500,000 difference! Despite experiencing the exact same average return, the sequence of those returns means that Bert ended up with a 162% bigger portfolio than Ernie. Why?

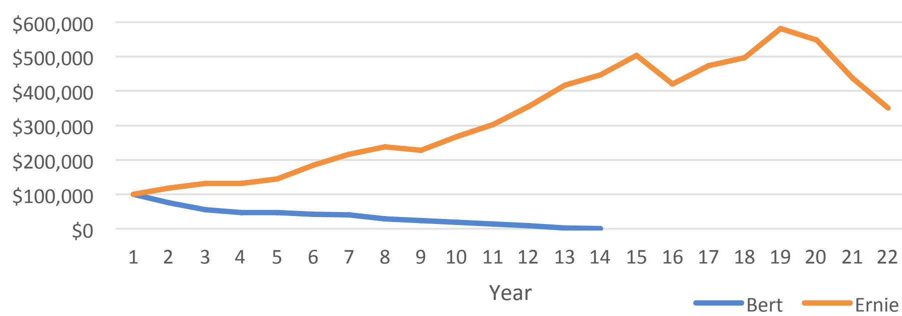
Because When Bert experienced negative returns the total value of the portfolio was small. Thus the impact in dollars was small, even though the percentage was the same. When Ernie experienced the negative performance, the portfolio was quite large and thus the loss, in dollars, was also large.

FIGURE 1: SAVING



Both Bert and Ernie save $7,000 per year. Average return for both = 10.4%

FIGURE 2: RETIREMENT INCOME



Both Bert and Ernie begin retirement with $100,000 and withdrawn $7,000 per year.
Average return for both = 10.4%

This is a hypothetical example and is for illustrative purposes only. No specific investments were used in this example. Actual results will vary. Past performance does not guarantee future results.

SECOND OFFICE NOW OPEN IN SEATTLE – COLUMBIA CITY *(Continued from front page)*

You can now meet with us in Seattle and Bellevue. Our online schedules, which you can access via the link in our e-mail signatures, indicate meeting locations.

Thanks to the many clients and guests who helped us celebrate during our Happy Hour on June 21st. If you couldn't attend (or even if you did) stop by for a tour and a cup of coffee. Matt will usually work in Seattle on Monday, Wednesday and Friday.

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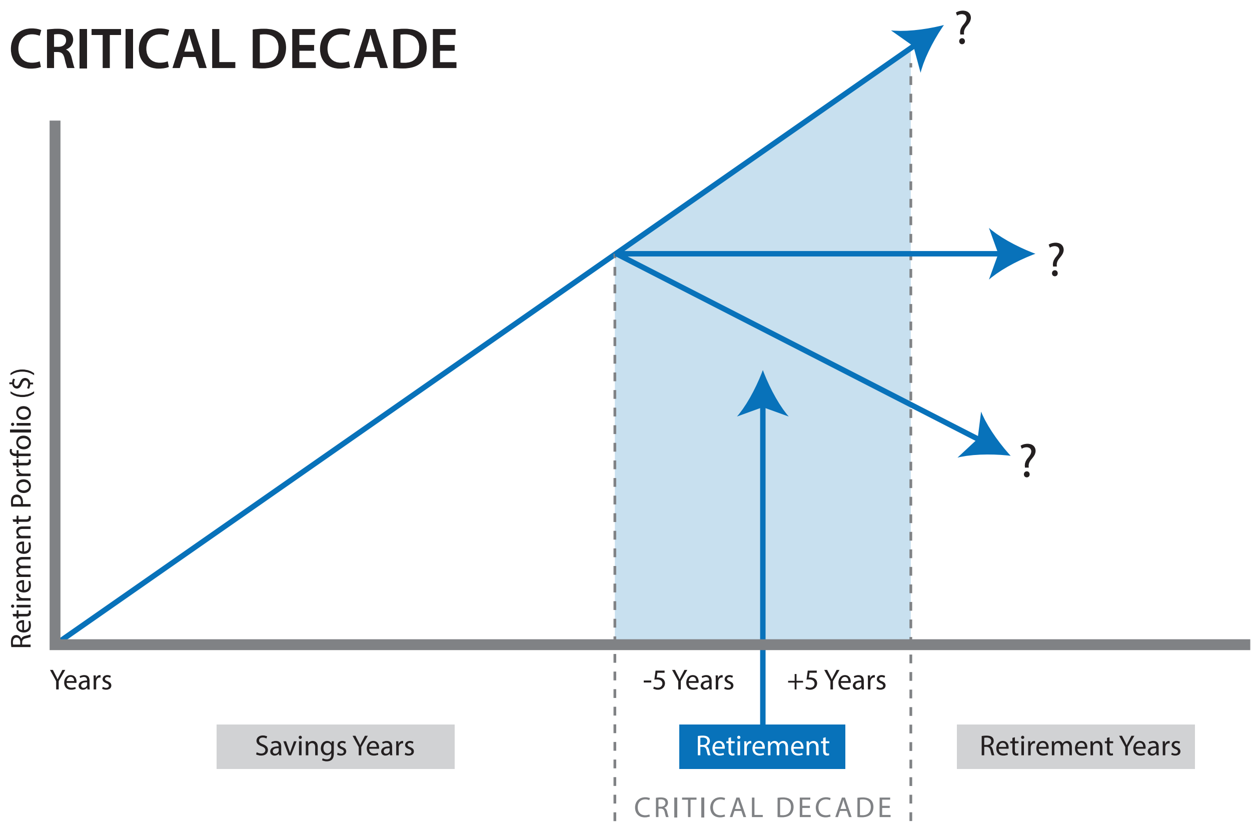
(Please do not send mail to this address. Continue to use our Bellevue address for mail.)

THE MARKETS PERFORM

TAKING INCOME

In retirement, when we are withdrawing money from our portfolios instead of adding it, sequence of returns remains critical to long-term performance, but the impact of the sequence is reversed. See Figure 2.

This time, Bert again experiences losses early but this time they reduce the total portfolio value so much that there is not enough remaining money to continue to support the withdrawals. Meanwhile, Ernie experiences early gains which power this portfolio enough to not only support the annual income, but to grow the portfolio, even after those negative years at the end.



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Implications

- The timing of performance, the when of markets, impacts our ability to reach our long-term financial goals.
- The timing of retirement also matters. The five years before and the five years after retirement are a "critical decade" that can decide the fate of many retirement plans. Financial planning during this period can be especially useful.
- Managing a portfolio in retirement should take into account all the sources of income of a household. For example, a household with several sources of guaranteed income such as a pension and Social Security may be able to withstand bigger downturns than one without those guarantees.
- Testing portfolios across many difference sequences of return, including bear markets, are very important stress tests to determine the strength of a financial plan. Just looking at average return over all years is insufficient.

"FOUNDATIONS"

We are launching a new program for young families who are looking to lay a strong foundation for their financial lives.

Clients who engage us for this program have the following questions:

- How much do I/we need to save for retirement?
- How should we invest our money?
- Are we prepared in case of unexpected illness, disability, death?
- How much do we need to save for college and where should we invest it?
- How can we do all this in a tax-efficient manner?

Clients for whom this program is a good fit typically have few assets outside of retirement plans, do not have large amounts of consumer debt, and want a thorough review of their financial situation and recommendations on steps they can take to improve it.

We offer this program at a lower cost than our full financial plans in the hopes that this will make it more accessible for more people. If you think this might be of interest to you or someone you know give us a call.

EVENTS

Health care costs in retirement seminar – about 20 people attended our education seminar in May. The session was informative, and participants received a customized estimate of their health care expenses in retirement.

Join us this Fall – dates TBD

Elder care: learn about legal issues specific to seniors and planning for health care in retirement.

Financial Planning 101: describe the core aspects of a financial plan: cash flow analysis, risk assessment, estate planning, tax planning and investing.

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If you know someone who would like this report, call Krista at 425-598-2919.