S&P Dow Jones Indices

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FA Talks

Managing Retirement Hazards with Managed Indexing

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FA Talks is an interview series where industry thinkers share their thoughts and perspectives on a variety of market trends and themes impacting indexing

Accelerated Wealth (AW) is one of the fastest-growing wealth management firms in Colorado, with 9 offices around the U.S. AW, a hybrid planning firm specializing in both insurance and investment-based planning, just celebrated its first decade in business, and has won The Colorado Springs Gazette's "Best of Colorado Springs" for financial planner 5 years in a row. As it is one of the few advisory firms we are seeing that are combining fixed indexed annuities and index-based investment management, S&P Dow Jones Indices (S&P DJI) recently interviewed senior leadership at AW to learn more about how indexing plays a role in how they plan and manage retirement risk.

S&P DJI: Tell us what holistic wealth management means for Accelerated Wealth?

AW: We created a process meant to bring as much peace to our clients' lives as possible. Through our Keys to the City client service model, our process begins with holistic financial planning. This process includes a full evaluation across various financial strategies such as social security, income planning, required minimum distributions, investment portfolio analysis, life insurance and annuity inventory, health insurance, property and casualty insurance, identity and cyber security protection, estate planning, wealth transfer, and asset protection. We take great pride in our focus on building financial plans as opposed to running a business that is financial product centric.

The second step of the Keys to the City process is referred to as family legacy. In this process, we focus in on the family unit of our client. We want to do everything we can to ensure that the legacy that our clients are leaving are a blessing, and do not turn into a curse. We offer training on personality preference and emotional intelligence, and we help create an understanding for our clients as it relates to who they are as investors. We find that by providing this type of training, the family unit naturally begins to improve in their communication, conflict management, and decision-making.

If a wealth management firm is going to speak to holistic planning, we believe there is a mandate to provide offerings that do not just focus on the mechanics of the financial plan itself, but must also provide offerings that equip the client to execute the plan behaviorally.

As it relates to the financial plan itself, we want to ensure that we are not biased in the financial instruments we utilize by our licensing or past experiences. We want to know that our advisors have the ability to choose from the entire universe of asset classes when building their clients' plans.

S&P DJI: How has the background of the firm founders informed the approach and the culture of your firm?

AW: The early architects of this business did not come from the typical career path of wealth management practice owners. We were each successful in different previous careers, such as real estate, construction, Fortune 100 companies, and even non-profit organizations. We all have our own stories of working with financial advisors that ultimately led us to want to build something from scratch. We noticed the natural biases that insurance professionals and investment professionals could take based on their educational upbringing and experience, and our desire was to find ways to effectively utilize both categories, ultimately in the pursuit of seeking the best outcomes for clients. Our desire was to build a hybrid model that utilized the strengths from each model for the benefit of the consumer.

Because of this, our culture calls for an objective, evidence-based due diligence process as opposed to injecting personal bias or experience. This simply puts more tools at our disposal to solve problems.

S&P DJI: For retirement planning in particular, you seem to have identified different phases along the client's path. Are there distinct goals and risks you tend to focus on in each phase?

AW: One of the largest risks is failure to transition your portfolio to match your stage of life. We call this life stage financial planning, and it is critical for the success of a plan. The three phases of life stage retirement planning are accumulation, retirement hazard zone, and distribution. In the first stage, accumulation can be accomplished with passive low-cost indexing strategies. This will harvest the power of dollar cost averaging over an extended period of time and accumulation should occur. The next stage is one of the most dangerous, which is why we call it the retirement hazard zone. This stage is typically entered 10 to 15 years prior to one's retirement date. Failure to transition to a portfolio that is structured for this stage can be extremely hazardous to a plan's success. This is a time where moving to a balanced passive, active, and fixed indexing strategies is critical, in our view. The last stage is the distribution stage, where the assets that you have saved for decades now create the necessary income that we need for a successful retirement. Ongoing maintenance of a blend of the above-mentioned strategies is necessary to navigate the distribution phase correctly.

S&P DJI: How does indexing fit into your approach for a retirement plan and the three phases that you have identified?

AW: We like clients to have some exposure to passive indices via dollar cost averaging in the accumulation phase in order to capture inexpensive market beta and to take advantage of times when prices fall. We prefer using adaptive investing strategies that use various indices during the retirement hazard zone years in an attempt to limit the full market risk for clients in the decade preceding retirement. During the accumulation phase, we use the adaptive approach to investing in index-based products for risk-managed growth and fixed indexed annuities to gain access to a wide range of diverse indices with complete downside protection and income for life.

S&P DJI: In pre-retirement and retirement you identify a period of time for each family as the "retirement hazard zone." What do you mean by that and how might this time influence your planning, coaching, and the tools you would use?

AW: The retirement hazard zone is the stage of retirement planning that usually begins 10 to 15 years prior to the date of one's retirement. We believe this is a very critical stage that most mistakes in retirement planning are made. Often the reason is that the typical buy and hold strategies that most retirement planners use when used for this stage and a strong market correction occurs, the future retiree may not have the necessary time to recover before they retire. We strongly believe that during this stage of one's retirement plan life it is important to blend active, as well as passive, and fixed indexing strategies together to minimize the risk of a strong correction during this stage. Often the coaching of the client during this stage is critical because they have been used to the more passive strategies that have gotten to this place and need to be coached on the impact of a strong market correction at this stage and what it could do to their end goal. We often find that most clients do not know of the other strategies that are important during this phase.

S&P DJI: S&P DJI works collaboratively with insurance carriers on the index design within fixed-indexed annuities (FIA). How do you evaluate FIAs and help your clients to understand the choices involved and FIA's role in pre-retirement and retirement?

AW: Since we are independent, we are able to choose annuity companies without any pressure. Our first step is to consider annuities for our clients only from companies with very strong credit ratings. This is supposed to be in the lower risk category of our clients' financial plans, so it is critical that we are choosing financially strong companies.

Once we have only the strong companies to consider, any selection of an annuity must begin with the end in mind. What problem are we trying to solve? We will consider whether we are solving for short- term income needs for retirement, tax deferral, lower risk accumulation, added protection in the event of a serious illness, or a legacy intended solution, just to name a few. There are many annuities to choose from, and it can sometimes seem a bit daunting to the typical consumer.

If the plan and the client's preference point to an annuity as a part of their overall plan, we also like to choose annuities with indexing options. An annuity with principal that grows with a particular rule set following the S&P 500®, for example, allows our clients to participate in the upside of that index, while having some protection parameters put into place as well.

S&P DJI: What FIAs do you find most useful and what are the costs or economics of those FIAs?

AW: First of all, we believe that many advisors and insurance sales people over-promise as it relates to this category. It is critical from a planning standpoint to fully understand the niche that this category fills. FIAs are not for everybody. We can utilize FIAs from any insurance company, so this allows us to remain unbiased and to search for the best option to fit the need of our clients' overall financial plans. One of the first factors that we take into consideration is to ensure that our clients' funds are being placed with a company with a strong financial background. We measure this through the company's standing with top financial rating agencies such as S&P Global Ratings, AM Best, Moody's, and Fitch. Once we isolate the insurance companies with strong ratings, we look for the financial products with the right combination of low fees, high upside opportunity, and a diverse set of indices to choose from. Finally, we ensure that the product fits the client's overall financial plan as it relates to income potential, liquidity, long-term care options, and legacy potential, while designing the appropriate blend of fixed strategies and investment strategies in a customized way for each client to fulfill their plan.

S&P DJI: Looking at diversification of investments, we are used to seeing "pie charts" to show percentage allocations to different asset classes. Why do you choose to take a different approach with your pie charts and how does your approach align with plans to achieve clients' retirement goals?

AW: We certainly believe in diversification across asset classes as one way to reduce the risk profile of a portfolio. We take this a step further by employing process diversification in a client's portfolio by including non-correlated strategies. We choose this approach because this additional level of diversification tends to decrease the level of volatility in a portfolio. Lower volatility portfolios in terms of the length and duration of drawdowns help clients achieve their retirement goals in several ways. First, it has been shown that portfolios with smaller and shorter drawdowns perform better if a new retiree experiences an early negative sequence of returns. Second, including strategies with non-correlated returns allow us to take distributions in a strategic way from portfolios that have the best performance rather than compounding the losses of underperforming accounts. Finally, clients are more likely to stick with a plan and avoid emotional decision-making when they experience a lower level of risk.

S&P DJI: Within your pie charts in the "strategic" and "dynamic" categories you sometimes choose to work with professional investment managers such as Peak Capital Management and ReSolve Asset Management. How does working with "power users" of indexing like those firms benefit you and your clients?

AW: We benefit from working with these types of professional money managers in several ways. We like the fact that they provide evidence-based investment methodologies that are easy to justify and help our clients by providing "safety first" strategies for clients approaching or in retirement. The other thing we enjoy about partnering with these kinds of firms is the excellent thought leadership, research, and informal consulting they provide.

S&P DJI: You have an interesting way of using index benchmarks to assist you in gauging each client's "fear of missing out" (FOMO). How do you do that and how does that process influence the client's investment plan for retirement?

AW: Any strategy that deviates from the holdings of well-known indices creates the risk that tracking error could create an emotional response from a client. We measure each client's FOMO using a proprietary framework discussion, and then we add an appropriate amount of pure market exposure in a separate account so that the client can always point to an account within their overall portfolio that never underperforms their mental benchmark. This helps to keep an investor on board with their overall plan when the strategic and adaptive pieces of their portfolio are underperforming. It is important to note that the amount allocated to the indexed FOMO portfolio does not introduce an amount of risk that puts the success of the overall plan at risk.

S&P DJI: Teaching and coaching both your advisors and your clients seems to be an important part of how you aim to operate. What are your processes and practices and how do they contribute to retirement goal achievement?

AW: Education is a central pillar to our culture. We love to learn and we love to coach. We have multiple people on our team that have backgrounds in professional athletics, coaching, management and training for Fortune 100 companies, and even pastoral work. We believe that if we have a continual thirst for knowledge, our company will always be able to evolve with the constant change of dynamics we see in this industry.

Our coaching practices fall into various categories. The first one is obvious—industry-related competence. This category focuses on training on everything from investment and insurance products, tax legislation, the health care environment, social security and various pension plans, estate and legacy planning, and long-term planning.

We also focus our training on the human factor. Our process provides training on things like personality preference, emotional intelligence, and verbal/non-verbal communication. Educating in these areas rounds out the entire process and gives us the best chance for retirement goal achievement.

We talk about creating resilient advisors, and resilient investors, able to weather any market environment. Many times, it is our ability to execute a plan, and not the plan itself that ultimately dictates whether we achieve a positive outcome.