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Everyone has heard of the S&P 500 right? I want to show you a little whiteboard presentation that illustrates our investment philosophy AND it’s also pretty educational.

In 2000, the S&P 500 was 1560. Between 2000 and 2002 it lost about 50% of its value and went down to 800.

So we know Mr & Mrs client when the market goes down we have to make a return to get back to even so between 2002 and 2007 it rebounded. In fact it got all the way back to 1575. So if we lose 50%, how much do we have to earn just to get back to even (most people will mess this up, have to educate them). 100%

Between 2007 and 2009 the same thing happened again. You probably both remember the pain from 2008. From this time frame the market lose 60% this time and went down to 680. Between 2009 and 2013 it did come back all the way up to 1590.

So when we put together a portfolio talking about your retirement money, we want to avoid these downturns and capture some of the upside. But if we lose 60%, we’re going to have to make 150% just to get back to even.

So let’s apply real dollars to this. If you had $100,000 invested and the market lost 50% how much would you have? 50k. If the market went up 100% and you had 50k how much would you have? Back to 100k. If the market lost 60% and you had 100k, how much would you have? 40k. Anyone comfortable losing 60% of their portfolio? I’m not. If we had 40k and gained 150% how much would we have? Back to 100k.

Let’s look at this a different way. If we could capture some of this upside and limit this downside, would you be interested in hearing about it? Let’s assume we COULD capture 30% Of the upside but avoid ALL of the downside.

So let’s go back to our original example using 100k.

So if we have 100k and the market loses 50% but we avoid all of the downside how much do we have? 100k. But since we have protection on the downside, we have to give up some of the upside, so we only get 30% of the upside earnings. Sound fair enough? So if we could capture 30% of the upside and the market goes up 100% how much do we have? 100k was our base so how much do we have? 130k.

Market goes down 60% and we have a guarantee against market loses, how much do we have? 130k. Market goes up 150% and we get 30% of the upside. How much do we gain? 45%. What’s 45% of 130k… 58k. So our 130k has now grown to 188k.

So in a time frame of 13 years, which could be the first 13 years of your retirement, the S&P 500 effectively earned ZERO. But if you’d positioned your money to limit the downside risk and capture just some of the upside your 100k would have grown to 188k in the same time frame. This is what we do with a portion of your assets during retirement. Being 100% in the market is not a smart choice when retiring, but fortunately there are investments out there that behave in this way