# The Red Zone of Retirement

Fellowship Financial Group

# The Red Zone of Retirement:

## Why Investing for Income is the Right Call When the Game Changes

**by Michael Eastham**

In 2015, one of the most exciting Super Bowl years ever, the New England Patriots defeated the Seattle Seahawks after their coach made what is widely regarded as one of the worst play calls in the history of the game. With the ball on the Patriots' one-yard line and just 26 seconds left on the clock, the Seahawks could have taken the lead—and most likely the victory—by scoring a touchdown. Everyone assumed the play would be a hand-off to Marshawn Lynch, one of the most reliable rushers in the game. Instead, coach Pete Carroll called a risky short-pass play, hoping to fool the defense. Instead, safety Malcolm Butler read the play and intercepted the ball, basically snatching a 28-24 victory for the Patriots from the jaws of defeat. Ouch!

The game's nail-biting finish may have been thrilling for fans, but it was almost unbearably painful for the underdog Seahawks. With their chance for glory just a yard away, they saw it foiled not so much by the opponent, but by an uncharacteristic rookie mistake committed by their veteran coach—attempting a strategy completely wrong for the Red Zone.

As football fans know, the Red Zone is the area of the field between the 20-yard line and the goal line. Though it has no "official" designation in the NFL rule book, players and coaches are well aware that the game changes dramatically once they are inside the Red Zone. There, the main objective for the offense is no longer to gain big yards and drive down the field. Inside the Red Zone, the team's main goal is to put points on the scoreboard by either crossing the goal line for a touchdown, or kicking a field goal, and their top priority is protecting the football (avoiding a fumble or interception). Teams commonly shift to a more conservative strategy in the Red Zone because they know their goals can be seriously jeopardized by neglecting their top priority. That's why Pete Carroll's call in Super Bowl XLIX remains so shocking to this day; he *did* neglect that priority momentarily, and he should have known better.

## The Red Zone of Retirement

One of the reasons people love sports is that the action on the field or court often serves as a metaphor; it can provide valuable life lessons. That's certainly true of the anecdote I just shared. The importance of a team making a shift in its strategic approach to the game in the Red Zone is a good way to remember that this same sort of shift is important for all of us once we enter "The Red Zone of Retirement."

As a financial advisor who's been specializing in working with retirees and near-retirees for over 20 years, I identify the Red Zone of Retirement as roughly the 7 to 10 years before you plan to retire. Thus, the Red Zone starts at around age 55 for most people—though it could start a bit sooner or later based on your plans and circumstances. Before I get into the specifics of a sound, reliable Red Zone strategy, let's talk about how the game of life changes once you enter the Red Zone of Retirement, prompting this need for a paradigm shift in your approach to saving and investing. Basically, there are three important things that change:

1. **By Now, You've Built Something —** In other words, by the time you're nearing retirement, you've hopefully spent enough time focusing on the growth and accumulation phase of your life to have successfully accumulated the foundation of retirement savings. You now have assets to work with. Will they be enough to carry you through retirement once combined with Social Security, factored against Required Minimum Distribution obligations, and aligned with potential healthcare costs, inflation, taxes, and other considerations? Answering those questions is all part of preparing your Red Zone strategy.

2. **You're Not Getting Any Younger —** As you've been growing your financial assets over the years, another valuable asset has been shrinking: time. That's just how it goes. And, it's important to accept that because, in your 30s and 40s, incurring a major financial loss from a risky investment is unfortunate, but usually not tragic. At that age, you have the luxury of time on your side to make it up. But, you lose that luxury once you hit your 50s. Sadly, we've seen the hard lessons of this reality play out twice since the turn of the century. When the dot-com bubble burst in 2000, the stock market fell by more than 50 percent over the next two years. When the housing market collapsed in 2007, it fell again by almost 60 percent. In both cases, it took six to seven years for the market to recover back to its previous peak, meaning the market delivered zero net growth for investors from 2000 to 2013. That means, if you were 60 before the first crash, and had never shifted to a Red Zone financial strategy, your portfolio was basically under water until age 73. And even then, you probably would have only recovered half of what you had lost because, mathematically, a 50 percent loss in the stock market requires a 100 percent gain to break even. Here is one more important point: market history suggests that another crash—this one potentially as steep as 70 percent—may well occur in the next few years. How old will you be when that happens?

3. **Your Goals Change —** This seems obvious, but it never ceases to amaze me how many people fail to take time to think about how their goals change as retirement approaches—or, specifically, what their goals are. For most people, they definitely are not the same goals they had in their 20s, 30s, and 40s: to raise a family, build a career, buy a home, and grow their wealth. Again, most people have already built something by the time they're in their 50s, and they haven't the need nor the desire to go on "building" once they enter the Red Zone. Their goals have more to do with getting the most out of what they've built and enjoying the fruits of their labor. In other words, in terms of saving and investing, they no longer have "performance-based" goals. They're no longer interested in maximum returns and major portfolio growth—in "long-yardage plays," to use the football metaphor. They've already gained the yards, so now their goals are more likely to be "purpose based."

## Purpose-Based Investing

The fact is, broadly speaking, everyone wants the same thing from their investments: maximum return with minimum risk. Before you reach the Red Zone, that adage is a sufficient guideline all by itself—but once you enter the Red Zone, you have to refine it in order to refine your strategy. That starts with the question: maximum return for what purpose? Basically, there are three possible answers:

a. A lump-sum expenditure (retirement house, yacht, etc.)
b. Maximizing your legacy (leaving a big inheritance)
c. Supplemental retirement income

Whatever answer you choose should align with your Red Zone goals, which is why it's so important to identify those goals specifically. In my experience, most people have fairly similar goals for retirement. They want to travel more, dine out more, pursue their hobbies and interests (golf, boating, art, etc.), and spend time with their children and grandchildren (which often involves traveling). Once you've identified your own goals, the next step in working toward a reliable Red Zone strategy involves asking another question: how do you want to pay for your goals? Is it by drawing from a lump-sum asset, selling portions of your investments, or through your regular retirement income stream?

For more than 95 percent of the people I work with, the answer—every time—is income. So, my follow-up question to them, and to you, is this: Since that's the case, doesn't it make sense to maximize your investment returns *in the form* of income? Sometimes when I ask a person that question, I can almost see a light bulb go off over their head as they realize: "Of course, that makes sense!" And, when that bulb goes off, I'm always thrilled because I know that this is a person who now gets it and is ready to make that all-important paradigm shift necessary for the Red Zone of Retirement: the shift from focusing on growth to focusing on income!

## Income = Protection & Vice Versa

The first thing that happens when you make that paradigm shift is that protecting your portfolio naturally becomes your top priority. Remember the football analogy: whether your goal is a field goal or a touchdown, you can't achieve either if you turn the ball over, as Pete Carroll reminded the whole world in Super Bowl XLIX. By the same token, you'll have a much harder time achieving your purpose-based retirement goals if you should lose all or a significant portion of your savings to a major stock market crash like the two we've had since the year 2000. That's why a fixed-income financial strategy is designed to first reduce your market exposure, and then lower your risk by utilizing alternative saving and investment options that are more insulated from market turmoil. And, even when the value of your investments does fluctuate from month to month, with these alternative options, the principal is secure, and the income being generated **does not change**—it is "fixed," thus the term "fixed income." That's why options within what I call "The Universe of Conservative, Income-Generating Financial Strategies" are so right for the Red Zone.

Generally speaking, these are strategies and vehicles designed to provide protection and generate reliable income in the form of interest and dividends, generally in the 3 to 7 percent range in today's very low interest rate environment. That's income you can use for your purpose-based goals or to reinvest if you don't need it. I call that growing your portfolio organically, or "the old-fashioned way." This raises the important point: shifting your priority to protection in the Red Zone doesn't mean completely abandoning growth—any more than prioritizing protecting the ball in a football game means abandoning the priority of moving it forward and gaining yardage. It's simply a shift in priorities—specifically a 180-degree shift from your pre-Red Zone priorities when growth was the main objective.

What often happens when people fail to make this shift is that they end up using financial strategies that are actually *in conflict* with their goals. They don't realize that by continuing to invest primarily for growth and capital appreciation, they're not only carrying unnecessary risk, they're actually investing for the wrong purpose. They're investing as though they believe they'll have sufficient income (through Social Security for instance) *without* their investments, and they act as if they can put that toward an inheritance or a major purchase. And, even if they actually do believe that, they usually haven't considered that with lifespans now longer than ever, they need to plan for up to 30 years or more of retirement income! They also typically haven't considered that if the inflation rate ever got to five percent, they would end up needing four times as much income at the end of their retirement as they needed at the start. At seven percent inflation, they would need eight times as much income! All of those factors—and many more—are what make shifting to a Red Zone strategy so crucial.

## Why Don't People Know?

The importance of adopting a strategy focused on protection and income in the Red Zone of Retirement would seem to be common sense—and when it comes right down to it, it is. So why do so many people neglect to do it? It partially has to do with the fact that much of the financial media has a vested (meaning monetary) interest in portraying the stock market as "the only game in town" for all investors at every stage of life. The exciting world of bulls and bears in Wall Street "plays" better and *sells* better than the dull, boring, and old-fashioned Universe of Conservative, Income-Generating Strategies.

By the same token, many financial advisors have business models geared heavily toward stocks and mutual funds, and they only deal in fixed-income investing as an afterthought—primarily in the form of bond funds. Generally speaking, these advisors aren't the ones best equipped to help investors who've reached the Red Zone of Retirement. If they were doctors, for example, they would be general practitioners—and once you enter the Red Zone, it's best to have a specialist, meaning someone who specializes in "The Universe of Conservative, Income-Generating Strategies."

Ultimately, that's the best way to dramatically decrease your odds of calling the wrong play, turning the ball over, and losing "The Big Game." It's the best way to ensure that you've made the all-important paradigm shift and have a winning strategy for the Red Zone of Retirement!

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