Creating Retirement Security with James Conole

[This transcript was generated by artificial intelligence. Timestamps are not 100% accurate depending on the platform used for listening].

I love this podcast because it crushes your dreams and getting rich quick. They actually got me into reading stats for anything you're tuned in to the Investing for Beginners podcast led by Andrew Sather and Dave Ahern with a step-by-step premium investing guide for beginners. Your path to financial freedom starts now.

DD

Dave

0:00

Alright, folks, welcome to Investing for Beginners podcast; today, we have a very special guest with us. We have James Canole from Route financial partners. So James is here to talk to us about helping people that are close to retirement and other fun stuff. So James is calling us all the way from San Diego, California, very jealous.

And he's here to talk to us about some cool stuff. So, James, thank you for joining us today. We really appreciate it. And maybe you could give everybody a quickie overview of the kind of who you are, where you come from, what you want to be when you grow up, that kind of thing.

James

0:33

Yeah, be happy to. And thanks, Dave, for having me. Thank you, Andrew, for having me. And, well, quick overview. There's so much, but yeah, I think. So I'm the founder of Financial Partners, which is a firm that really is helping people make that transition into retirement, whereas we're planning and investing and doing these things that look different for different people. And so I founded this firm because, yes, investing is crucial.

And financial planning is crucial. But understanding that there's not a one size fits all approach. And as you kind of start going through different portions of your just even investment career of your life, you need to start thinking about different things so that you can be ready for whatever life throws at you, but what you want life to look like. And I think that retirement, in the way we talk about it, is really a sense of financial independence and that freedom to do what you want to do. And so, how do we put our best foot forward as we're designing an investment strategy and a financial plan to use our investments to help us accomplish what's actually most important, which is the freedom to do whatever you may want to do in retirement?

Andrew

1:35

And that's really cool, James, so can you maybe start with what is something? You know, we talk a lot on our show about people who are just getting started. What about someone who's getting started, and they've got, let's say, five years or less until retirement? Are there common misconceptions or things that people don't even know that they should really put as maybe a priority or something to really think about?

That's maybe not thought about much?

James

2:05

Yeah, there are so many; I think there are a couple that I can hit upon. One is there's almost this sense of, there's always our whole lives, there's the supposed to lose, okay, you're supposed to get good grades in high school so that you can go to college, you're supposed to get good grades in college, so you can get that entry-level job, you're supposed to do a good job there. So you can you start moving through this conveyor belt and all sudden retirements approaching, and there's no, you're supposed to say Wow, all of a sudden, there's no work, there's no school, there's really no shouldn't say any expectations, there's always expectations. But there's this wide open, next season of life.

And it's totally up to you as to what that needs to look like. Because I'll say that so many people I see financially may be perfectly ready. But emotionally, they're dramatically unprepared. And it's because there's this sense of you're always understanding what's next. And then you retire. And hopefully, have a good sense of what you want life to look like. But I think the biggest misconception for most people is that retirement is just a financial thing. It's just once I hit this dollar amount in my portfolio, once I can create this level of income, then I'm good, and everything is easy. Deeper than that, there, you will want to make sure that you're retiring into something that's by design that you've intentionally created, not just hoping for the best we make it happen. So that's one thing.

And then the second big thing is, particularly as it pertains to investing, there's this thought that, okay, I'm going to retire, and I need to get super conservative with my investments because I can't, I'm no longer saving, I'm no longer adding to my 401 K, I'm no longer putting money into my investments, I'm now pulling money out of my investments. And there's this misconception that investing is really risky, and cash is really safe. And I'm using kind of the extremes here. And I think both are needed for a good plan and retirement because the reality is the risk for most retirees. Isn't these temporary downturns there, the markets always gonna be the market, there's always going to be jitters, there's always going to be things that give us concern and that are scary. But those are temporary. The biggest risk to most retirees is are they getting enough growth on their investments to not just meet the expenses they want to retire but also in the fifth year in the 10th. Year in the 20th year of retirement as inflation has gone up and up and up. And they are sometimes too conservative to protect against a short-term decline. They end up missing the biggest risk, which is the long-term erosion of purchasing power. And that's a really difficult thing to it's a difficult position to be in.

Andrew

4:32

Interesting. I mean, it's kind of counterintuitive. You would think the big mistakes are made by not getting out quote-unquote soon enough, and you're saying it's often quite the opposite. We do have this environment where people seem to be living longer; quality of life seems to be getting better. Healthcare seems to be getting better. So I guess from that standpoint, it does make sense that people should prepare for not that you're preparing for the worst because I think it would-be loggers. Generally accepted to be a situation of preparing for that, rather than thinking I got five years. And that's it.

James

5:08

Right, right. Yeah, absolutely. It's understandable that people are more concerned and fearful of their portfolio going down in retirement because, as I said, they're no longer earning an income; they depend on their portfolio, in most cases, to at least supplement their income. But when you can start to reframe the risks involved, there's no investment without risk.

Even people talk about cash or bonds, all the risk-free assets, well, there's risk there, you're just kind of kicking the risk down the road because inflation is going to continue to be a thing. And if you're not outpacing that, there's a tremendous amount of risk if we're, if we're too much in any particular thing. So it's about how you create this balanced approach so that you can meet your goals over time and have the purchasing power that you need but also protect against some of these downturns that certainly are scary and certainly are part of everyone's retirement journey.

Andrew

5:54

So obviously, you can't give individual advice, but maybe we can make it a little tangible. As you said, it's going to be different for everybody. Right. But we've I feel like Dave, and I have gotten several questions like this in one form or the other, where somebody says, Hey, I'm like, 6062, I've got my life savings, maybe middle six figures. And they've never even considered the stock market before; they have no idea what, what any of that means. Let's take that stereotypical person. Can you walk us through, maybe? What should we think about? And, again, as you said, it depends on what you want to do. What's that quote? And Alice in Wonderland, where do you want to go?

James

6:33

Oh, you read? We'll get you there. Something like that.

Andrew

6:36

Yeah, exactly. So let's say you want to have security in retirement, where this hypothetical person has five years left until the ideal-typical retirement age; what would you say? Kinda to start off,

James

6:49

I like to start with an example. And just to kind of paint a picture of what are the risks here? And so let's say Andrew, you come to me and you ascites Okay, Andrew, I'm going to offer you four different investments, you choose which one you'd like, investment number one goes up in value 52% of the time, investment number two goes up in value 75% of the time, investment three goes up in value 85% of the time and investment number four goes up in value 100% of the time, which investment Do you want? People pause or miss? Right? This is kind of a dumb question. I want investment number four; who doesn't't?

And they say what's investment number four. So what's the same thing as investment numbers one, two, and three? They're all the exact same thing. They're all the s&p 500, the returns of the s&p 500, just looking at different time horizons. So investment number one is the frequency of positive returns on a daily basis in the s&p 552% of the time it's up in value, the other 48% of the time it's down. So it's really not much more than a coin flip; very likely that you could be up or down on any given day. The second is the s&p 500 Rolling returns over a one-year time period. The third is rolling returns over a five-year time period. And the fourth is rolling returns over a 20-year time period. So as you look at that, I think it starts to help people understand, okay, there is a lot of risk in the short term.

You know, when people talk about investing, there's I don't want to discount, there's tons of risk in the short term, if you're defining risk as just the uncertainty and that your investment may be up a whole bunch or maybe down a whole bunch. But over time, Jeremy Siegel has a great book called stocks for the long run. It's almost boringly consistent how frequently stocks hit their long-term average or very close to it when you give them enough time. So when that when we're doing that, Andrew, you want to retire in five years? Well, great, too. We know that, on average, in a bear market, the stock market might go down.

And it might take a couple of years to recover on average. So what do we want to do? Well, we need to have enough money that's conservative, that stable. So if we go through a bear market or downturn, do we have 345 years worth of living expenses set aside in something that is very conservative? Maybe that is that cash or those bonds or some of their conservative type of investment? We need that. If we have too much of that, now we're just kicking the risk down the road; we're not reducing our risk; we're actually increasing our risk or putting it out into the future for our future selves to deal with it. So once we have enough to weather those short-term downturns, and by and short term could still be a couple of years, then with the remaining amount of our portfolio, do we invest that in something to grow so that we know when you want to buy groceries and when you want to pay the utility bills.

And when you want to go on a trip ten years from today, 15 years from today, your income has been increasing not just to keep up with inflation, but to outpace inflation, so that you can continue to meet your needs.

Andrew

9:38

That makes a lot of sense. I like the way you kind of bucket those into what do you need in the closer term, immediate future? And then what can you kind of set aside to increase those chances of making money? I mean, 75 to 25 odds are pretty good, and five years over the long term. It isn't that long.

James

9:57

Right? Right. Exactly.

Dave

9:59

So I guess a question that I was thinking about while you're talking about that how would this differ if you are five years from retirement versus five years into retirement is it the same idea? Do you work with the same idea? Or is this? Do you kind of change the strategy as you get closer to the day? And then, after the DAY, it changes to another type of strategy?

James

10:20

Yeah, absolutely. There are other factors to consider as well here too. So it's not just this, kind of I'm oversimplifying a bit. But it could be I'm always looking at the time horizon as the number one thing, what's the time horizon until you need this money. And so, for example, let's assume that you're five years out from retirement, and you have social security and a pension and rental property. And that's generating all the income that you need. You could look at this and say, you maybe don't need anything in conservative investments if you're emotionally okay with the ups and downs because your basics are covered by non-portfolio income sources versus someone who's five years in, but they're totally dependent upon their portfolio.

There are other factors involved. But yeah, I absolutely always believe in that buckets approach kind of that you're talking about of Do you have a bucket. And there's an approach that we want to take where that bucket is constantly being maintained. Think of that bucket almost as the emergency fund for your portfolio. Where look if you're working, you're not relying upon your savings or your investment to pay for your groceries and your utility bill and your cards; your income is paying for it. Well, think of almost like stocks as being like your income in retirement. But a downturn is like losing a job; can we want to rely on stocks anymore? We want to tap into our emergency fund. Well, if you're new, tap into your emergency fund, and then you get another job; what's the first thing that you do?

Well, you replenish your emergency fund. So you always want to keep that base there. If for nothing else, just a peace of mind of knowing that when we're going through these downturns. You're going to be okay; you have five years, six years, whatever is a living expense to cover this. So do the numbers change? Do the numbers probably change based upon less? Are you five years into retirement or five years from retirement? More? How much do you need from your portfolio? And how is that changing along the way?

Andrew

12:05

That makes a lot of sense. I'm kind of curious, just selfishly, almost. But what we saw with everything with the pandemic, a lot more people are working from home. And that seemed to have continued, you know, moderated somewhat, some people are coming back to the office, but a lot of people work from home now, a lot more jobs are less labor-intensive on your physical body. Are you seeing that people who may be originally planned to retire at 65 are now doing some sort of like hybrid retirement where there may be working part-time? Or maybe doing some job from home? Or is that just my fantasy idea of, like, how retirement could be?

James

12:45

Yeah, I'm not seeing it as hugely adopted; in fact, the people who are continuing to work in this, you know, there's a risk of retiring too early, there's no doubt about that. If you retire too early and don't have enough money, you could very well run out of money. But my biggest thing with clients is, how do we create the just best possible quality of life? How do we create the best possible future for you? Too often, people are working too long not because of remote work, not because of the ability to be more flexible with it.

But just because there's this fear of retiring. And there's this sense of what if I don't have enough, and there's a sense of okay, I thought that I needed this amount. And the goalposts moved, and then the goalposts move, and we'll do a plan, we'll make a projection, I'll say, Look, you have enough to retire two times over, but the people keep telling themselves when I hit this amount of money when I hit this, and that keeps moving. And there's a very real risk of working too long. And I see that far more frequently, of people continuing to work and missing out on time with grandchildren missing out on time to travel when you look at it, it's really those first ten years of retirement, where you're going to have your energy, your health, the ability to do what you want to do.

So one more year of work doesn't seem like a whole lot in the grand scheme of things. But when you frame that, as that's 10% of your best years gone by working one more year, it starts to look different. So I do encourage people if work is productive and meaningful and purposeful, and you're still able to enjoy family and trips and activities and hobbies. I encourage people to keep working because I think there is a real tangible benefit to it. And these things like we're seeing now with remote work and the flexibility of work and the ability to do things from all over the country. I think that's contributing to that. I hope it continues to do that more and more and more. But its retirement is in money and investing. It's so much more personal; it's so much deeper than just the dollars and cents. And it's about how we align what we're doing, not just financially, but everything that we're doing with creating that version of our lives that we want most.

Dave

14:42

Yeah, that makes a lot of sense. And I like the way you put that. I think a lot of people look at retirement as a goal-line they have to cross, and then they don't really like having a plan beyond that. And I like what you're saying about trying to make sure that you know not just financially but mentally and psychologically way that they're ready to do all those things. So how does the whole 4% figure into all this? What are your thoughts on that idea? Then, I guess the time-old tradition of reducing your portfolio by 4% kind of idea?

James

15:12

Yeah, I think it was wonderful research. And it first came out of there's this question always, okay, I'm retired. So what can I take 10% of my portfolio year? Can I take 2%? Like how, what's a safe amount that I can feel comfortable spending, knowing I'm not going to be on the street or under a bridge in 10 years? I want to know I can spend today and spend in the future. So Bill Bengen, with this research, said, Look, let's look at a portfolio 50% large-cap US stocks, 50% intermediate-term treasuries, so just government bonds, what's the most amount of money you could potentially take out?

And the thing interesting about the 4% rule is people think, Oh, that is the most you can take out. It's really not. He looked at many, many, many years of if you look at retiring in a great market environment, if you look at retiring in a horrible market environment, what's the highest return or highest withdrawal rate that you could take that would allow you to have at least 30 years of income regardless of when you retire? That doesn't mean that every year for a person solely amount you can take out; it just means it's almost like a lowest common denominator; If you retired in 1975, for example, you could have supported a seven and a half percent withdrawal rate. So if you're only taking four, you're kind of leaving a lot of money on the table. But it's so much dependent upon things outside of your control, which is what the markets are doing. So I think it was wonderful, wonderful research to start because at least it gives you just a simple starting point to Okay. Use a round number; I have $500,000 in my portfolio, 20,000 per year can come out, and I'm probably going to be okay, assuming I'm invested this way. Later, research was done by a guy named Jonathan Guyton, who said, Well, what if we don't just have large-cap US stocks in intermediate-term bonds?

What if we diversify further, but there's also some international? What if we do value and growth? What if we add some small companies? What if we do real estate, and what he saw was, look, you can actually increase that up to about five and a half percent, give or take? And if you're following certain rules, rules, like where do you take income from first? Do you just take income proportionately? Or do you take income from the asset classes that performed the best? What if the markets go down? Do you give yourself a cost of living adjustment? Or do you freeze your withdrawals for that year? What if your portfolio is performing really well? What are the metrics by which you can actually give yourself a pretty substantial bump so that you don't just keep spending the same amount and end up dying with way more money than you want to die with? You can actually enjoy it over the course of your lifetime.

So I think the 4% rule is a really, really wonderful starting point because up until then, it's kind of like this, what do we do, even Bill Benue with that 4% rule when he went back and added small company investments into the mix, so you can actually probably increase that closer to four and a half percent. So I think it's a very good starting point, people; there's so much complexity in this world that it's nice to have those simple foundational points to start from; I think people can do better, and better doesn't just mean, Oh, have more money, it means to have more life, have more trips, have more impact, have more just able to do what you want to do. But I think that the 4% rule is a great place to start,

Andrew

18:09

I gather from a lot of this conversation that there seems to be a lot of value in having a personal conversation with somebody who can look at your situation. Because when you're withdrawing funds from retirement, you have taxes to consider you have your living situation to consider. And so it's almost easier to build a portfolio and almost harder to take it down in that sense. What do you say the people who are maybe skeptical of the historical trends and are worried about interest rates going higher,

I listened to one of your podcast episodes where he talked about dividend stocks and the other great way of explaining it for beginners but also having some in-depth analysis into some of the pros and cons of that. So I guess when it comes, it's obvious to me that you know your stuff when it comes to stocks. So what do you tell the people who are maybe worried that we could see a very long uptrend and interest rates when the past? You know, for the 80 years, I've seen a steady downtrend and interest rates? And does that affect how you withdraw from a portfolio at all?

James

19:14

Yeah, we very well could. Now we're at historically low-interest rates right now. So in some ways, we're probably going to expect some reversion to the mean, you know, how high do we go? Where do they end up settling out? Who knows? I think as investors, it's normal to be concerned about that because I think in the short term, it causes a whole bunch of movement in the ups and downs of our portfolio. I will say for long-term investors, in some ways, inflation being high is absolutely not a good thing that needs to get under control, but with interest rates being higher in some ways, it helps us withdrawal rules, because bonds a couple of years ago, a year ago, were paying absolutely nothing in interest with bonds as part of your portfolio. It's almost just glorified cash as part of your portfolio.

So I am always thinking a bit there; the reason I do financial planning with clients is to say, can you create a strategy that isn't dependent upon current trends? Or what's currently happening or the news cycle of the day? Can you build a strategy where this works, regardless of what happens, because yesterday, it's inflation and interest rates and concerns about a recession? A couple of years ago, it was COVID. And it was an election season. And it was the greatest health crisis in the world being shut down, and just Oh, my gosh, what's going to happen? That will always continue. And so I think an investment strategy that's based upon current events is misguided. I think it's focusing on something that can't be predicted. I think, in some ways, the benefit of a financial plan, in many ways, the benefit of financial planning and creating an investment strategy.

That is almost like an all-weather strategy is just for peace of mind. And I don't mean all-weather strategy in the sense that, hey, this is going to perform positively every single year. But look at the markets down. Do we have conservative stuff to draw from that's not gonna be impacted by the market as much? If the markets go up? Wonderful, can we draw from investments that have gone up? It's almost just I'm oversimplifying, of course. But when you look at markets, there's this sense that you're just investing in, you're gambling, you're just putting money in, and you're hoping for the best, and we hope that rates don't crush what we're doing. And we're hoping inflation isn't crushed what we're doing. The reality is we're investing in wonderful companies that are going to find a way where the rate rates are rising, or rates are falling; they're going to find a way to be profitable and to stay in business.

When people say well, what if this doesn't recover? What if this is the end of things that walk down your street? Next time you get a chance? How many Fords Do you see are General Motors? Do you see your Tesla? Do you see, okay, those are all publicly traded companies? Are you walking past a Bank of America or Wells Fargo? Or publicly traded companies? Do you see a McDonald's on the corner? What about the prescriptions that you're taking? What about the jeans that you're wearing, Levi's, those are all publicly traded companies, these companies Levi's isn't gonna go out of business I'm who knows, because of interest rate risk, McDonald's isn't gonna go out of business because of rising rates, Apple's not gonna stop producing iPhones and MacBooks. And Apple Watches, because of rising interest rates, it's gonna cause prices to fluctuate quite a bit in the short term. But when you understand what you're investing in, and what you're investing is really the just the most amazing human ingenuity captured just in these companies taking not just dollars, but taking everyone's quality of life, on average, higher and higher and higher.

That's going to continue, and I'll get off my soapbox in a second. But there's all this negativity when you watch financial media of here's why things are going to be horrible. And here's what's going wrong. And this is why you should go to cash or get out. There's so much incredible stuff happening. If you went back 20 years ago, there was no Airbnb; Tesla wasn't public, there was no Shopify; there was like, you can look at these companies that have led to a tremendous amount of not just dollar gains, but job creation, progress, higher standard of living, we couldn't do this podcast 20 years ago, we couldn't have this conversation.

That's always happening behind the scenes. But we're never, we never see progress because progress happens slowly, but it builds like crazy over time. Whereas negative news, Morgan Housel talks about this in a really incredible way in his articles and books. It happens fast. It's the health crisis that happened overnight. It's the recession that all of a sudden is here; its inflation has now caught up to us. There's always progress happening underneath, but we just, we don't see it. And when we do hear it, we're just quick to forget it because we're so much more hardwired to focus on the negativity. So sorry; I know I kind of went in circles with that question. But investing is just it's a natural byproduct of almost the human condition. And what we're doing here, as people are looking to better their lives and better their family's lives over the course of time.

Andrew

23:46

That doesn't mean that it's a really great explanation, you do have to go back to the basics, and people layer on the complexity on top of the stock market and finance, and when you talk about it as you are investing in the greatest companies around us, that should bring a lot of comforts and knowing that, hey, you can go alongside them and invest in progress. I think it's a perfect way that I've kind of summed that up.

Yeah. Well, James, this was a fantastic conversation. I think there's just enough in there for people if you are nervous about being close to retirement; these are all great things to nibble on. And maybe take that next step further into understanding that there's hope for you either you can find great solutions, and people like James are out there to help you along with that. So, James, you have a great podcast. It's called ready for retirement. I suggest people check that out. And where else can they learn more about you online?

James

24:40

Yeah, thank you ready for retirement is a big place that's obviously wherever you listen to podcasts. YouTube is a place where we're we're doing a lot more content on top of that, and that's actually under my company's name, which is route financial partners. So route like a tree route, our OT financial partners in between those two sources.

That's a great place to start. This is what we do to help people with that transition into retirement. So all the content we create it's not hypothetical. It's not what-ifs. It's really practical stuff we've, we see and have seen with clients. And so we want to help share those strategies with everyone because it's scary, and good financial planning can make it a lot less scary.

Dave

25:18

Awesome. Well, that's great. Well, James, again, thank you for your time. We appreciate you taking the time out of your day to come to talk to us and help educate our listeners more about as they get closer to retirement and into retirement and how you can help them, and it was great stuff. I learned a lot. So I'm the closest one here in the room to retirement. So it's stuff that I can take away from for sure. So without any further ado, I'll go ahead and sign us off. Everybody goes out and invests with a margin of safety emphasis on the safety. Have a great week. We'll talk to you all next week.

.

A

Contact sales@advertisecast.com to advertise on Investing for Beginners podcast. The Investing for Beginners podcast is part of the Airwave Media podcast network.

We hope you enjoyed this content. Seven steps to understanding the stock market shows you precisely how to break down the numbers in an engaging and readable way with real-life examples. Get access today@stockmarketpdf.com until next time have a prosperous day. The information contained just for general information and educational purposes. Only it is not intended as a substitute for legal, commercial, and or financial advice from a licensed professional review, our full disclaimer@einvestingforbeginners.com.