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ASK NOT WHAT *YOUR* HORIZON IS…

(Ask what the *market's* horizon is!)

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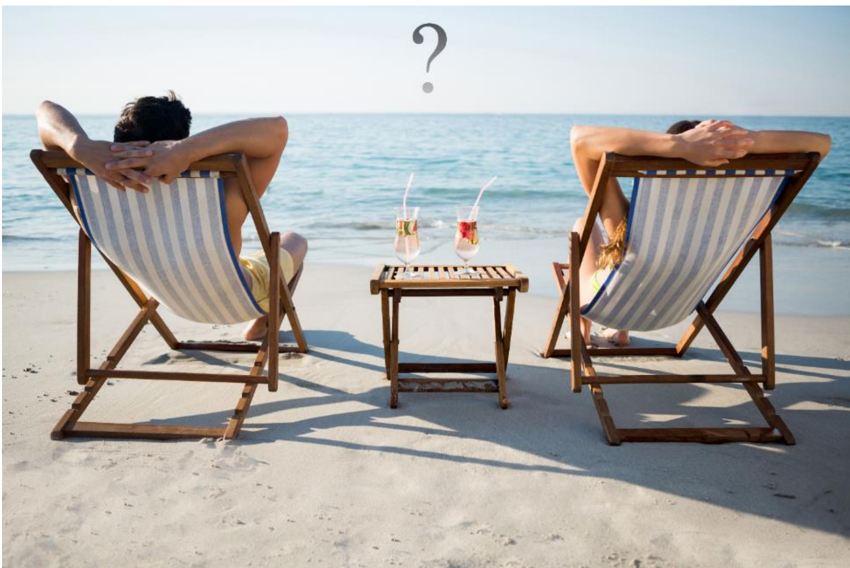
** The following includes two scenarios of hypothetical clients. Results are not based on any particular client, rate, or result.*

Part 1



"I am at the peak of my earnings power but a little behind in my savings. With my retirement fifteen years away, I plan to continue being aggressive/growth-oriented through the next five years to gain ground, and then gradually downshift my portfolio—first to moderate and then to conservative—in preparation for retirement." So said Cathy A., 50, a real-life mid-level manager in a California tech company.

The picture seems clear. All key elements of conventional investment planning align correctly—client horizon, goals, and risk appetite. The plan gets the green light, and portfolio management begins implementation.

Brilliant, right?!

However, the time is October 1999—and you know the rest of the story.

Positioned aggressively for growth, Cathy's strategic asset allocation portfolio experienced significant losses in the waterfall bear market of 2000 – 2002, while her goals and horizon remained virtually unchanged, still supportive of the plan.

While we do not precisely know what Cathy A. did next, DALBAR surveys shed light on what the "average" investor, Cathy X, did.

By the end of 2002, Cathy X shifted her risk tolerance from aggressive/growth to conservative, locking in substantial losses. When Nasdaq bottomed in late 2002, Cathy X did not notice—her sense of loss and panic were profound. Moreover, Cathy X lost her job in the historic layoffs following the dot-com crash.

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When the new bull started in 2003, Cathy X maintained a conservative portfolio, under-participating in the recovery. Having lost ground and feeling that her plan was derailed, Cathy X took some time to regain confidence. She gradually shifted her portfolio from conservative to moderate a few years later. That decision aligned with conventional planning and portfolio management principles since her horizon was now halved, and the moderate portfolio accurately reflected her risk tolerance and goals.

The time is around 2007.

With only eight years to retire, a smaller portfolio that had been depleted by the dot-com losses, under-replenished due to its subdued participation in the recovery, and underfunded with reduced savings owing to the interim job hiatus, Cathy X at the end of 2007 unwittingly stared down the Global Financial Crisis and the formidable 2008 bear market that was about to deliver another sizeable blow to her moderately-repositioned portfolio.

You may think that Cathy A./Cathy X was just unlucky. But isn't sound investment planning and portfolio management supposed to be the antidote to "bad luck"? What went awry in this case?

Ask NOT what YOUR horizon is—Ask what the horizon of the MARKET is!

At GNH Capital Group, we have integrated this maxim as a pivotal element of our client-focused but, above all, market-driven wealth management practice alongside our 4th-gen. Factor investing strategies. We invite you to explore the advantages it can bring to the cultivation of your wealth.

Part 2

In Part 1, we explored Cathy's case, who, with a fifteen-year head start to prepare for retirement, went astray despite adhering to conventional investment planning wisdom about managing her portfolio based on her investment horizon. Part 2 delves into Bob's situation, a California resident who planned for immediate retirement in 2014.

"I am 64 and only months away from retirement. I've been an OK saver, and my financial planner thinks I am 80% prepared. I had thought I would have $2MM saved by retirement, but with the two bear markets this century and the kids' higher college expenses, my portfolio is now about $1.8MM—within striking distance, I would say. Still, I wouldn't be in this position if I hadn't pulled my money out of the market in 2008 during the Global Financial Crisis. Many colleagues who stayed invested lost over a third of their savings. I suppose I was lucky! Having reached my retirement horizon, I worked with my advisor to select an allocation. I need growth to compensate for my 20% savings deficit, but I cannot afford large drawdowns and do not stomach volatility well. To maintain our retirement lifestyle, I must withdraw $80K/yr., 4% of my original $2MM savings target, with a 3% annual adjustment for inflation. Given my situation, talking to our advisor, my wife, Julie, and I opted for a broadly diversified Conservative portfolio."

Prudent and effective—right?!

Thankfully, Bob and Julie enjoyed a robust market post-retirement. But there's a problem.

Sticking to their plan, ten years later, the inflation-adjusted withdrawals now reach $104K/yr., and their portfolio balance has dropped to $1,045,723. "That's only ten years' worth of future withdrawals," observes Bob, now 74, with apprehension. This worries him, given the high longevity of their families. "Currently, with our shrunk portfolio balance, I'm concerned our financial viability depends greatly on future market growth, which may not come," Bob adds.

What went wrong? Their withdrawals were slightly larger ($80K vs. $64K), but they remained disciplined, and the market provided above-average returns throughout their retirement. Shouldn't this have bridged the difference? Are they just "unlucky"? But shouldn't sound investment planning and portfolio management be the antidote to "bad luck"? We'll answer those questions in detail in Part 3, but ahead of that, we invite you to reflect on the emerging lesson:

* Ask NOT what YOUR horizon is—Ask what the MARKET's horizon is! *

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Part 3

In Parts 1 and 2, we explored two cases where the market short-circuited the foundational principle of conventional investment planning and portfolio management—the personal investment horizon.

Cathy's 15-year retirement horizon might have *abstractly* allowed her to be Aggressive/Growth-Oriented (Part 1). However, in 1999, the horizon of the bull market regime of the '80s and '90s was already fading, an overriding factor necessitating the adoption of a risk-focused, Conservative portfolio.

Contrastingly, the fact that Bob and Julie reached their retirement horizon in 2014 with only 80% readiness (Part 2) did not sanction a Conservative portfolio. On the contrary, with the market regime remaining solidly bullish in 2014 and beyond, their portfolio should have been positioned Assertively—especially given their 20% upfront shortfall. As we have written [1], investors' cardinal risk is *shortfall*—not interim volatility or drawdowns—and shortfall has a dual source: sustained losses *and* inadequate gains. Bullish market regimes reward investors with attractive returns at reasonable risk and help lessen shortfall risk, while bearish market regimes augment it.

Such mismatches abound during market regime shifts and can potentially have derailing financial consequences. Being market-agnostic, the construct of a 'personal investment horizon' has an alluring simplicity. It gives license to planners and managers to formulaically "align" proximal goals with Conservative and distant goals with Aggressive/Growth-oriented portfolios regardless of market conditions. And it does not help when investor 'risk tolerance'—yet another market-agnostic construct—is added into the mix. Counterintuitively, skittish investors close to retirement amid a bullish market regime only increase their shortfall risk by adopting Conservative portfolios. We have seen the damaging consequences of such a mismatch. After ten years of enduring inadequate returns, in 2022, investors with Conservative bond-heavy portfolios were subjected to the substantial losses of the worst fixed-income bear market in history. Likewise, high-risk-tolerance investors who are years away from retirement will only needlessly magnify their shortfall risk by adopting an aggressive portfolio amid a bearish market regime.

Our innovative research and decades of strategic client advisory have shown that, due to their market-agnostic nature, the constructs of "personal investment horizon" and "risk tolerance" should be viewed as downstream risk considerations, primarily helpful in adjusting investor psychology. Conversely, effective investment planning and portfolio management should remain, first and foremost, market-driven at all times. "Ask NOT what YOUR horizon is—ask what the MARKET's horizon is!"

[1] GNH Capital Group - Our Offering

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