The Perfect Storm: Why This May Be The Most Important Time For A Financial Advisor

Do you know what the **Fujiwhara effect** is?

In short, the Fujiwhara effect is a meteorological term describing the rare occurrence when two tropical cyclones come close enough to each other, resulting in the formation of a single, ***massive*** hurricane.

See, most of the time, when one storm is stronger than the other, it often results in the weaker storm being gobbled up and fading away.

But sometimes, if the storms have *comparable* strength – and go at just the right speed - they may occasionally merge, using their combined force to create a feedback loop into one huge hurricane.

The storms then begin an intense dance around their common center, feeding off each other and laying waste to anything in their path.

This is the Fujiwhara effect.

Now, you may be thinking, ***"What does this have to do with anything for me as a financial advisor?"***

Good question.

I believe there is a Fujiwhara effect building right now in the financial world that financial advisors must be aware of – **how these two minor storms have the potential to merge into one perfect storm for retirees.**

What are these two storms? Well.

1. **The Baby Boomer generation (born 1946-64) retiring en masse over the next few years.**

2. **The threat of ever-more volatile markets increasing potential sequence risk.**

Together, these may make it more important to have a financial advisor than in previous generations.

So, let's break these down. . .

First Storm: Baby Boomers Are Hitting Peak 65 – What It Means for Retirement Planning

To give you some context, the baby boom generation came at the time of the *largest* increase in fertility rates for the U.S. – immediately after World War II.

In fact – according to **Statista**[1] – in over 220 years of data, the U.S. fertility rate only had **one** prolonged uptick – which was the baby boom years (1940-60s).

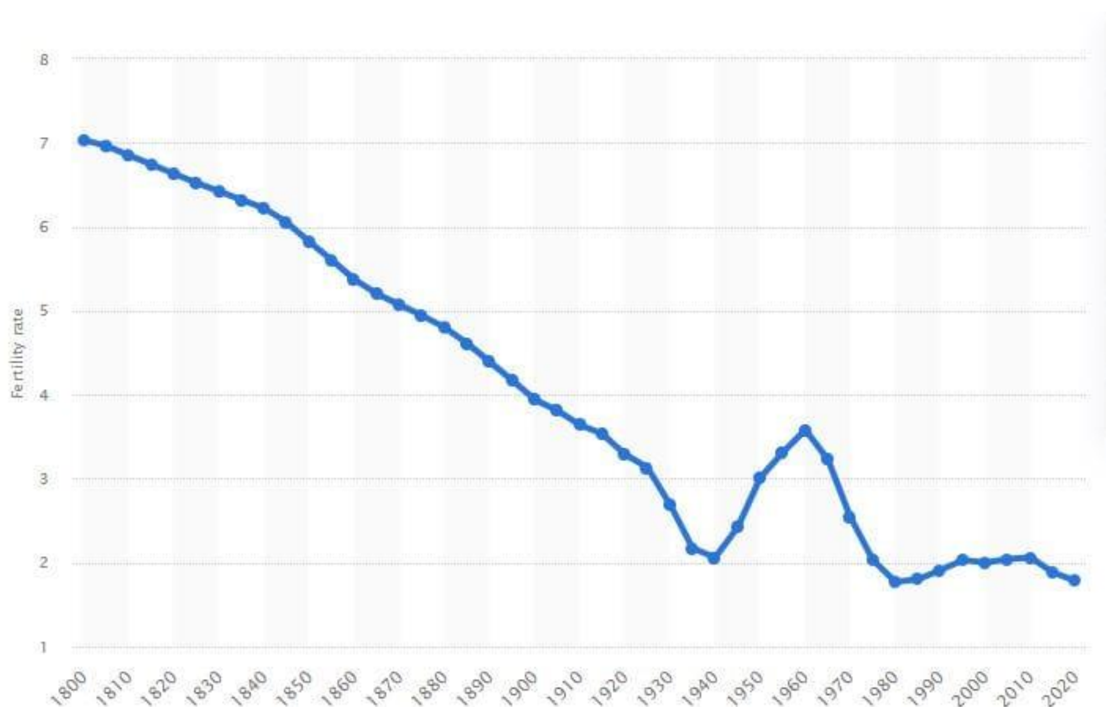


Figure 1: Statista, U.S. Fertility Rates (2020)

This surge in newborns helped carry growth in the U.S. – since more people equals more demand.

But, as always, it's a double-edged sword. . .

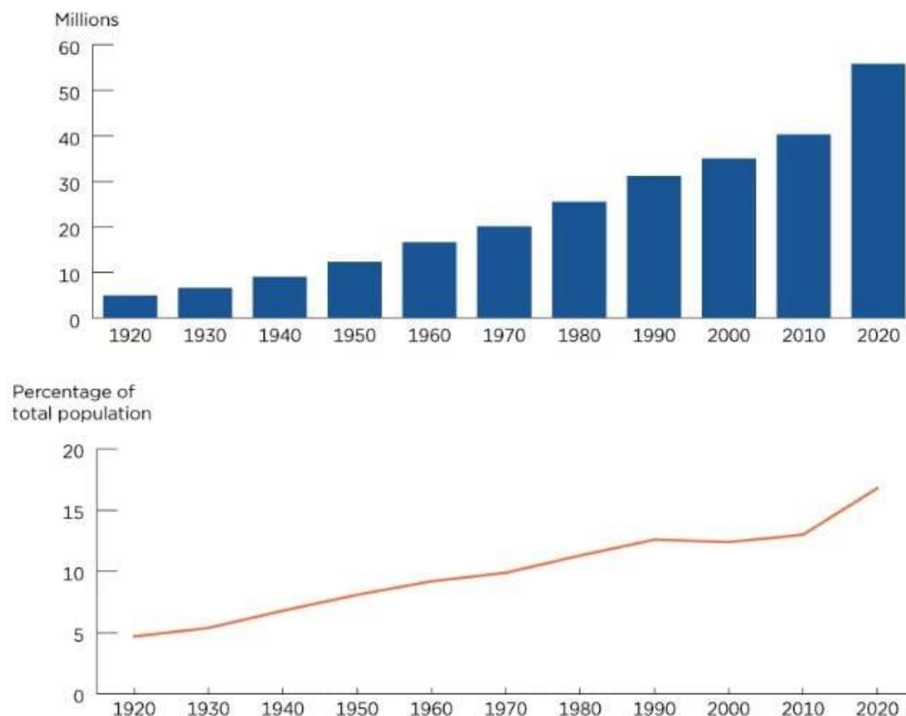
What was once a boon for the economy is now becoming a burden as there's a tidal wave of retirees coming at a time when the U.S. fertility rate hit new lows.

Remember, retirees generally spend less and require safety nets like Social Security. This requires both increased economic growth *and* fertility from the younger generations to subsidize the retirees – but neither is relatively happening.

To show the magnitude of this retirement wave, take a look at the following chart from the **U.S. Census Bureau**[2].

The U.S. population aged 65 and over grew nearly **five times faster** than the total population over the 100 years from 1920 to 2020. **And there are roughly 10,000 baby boomers hitting retirement age *per day until 2030*[3]. . . .**

Figure 1.
Population 65 Years and Over by Size and Percentage of Total Population: 1920 to 2020



Note: For information on data collection, confidentiality protection, nonsampling error, and definitions, refer to <https://www2.census.gov/programs-surveys/decennial/2020/technical-documentation/complete-tech-docs/demographic-and-housing-characteristics-file-and-demographic-profile/2020census-demographic-and-housing-characteristics-file-and-demographic-profile-techdoc.pdf>.

Source: U.S. Census Bureau, Decennial Census of Population, 1900 to 2000; 2010 Census Summary File 1, and 2020 Census Demographic and Housing Characteristics File (DHC).

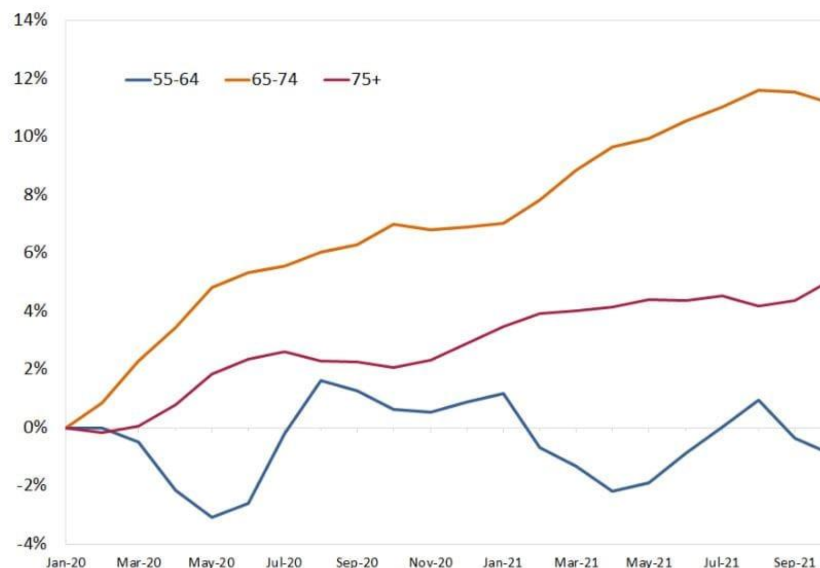
To put this into perspective, in 2020, about 1 in 6 people in the United States were age 65 and over. In 1920, this proportion was less than 1 in 20.

The older population reached 55.8 million or 16.8% of the population of the United States in 2020 – and is expected to be **20%** by 2030 (that's one-fifth).

But most startling is that between 2010-2020, we saw the **largest-ever** 10-year numeric gain in retirees — an increase of 15.5 million people. For context, the next largest 10-year numeric increase was between 1980-1990 and it was less than half that size (just 5.7 million).

Now, since the pandemic occurred in 2020, the retirement wave has amplified significantly as many decided to retire earlier and leave the workforce.

According to the **St. Louis Federal Reserve**[4], estimates show that there are 3.3 million - **or 7% more** - retirees as of October 2021 than in January 2020 – a substantial rise in those 22 months.



This truly is a once-in-a-century retirement wave.

And as more individuals retire, having a financial advisor to protect their assets is potentially more critical than before.

And that brings us to the second storm. . .

Second Storm: Increased Market Volatility Creating Potential "Sequence Risk" For Retirees

So, in a time when more people are retiring, living longer, and markets growing potentially more volatile, it's **crucial** to grasp this concept of sequence risk on assets because it directly impacts the security and sustainability of your retirement.

Now, what exactly is **"sequence risk"?**

We wrote an in-depth piece on it last week (you can **read it here**[5] if you missed it). But basically, it means your investments might not do well, especially in the early years of retirement, and may make you think twice about whether you can even afford your original retirement plans.

- **For example, did you know that if your portfolio declines 50%, it will need to increase 100% just to get back to breakeven? This is why declining portfolios can be so destructive for retirees.**

Imagine planning for retirement right at the peak of the dot-com bubble in the late 1990s. Or *right* at the peak of the housing bubble in the mid-2000s.

A retiree would've been making calculations on their expenses and income needed and how the assets would sustain them.

And *any* retirees after those economic bubbles burst were likely forced to rethink their retirement plans as 401(k)s, pensions, portfolios, and housing values suffered.

Thus, with markets seemingly going higher and higher, sequence risk is becoming a greater potential threat for such a large wave of retirees. It may only take a single bear market to prove destructive.

Put simply, the elderly just can't afford to suffer large losses if they wish to enjoy their retirement plans accordingly.

The Perfect Storm? Still, There's Hope

Thus, the convergence of the Baby Boomer retirement wave and the escalating threat of market volatility resembles a brewing Fujiwhara effect in the financial world.

Like the merging storms in meteorology, these two forces have the potential to combine into a formidable perfect storm for retirees.

But this also creates an opportunity for steadfast financial advisors.

Think of them as the captains of the ship – navigating safely through the storms and potentially safeguarding retirees' assets.

And - us at Dunham - like the lighthouse, guiding them.

Here's to happy sailing. . .

Click **here** or call us at (858) 964 – 0500 to see how our **DunhamDC** program may potentially mitigate sequence risk and enhance recovery time for clients.

DunhamDC - Buying Fear and Selling Greed.

Sources:

1. **https://www.statista.com/statistics/1033027/fertility-rate-us-1800-2020/**

2. **https://www.census.gov/library/stories/2023/05/2020-census-united-states-older-population-grew.html**

3. **https://smartasset.com/retirement/baby-boomers-retiring**

4. **https://www.stlouisfed.org/on-the-economy/2022/january/great-retirement-who-are-retirees**

5. **https://www.dunham.com/FA/Blog/Posts/sequence-risk-for-retirees**

DunhamDC Disclosure:

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Past performance may not be indicative of future results. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. There may be economic times where all investments are unfavorable and depreciate in value.

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Due to the large deviation in equity to fixed income ratio at any given time, investor participating in **DunhamDC** understands that a large deviation in equity to fixed income ratio can have significant implications for the risk and return profile of the account. Accordingly, during periods of strong market growth the account may underperform accounts that do not have the **DunhamDC** feature. Conversely, during periods of strong market declines, the account may also be underperforming, as the account continues to decline, due to the higher exposure in equities. Similarly, if the fixed income investments underperform the equity investments, it is possible that the accounts using the **DunhamDC** feature may underperform accounts that do not have the **DunhamDC** feature, even though they may have adjusted the exposure to equity investment before a decline. Therefore, the investor must be willing to accept the highest risk tolerance and investment objective the account can range for the selected strategy. Please see the Account Application for the various ranges.

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Trade signals for **DunhamDC** are received at the end of each trading day with the implementation of the trades not occurring until the next business day, which means that there is a one-day lag that may result in adverse prices.

DunhamDC operates within predefined parameters and rules, some or all of which may not be available to review. While this approach can reduce emotional biases and enhance consistency, it may limit adaptability to changing market conditions, economic considerations, or unforeseen events. Extreme conditions may require deviations from the program's prescribed approach, and such adaptability may be challenging to incorporate. The **DunhamDC** algorithm is programmed based on specific criteria and rules, it may not capture certain qualitative or contextual factors that can impact investment decisions or movement in the markets. Beyond the initial assumptions used to develop the algorithm, it lacks other inputs or considerations that human judgement and discretion may be necessary to evaluate. **DunhamDC** may utilize historical data, statistical analysis, and predefined rules. It does not make any predictions and may add to certain investments before they perform poorly or may divest from other investments before they perform well. Dunham makes no predictions, representations, or warranties as to the future performance of any account.

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Asset allocation models are subject to general market risk and risks related to economic conditions.

DunhamDC has a limited track record, with an inception date of November 30, 2022.

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