TOO BIG TO FAIL:
When Banks Collapse & What it Means for Consumers and Retirees

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Two important questions surface: how does this affect my financial position and is this the start of something bigger?

As we've experienced in the past, reports of bank failures and "cracks" in the financial system can cause frustration and anxiety. Questions start to rise and quickly two important questions surface: how does this affect my financial position and is this the start of something bigger?

HOW DOES A BANK FAIL?

The first step is to understand how a bank fails. A bank works on a fractional reserve system, which means it can lend out more than the deposits it takes in (leverage) and makes a spread (net interest margin) between the yield it pays to attract deposits and the interest it charges for loans. The bank also has a securities portfolio where it invests in bonds, usually Treasury securities. It must maintain certain capital ratios (loan to deposit ratio and capital adequacy requirements). The first risk of failure is credit risk. Basically, the loans it makes go bad. The second risk is duration risk, where depositors demand their money now while the money is lent out or invested in securities that haven't matured yet.

UNDERSTANDING ROLES IN FINANCE

When managing your various accounts and investments, it's important to understand the players involved and the importance of making the distinction between different financial structures, a bank account and versus an investment account, for example. When a customer deposits money into a bank account, it becomes a liability of that bank (i.e., put on the bank's balance sheet to loan). Therefore, under federal law, there's FDIC insurance for depositors (up to $250K) to protect the depositor from the bank's balance sheet risk.

This might be a good time to review any bank accounts that might be over the FDIC limit and consider diversifying banks or placing it in an investment account to alleviate certain bank specific risks.

On the other hand, an investment account held by a major custodian (TD Ameritrade, Charles Schwab, Fidelity Investments, etc.) is held in a segregated account for you and doesn't become part of that firm's balance sheet. This might be a good time to review any bank accounts that might be over the FDIC limit and consider diversifying banks or placing it in an investment account to alleviate certain bank specific risks.

CHOOSING THE RIGHT FINANCIAL PROFESSIONALS

When planning or managing your finances, knowing the different types of professionals can be overwhelming. Financial planners, coaches and advisors all have different nuances. Financial planners generally work with their clients to create plans to meet their long-term financial goals. Investment advisors give their clients advice about investments like stocks, bonds, and mutual funds. They may even manage investments for their clients. When selecting the right financial professionals that working as a fiduciary is recommended.

A fiduciary is a person who's legally bound to act in your best interests. Regarding retirement planning, a fiduciary financial advisor provides honest and unbiased advice.

A fiduciary is a person who's legally bound to act in your best interests. Regarding retirement planning, a fiduciary financial advisor provides honest and unbiased advice. There are many benefits to working with a fiduciary financial advisor, but the most important is that you can be confident that your advisor is looking out for your best interests.

The law requires a fiduciary financial advisor to put your interests ahead of their own, which aligns their incentives with yours. Financial advisors have a fiduciary duty to disclose any potential conflicts of interest. This transparency gives you the peace of mind knowing that your advisor isn't selling you a financial product that may not be in your best interests.

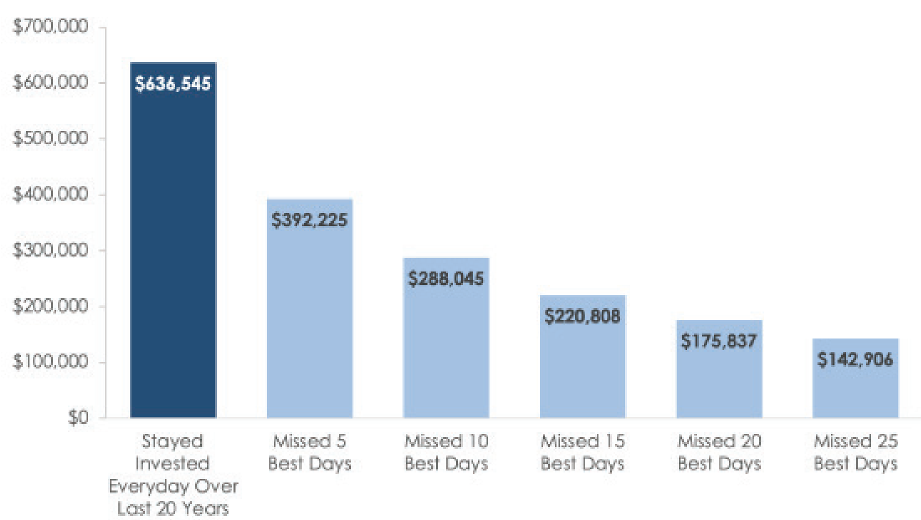
Find a trusted and reliable fiduciary financial advisor to make solid recommendations on how you can protect your hard-earned and hard-saved assets.

STEPS INVESTORS CAN TAKE TODAY

An educated, well thought out, proactive approach is necessary to protect your financial future. Be strategic! Trust but verify! Get educated and make your own decisions! Work with a fiduciary advisor who puts your needs ahead of their own. Get the facts, follow others who didn't lose money in market declines. Get more fee and tax efficient with your investments and enjoy your retirement with income you can never outlive.

Find a trusted and reliable fiduciary financial advisor to make solid recommendations on how you can protect your hard-earned and hard-saved assets. As we've seen in the past, bank CEOs aren't legally bound to act as fiduciaries for investors and depositors.

We believe investors are best served by allocating long-term investment assets to a globally diversified portfolio consistent with their risk profile and maintaining a solid discipline to allow the markets to work over-time. The chart below is a good reminder why we think it's time, not timing, that's the key to achieving long-term success in the market



Disclosures: Past performance is no guarantee of future results. The analysis is based on 20 years of daily price return data. The portfolio value is represented by the State Street SPDR S&P 500 ETF (SPY), which represents an index of large cap stocks. The analysis does not include the impact of taxes or capital gains. Source: Market Desk Research

SEEK ALL AVAILABLE FINANCIAL PRODUCT OPTIONS BEFORE ACTING

There are many financial products and options to consider when planning for your future. A financially secure retirement plan is based on having a bundle of various income sources best suited to meet your needs and goals.

Annuities are among the safest options for long-term financial planning. For example, there are no headlines that annuity companies are going under right now. That's a stark contrast to what we've previously seen in banking.

Along these same lines, it may be time to consider cashing in your bank CDs and investing in safer products with 100% financial reserve. Products such as MYGAs (Multi-Year Guaranteed Annuities), FIAs (Fixed Indexed Annuities) and IULs (Indexed Universal Life Insurance) are options to consider for those looking for a higher rate of return with protection from market volatility.

MYGAs offer a guaranteed return of principal and interest at a fixed rate for the life of the contract. While FIAs offer higher rates with the potential to earn more based on the performance of an index, such as the S&P 500. IULs are a type of life insurance policy that offers a death benefit, as well as the potential for cash value growth that's linked to the performance of an index. All three of these products offer protection against loss of principal and offer higher returns than traditional bank CDs. Investing in these products can help you take advantage of higher returns with the safety of a 100% financial reserve.

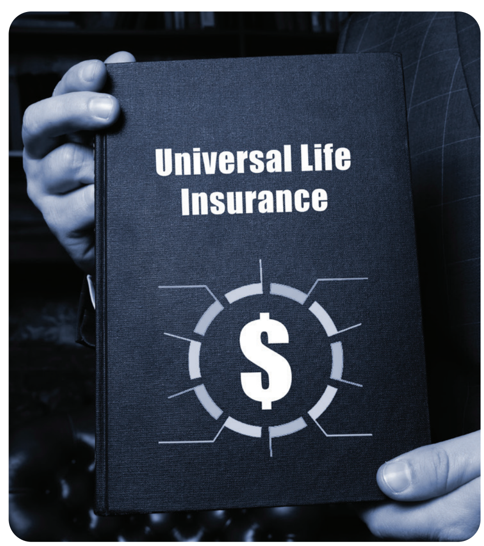
WHAT IS A MULTI-YEAR GUARANTEED ANNUITY (MYGA)?

MYGA is a type of fixed annuity. A fixed annuity supplies guaranteed retirement income payments. MYGAs are sometimes called fixed-rate annuities. You typically fund an MYGA with a single premium payment ranging from $5,000 to $2 million, for example. The terms for this annuity generally are three, five or seven years. Taxes on interest earned from an MYGA are deferred until withdrawals start. Typically, retirees 60 and above gain the most benefit from MYGAs. That's because these annuities create a stable source of retirement income, offer a fixed interest rate, and a minimum guaranteed return. This type of investment isn't subject to market ups and downs in the same way that stocks and other assets are. Thanks to their steady returns, MYGAs can help diversify a retirement portfolio.

WHAT IS A FIXED INDEXED ANNUITY?

A fixed indexed annuity (FIA) is a type of annuity that pays an interest rate based on the performance of a market index, such as the S&P 500. However, your money isn't invested or exposed to the market. It is a blend of other annuity types and applies beneficial elements of each. The fixed indexed annuity gives you the protection of a fixed annuity with the potential for growth like the index annuity. How Does it Work? An FIA gives their owners, or annuitants, the chance to earn higher yields than fixed annuities when the index they're tied to performs well. They typically will also provide some protection against market declines.

WHAT IS AN INDEXED UNIVERSAL LIFE INSURANCE (IUL)?



An indexed universal life insurance policy is a type of life insurance policy that gives the policyholder the opportunity to allocate cash value amounts to either a fixed account or an equity index account. Indexed policies offer a variety of popular indexes to choose from, such as the S&P 500 and the Nasdaq 100. Indexed policies allow policyholders to decide the percentage of their funds that they wish to allocate to fixed and indexed portions.

Also, these types of universal insurance policies typically guarantee the principal amount in the indexed portion but cap the maximum return that a policyholder can receive in said account. Since these policies are seen as a "hybrid" universal life insurance policy, they're usually not very expensive (due to lack of management) and are safer than an average variable universal life insurance policy. However, the upside potential is also limited when compared to variable policies.

HERE ARE A FEW ADDITIONAL TIPS TO THINK ABOUT

1. Don't place anything more than $250,000 in a single bank.
2. Consider holding at least one month of expenses in currency in different parts of your home.
3. Take a holistic approach to your health and wealth when building your retirement strategies.
4. Take a 360-degree approach when diversifying and seek information on all product options.
5. Understand your risk-versus-reward relationship.

Resources:

1. https://www.investopedia.com/ask/answers/09/indexed-universal-life-insurance.asp
2. https://www.forbes.com/advisor/retirement/multi-year-guaranteed-annuity/
3. https://www.investopedia.com/terms/f/fixedannuity.asp

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