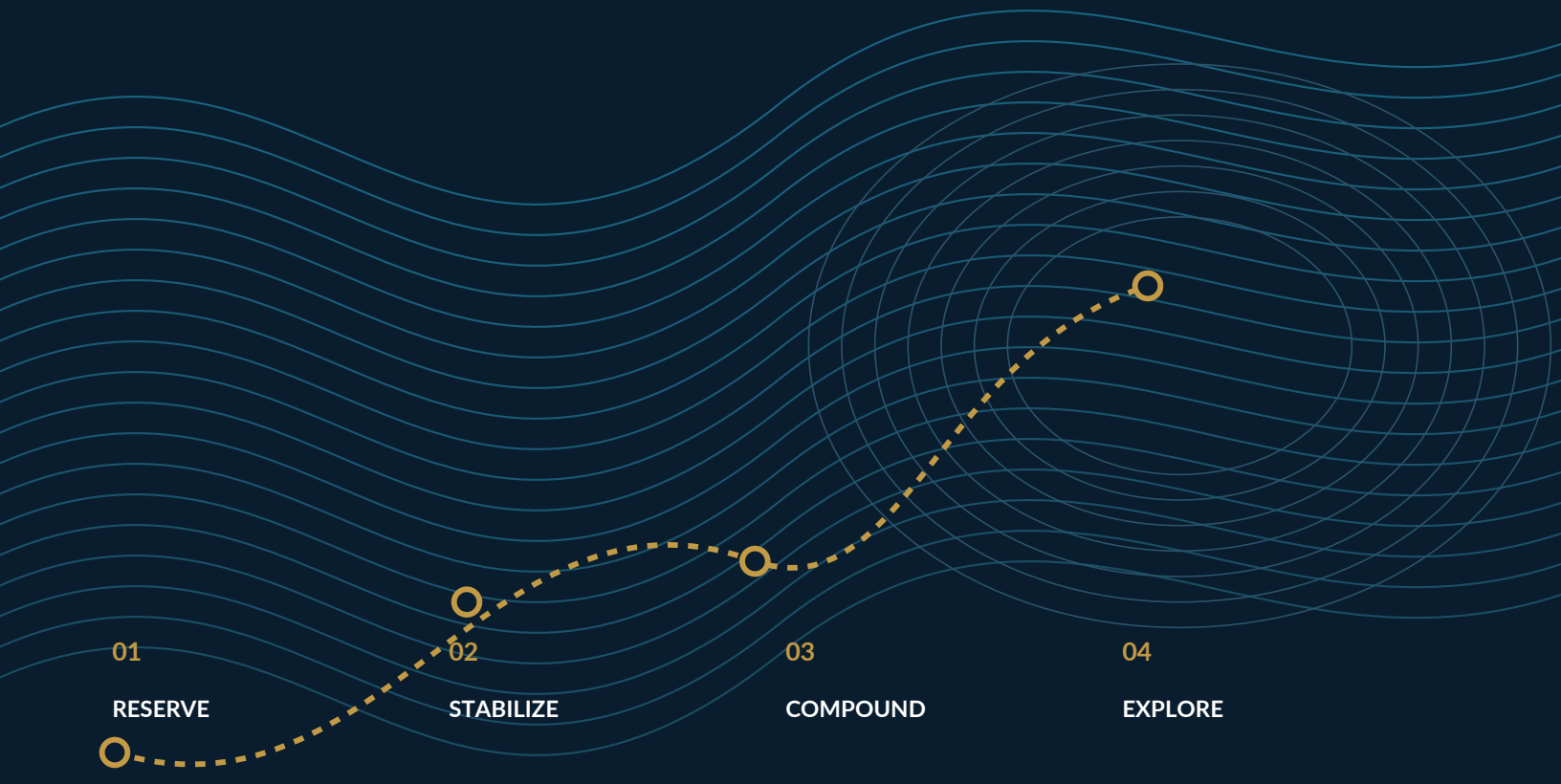
NOVEMBER 2026

# How Smart Investors Prepare for the Storm

A four-bucket approach to retirement income, portfolio resilience and the people who matter most.




**Prepare the portfolio. Do not pretend to predict the storm.**

Educational white paper. Hypothetical examples are not forecasts, guarantees or personalized recommendations. Professional review is required before distribution.

THE IDEA IN ONE MINUTE

# You do not need a perfect forecast. You need a workable plan.

Give every dollar a job: support near-term spending, steady part of the portfolio, participate in diversified growth, and limit concentrated bets. Then agree on what to do when conditions change.

**The central question:** Has anyone helped you manage a season of market volatility—not simply told you to hold on?

INSIDE THIS PAPER

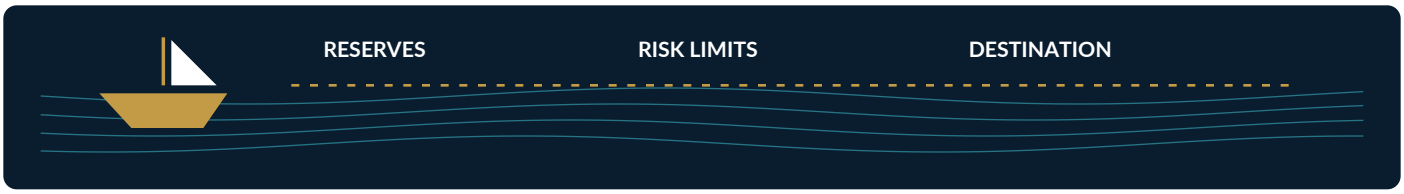
A transatlantic crossing: four responses 3
When do you get back in? 4
Four choices - and the cost of being wrong 5
The four buckets and allocation examples 6
COVID-sized stress and rising-market trade-offs 8
Sequence risk: same returns, different retirement 10
Income coverage and rules for using reserves 12
Fees, annuities and the meaning of protection 14
Tax location and the taxable-account review 16
Three levels of an advisory relationship 18
Two case studies: legacy and retirement income 19
Schedule your Storm-Readiness Review 22
Methods, assumptions and linked sources 23
Your one-page Storm-Readiness Check-In 27
Your client Storm Readiness Analysis 28

Read every comparison as an illustration, not a forecast, probability of success or proof of outperformance. A suitable existing plan may already perform these jobs. Use the final worksheet to identify what deserves a review.

START HERE / THE TRANSATLANTIC CROSSING

# The destination has not changed. The weather might.

Imagine a boat crossing the Atlantic when the forecast turns rough. The captain must consider the vessel, supplies and passengers—not just the weather report. Your portfolio deserves the same preparation.




### 01 KEEP YOUR COURSE

**Stay with a plan that still fits.**

A review may confirm that your current allocation and spending reserves are appropriate.

**Helps:** avoids unnecessary trades and taxes.
**Hurts:** ignoring a real gap can leave you exposed.

### 02 BATTEN DOWN THE HATCHES

**Prepare to travel through volatility.**

Rebalance risk, protect spending reserves and retain diversified long-term investments.

**Helps:** creates room to keep funding life.
**Hurts:** can lag a rising market; losses remain possible.

### 03 SEEK HARBOR OR DETOUR

**Move some—or all—of the money to cash.**

Cash can be right for near-term needs. A forecast-driven exit also needs a rule for returning.

**Helps:** sidesteps a decline if timed well.
**Hurts:** can miss a rebound, with taxes and lost growth.

### 04 INSURE A DEFINED RISK

**Transfer a specific income or legacy risk.**

Evaluate a contract for the benefit you actually need—not a blanket promise of safety.

**Helps:** contractual benefits can fill a gap.
**Hurts:** costs, limits, insurer risk and reduced access.

**Staying the course is not the same as ignoring the weather.** At sea, a detour may be prudent. For investors, the right response depends on goals, spending needs and trade-offs—not on a claim to know the next market move.

The boat is an analogy, not evidence that one portfolio wins in every market. Sources: [2], [4]–[6], [19]. Insurance covers only the risks and benefits stated in the actual contract.

01 / THE RE-ENTRY PROBLEM

# When do you get back in?

Selling before the drop sounds smart. The hard part is getting back in.

A forecast can be right while the strategy still disappoints. Selling before a decline is only the first decision. You must also decide when to resume the risk needed to fund your long-term goals.

EXIT

**What would justify selling?**

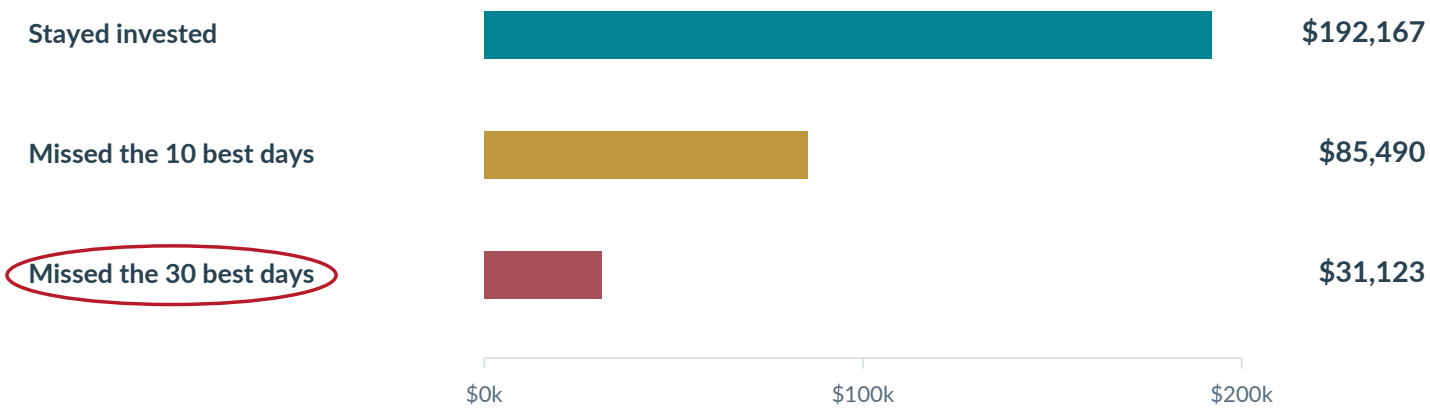
RE-ENTER

**What would bring you back?**

**76%** of the S&P 500's 50 strongest daily gains in 1996-2025 occurred during bear markets or in the first two months of a new bull market. [17]

### A HISTORICAL ILLUSTRATION OF MISSING THE REBOUND

Growth of $10,000 in the S&P 500, 1996-2025. Selected best days are omitted after the fact. [17]




**Keep the comparison honest.** Omitting only the best days is a selective illustration, not a tested exit-and-re-entry system. Avoiding bad days can help; missing both good and bad days changes the result. No timing probability is established.

**Before you leave, write the rule for returning - and what you will do if the decline never arrives.**

Source: [17], Hartford Funds (March 2026), using Ned Davis Research and Morningstar. Unmanaged index, not directly investable; not a household result or forecast. Figures do not reflect your advisory fees or personal taxes. Past performance is not a guarantee.

01 / THE DECISION

# Four choices. No free pass.

Ask of every choice: What do we gain if we are right—and what does it cost if we are wrong?

| Choice | When it makes sense | If the choice helps | What can hurt |
|---|---|---|---|
| **Stay with a suitable plan** | Keep a diversified allocation already matched to your goals. | Avoid unnecessary trading, taxes and product changes; remain invested for a rebound. | A deep decline can still hurt. If withdrawals or risk capacity were misjudged, the plan may need repair. |
| **Move everything to cash** | Exit stocks because a downturn is expected. | Sidestep a decline *if* you leave before it and reinvest effectively. Cash is also appropriate for near-term obligations. | Miss gains or a sudden rebound; face changing cash yields, inflation and possible taxes on the sale. Two timing decisions must work. |
| **Reposition to four buckets** | Reset risk, reserves, costs and withdrawal rules while retaining stocks. | Reduce stock exposure where needed; create spending flexibility and a disciplined way to rebalance. | Can lag a rising market; still loses money; an annuity can restrict liquidity. A sound existing plan may already do these jobs. |
| **Insure a specific risk** | Use an appropriate annuity or rider for a defined income or legacy need. | A contractual benefit can address a risk the household cannot comfortably bear. | Costs, limits, insurer risk and surrender provisions can outweigh the benefit. A variable annuity alone does not remove market risk. |

**Our working preference:** preserve an appropriate existing plan—or reposition deliberately if a gap exists. Do not convert a market opinion into an all-or-nothing decision.

A cash allocation for a known spending need is different from a market-timing exit. Insurance should be evaluated by the risk transferred, not by a blanket judgment about a product category. Sources: [2], [4]–[6]. Methods: p. 23.

02 / THE FRAMEWORK

# Four buckets. Four jobs.

Illustrative starting mix for a $1,000,000 household—not a universal optimum.




### Liquid reserve

**15% | $150,000**

Money market fund; assumed 4% yield. Pays near-term withdrawals, fees and planned expenses. A separate excess reserve may support rebalancing.

Yield changes. A money market fund is not an FDIC-insured bank deposit. [3]

### Fixed-rate stabilizer

**25% | $250,000**

Fixed deferred annuity; assumed 6% crediting rate during its guarantee term. This portion is not directly exposed to stock-price declines.

Contract value is not the same as cash surrender value. Guarantees depend on the insurer. [4]

### Diversified equity core

**50% | $500,000**

Globally diversified, quality-oriented dividend equities. Use a broad mix of industries, countries and company sizes; evaluate total return, not yield alone.

Dividends can be reduced. Dividend stocks remain stocks, not a substitute for principal protection. [2]

### Limited growth sleeve

**10% | $100,000**

A small satellite for growth themes such as technology, AI or semiconductors. Count overlapping exposure already inside the core.

Concentration can magnify losses. Theme labels do not create diversification. [2]

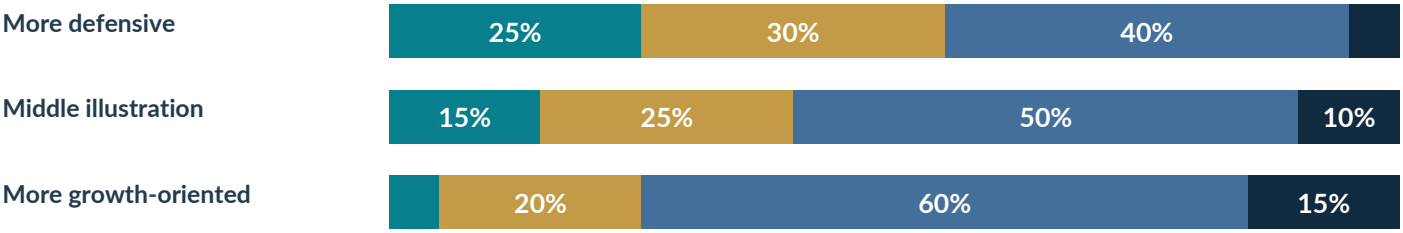
The 4% and 6% rates are hypothetical inputs, not current offers. This mix still has 60% in stocks. No bond allocation is modeled; compare its liquidity and diversification trade-offs with appropriate bond or Treasury alternatives.

02 / ALLOCATION EXAMPLES

# The best mix starts with the spending gap.

Risk tolerance is how a loss feels. Risk capacity is whether your plan can withstand it.

| Illustrative mix | Reserve | Fixed annuity | Equity core | Growth | Total stocks |
|---|---|---|---|---|---|
| **More defensive** | 25%<br>$250,000 | 30%<br>$300,000 | 40%<br>$400,000 | 5%<br>$50,000 | 45% |
| **Middle illustration** | 15%<br>$150,000 | 25%<br>$250,000 | 50%<br>$500,000 | 10%<br>$100,000 | 60% |
| **More growth-oriented** | 5%<br>$50,000 | 20%<br>$200,000 | 60%<br>$600,000 | 15%<br>$150,000 | 75% |




A PROPOSED PLANNING RULE—NOT A GUARANTEE

**Reserve floor:** at least 12 months of expected portfolio withdrawals, advisory fees and known cash obligations. Consider 18–24 months or more when spending is inflexible. Size this in dollars first; percentages come second.

Example: a $40,000 annual withdrawal requirement plus $6,000 of advisory fees equals a **$46,000 one-year floor**. A two-year target is $92,000. A $150,000 cash bucket leaves $58,000 above that target before other known expenses. The 5% reserve in the growth illustration would leave little room for surprises.

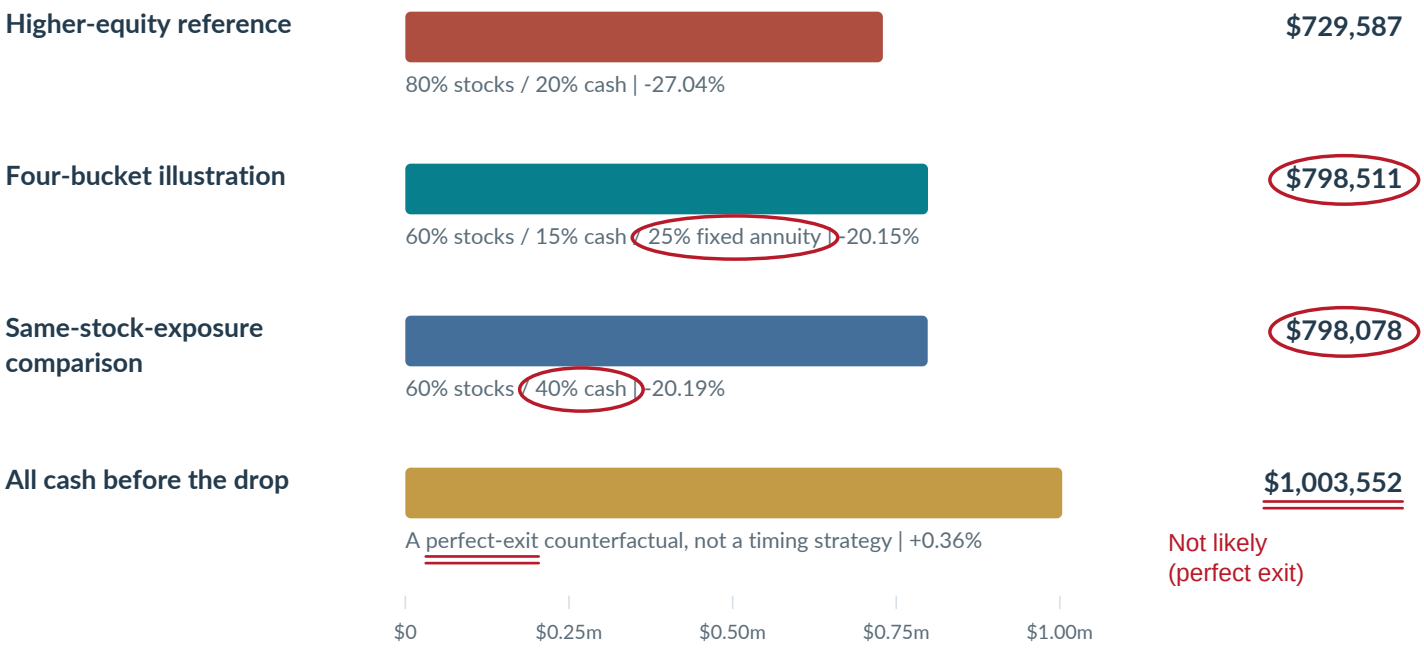
The checking account is separate and excluded because no balance was supplied. All examples total $1 million. A more defensive mix can still lose materially; selecting one requires a household review. [2]

03 / HISTORICAL ANCHOR

# What would a COVID-sized shock mean?

The S&P; 500 fell 33.8% from February 19 to March 23, 2020. It regained its prior high by August. [1]

**This is not a historical backtest.** We apply that 33.8% shock equally to both stock buckets for 33 days. Cash at 4% and a fixed annuity at 6% are hypothetical inputs—not rates verified as available in 2020. No dividend-strategy or technology-manager outperformance is assumed.




**What the comparison actually shows.** The four-bucket illustration retains about **$68,924 more** than the higher-equity reference. Most of that difference comes from owning fewer stocks—not from bucket labels or active management.

Against the 60%-stock / 40%-cash comparison, it retains only about **$432 more** over these 33 days, because of the assumed interest-rate difference. The liquid comparison avoids annuity surrender restrictions.

Ending values reflect a prorated 1% annual advisory fee on stocks only, with no withdrawals or taxes. Actual global dividend and technology portfolios would have behaved differently. All-cash positioning assumes an exit before the decline and does not model re-entry.

03 / THE COST OF BEING WRONG

# If the storm misses us, what did we give up?

One-year hypothetical results on $1,000,000. The same stock return is used in every equity sleeve.

| Strategy | | Stocks fall 34% | Stocks are flat | Stocks rise 20% | |
|---|---|---|---|---|---|
| **Higher-equity reference**<br>**80% stocks / 20% cash** | 4 | **$728,000**<br>-27.2% | **$1,000,000**<br>+0.0% | **$1,160,000**<br>+16.0% | 1 |
| ☆ **Four-bucket illustration**<br>**60% stocks / 40% stabilizers** | 2 | **$811,000**<br>-18.9% | **$1,015,000**<br>+1.5% | **$1,135,000**<br>+13.5% | 2 |
| **Liquid comparison**<br>**60% stocks / 40% cash** | 3 | **$806,000**<br>-19.4% | **$1,010,000**<br>+1.0% | **$1,130,000**<br>+13.0% | 3 |
| **All cash** | 1 | **$1,040,000**<br>+4.0% | **$1,040,000**<br>+4.0% | **$1,040,000**<br>+4.0% | 4 |

**+$83,000**

More remaining than the 80%-stock reference in the falling-market scenario.

**−$25,000**

Less remaining than that reference in the rising-market scenario.

**All cash has a real benefit and a real cost.** At a hypothetical constant 4%, it holds up best in this falling-market scenario. In the rising-market scenario, however, it finishes $95,000 behind the four-bucket illustration. A successful exit is not enough; the reinvestment decision still matters.

**Insurance cannot be assigned one generic return.** A variable annuity, fixed indexed annuity and fixed-rate annuity have different guarantees and costs. Compare the actual contract's cash value, accessible value, income rights and death benefit—not a made-up category average. [4]–[6]

Assumptions: cash 4%, fixed annuity 6%, annual advisory fee of 1% of beginning stock assets; no taxes, withdrawals, trading costs or additional investment expenses. Stock scenarios are total returns; dividends are not added again.

03 / SEQUENCE-OF-RETURNS RISK

# Same returns. A very different retirement.

When money is being withdrawn, the order of returns can matter as much as the average. [18]

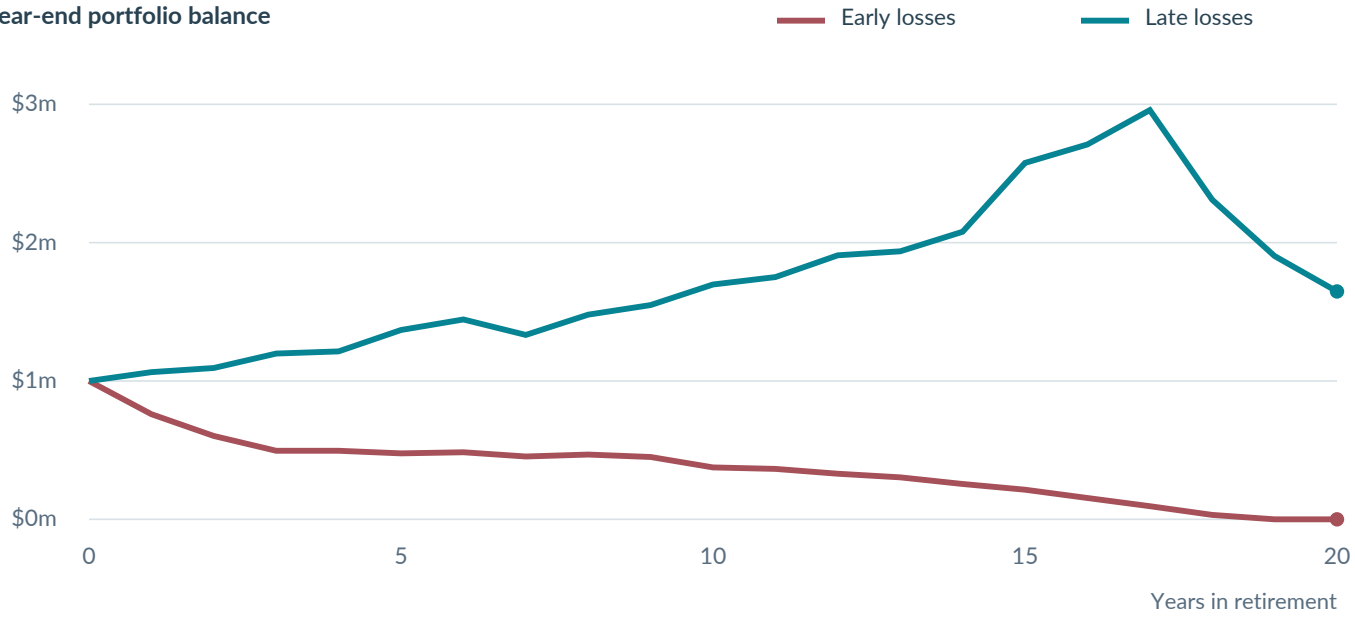
**Same $1,000,000 start. Same 20 annual returns. Same withdrawal schedule.**
Withdraw $50,000 at the beginning of year 1; increase that dollar amount by 2% each year. This separate illustration uses a 5% initial draw, not the $40,000 case study.

**7.15%**
Arithmetic average return

**6.52%**
Annualized return, no withdrawals

**20 years**
Identical return set, reordered

**Year-end portfolio balance**




**$0 in year 19**
Early losses: -20%, -15%, -10% in years 1-3. The scheduled year-19 draw cannot be paid in full.

**$1,647,351**
Late losses: the same three large declines arrive in years 18-20. All 20 scheduled draws are funded.

**Without withdrawals, both finish at $3,536,376.** Cash outflows create the difference.

Constructed scenario, not historical performance, a random simulation or a four-bucket backtest. All returns and methods appear on pp. 11 and 26. Fees and taxes are excluded. No sustainable withdrawal rate or likelihood of success is implied.

03 / SEQUENCE RISK, MADE VISIBLE

# Follow the dollars, year by year.

The same large losses move from the beginning to the end. Other annual returns are uneven, deliberately selected and kept in the same relative order.

| Year | Scheduled draw | Early return | Early-loss balance | Late return | Late-loss balance |
|---|---|---|---|---|---|
| 1 | $50,000 | -20% | **$760,000** | +12% | **$1,064,000** |
| 2 | $51,000 | -15% | **$602,650** | +8% | **$1,094,040** |
| 3 | $52,020 | -10% | **$495,567** | +15% | **$1,198,323** |
| 4 | $53,060 | +12% | **$495,607** | +6% | **$1,213,978** |
| 5 | $54,122 | +8% | **$476,805** | +18% | **$1,368,631** |
| 6 | $55,204 | +15% | **$484,841** | +10% | **$1,444,770** |
| 7 | $56,308 | +6% | **$454,245** | -4% | **$1,332,923** |
| 8 | $57,434 | +18% | **$468,236** | +16% | **$1,479,567** |
| 9 | $58,583 | +10% | **$450,618** | +9% | **$1,548,873** |
| 10 | $59,755 | -4% | **$375,229** | +14% | **$1,697,594** |
| 11 | $60,950 | +16% | **$364,564** | +7% | **$1,751,210** |
| 12 | $62,169 | +9% | **$329,611** | +13% | **$1,908,616** |
| 13 | $63,412 | +14% | **$303,467** | +5% | **$1,937,465** |
| 14 | $64,680 | +7% | **$255,502** | +11% | **$2,078,791** |
| 15 | $65,974 | +13% | **$214,166** | +28% | **$2,576,405** |
| 16 | $67,293 | +5% | **$154,217** | +8% | **$2,709,841** |
| 17 | $68,639 | +11% | **$94,991** | +12% | **$2,958,146** |
| 18 | $70,012 | +28% | **$31,973** | -20% | **$2,310,507** |
| 19 | $71,412 | +8% | **$0** | -15% | **$1,903,230** |
| 20 | $72,841 | +12% | **$0** | -10% | **$1,647,351** |

**Depletion is real, not a negative balance.** In year 19, the early-loss portfolio pays only $31,973 of the scheduled $71,412 draw; it pays nothing in year 20. Total unmet withdrawals: $112,280. Later quoted returns cannot grow an empty account.

**Spending matters, too.** With a $40,000 initial draw, rising 2% annually, neither sequence runs out over these 20 years: **early losses leave $603,845; late losses leave $2,025,156.** A lower withdrawal need helps this illustration - it is not a universal safe rate.

Use this to test spending flexibility, reserves and allocation together - not to claim a particular product prevents depletion. Buckets help organize withdrawals; the underlying holdings, refill rules, fees and spending determine results. Source context: [18]. Methods: p. 26.

04 / RETIREMENT CASH FLOW

# A crediting rate is not automatically a paycheck.

Illustration: $40,000 annual gross portfolio withdrawal need, including the household's tax allowance.

| Illustrative annual amount | 80%-stock reference | Four-bucket mix |
|---|---|---|
| **Money market interest at 4%** | $8,000 | $6,000 |
| **Core dividends at assumed 3%** | $21,000 | $15,000 |
| **Fixed annuity interest credited at 6%** | $0 | $15,000 |
| **Assumed advisory fee** | ($8,000) | ($6,000) |
| **Available without annuity withdrawals** | $21,000 | $15,000 |
| **If all annuity interest is accessible without contract charges** | $21,000 | $30,000 |
| **Coverage of $40,000 need in that accessible-interest case** | 52.5% | 75.0% |

**75% coverage is not a 75% chance of success.** It is simply $30,000 ÷ $40,000. Without permission to withdraw the annuity interest on suitable terms, modeled liquid coverage is only **37.5%**. The contract and withdrawal schedule must be checked. [4]

A 60%-stock / 40%-cash comparison produces $25,000 after the same assumed stock advisory fee, or 62.5% coverage. All cash at a constant 4% produces $40,000 before taxes—but that yield can fall, and purchasing power can erode. [3]

Income is not the only way to fund retirement: planned withdrawals from reserves are also valid. Do not chase higher dividends to manufacture a paycheck, and do not spend interest while also assuming it compounds inside the annuity.

The 3% dividend yield is hypothetical and may be reduced; growth-sleeve dividends are assumed zero. Core weights are 70% in the reference and 50% in the four-bucket mix. Coverage is before personal tax calculations and is not a sustainable-withdrawal analysis.

04 / THE OPERATING PLAN

# Cash needs a job—and a release rule.

Holding extra cash can create flexibility. Waiting indefinitely for a crash is a different strategy.

1

### Protect the spending floor.

Separate the next 12 months of withdrawals, fees and known expenses from opportunity cash. A two-year reserve target is a reasonable discussion point when income is inflexible.

2

### Review quarterly; act on a written band.

For the 60%-stock example, review rebalancing when stock exposure moves outside 55%–65%. Check taxes, cash needs and contract restrictions before trading. This is a sample rule, not an optimized threshold. [16]

3

### Deploy only true excess reserves.

The example has $58,000 above a $92,000 two-year target. One possible rule is up to three roughly $19,333 tranches, only while stocks remain below the agreed range and the spending target stays intact.

☆ 4

### Refill reserves after strength—not panic.

Use cash flows, permitted contract withdrawals or maturity proceeds first. Trim overweight assets tax-consciously when needed. Never assume a locked annuity can be rebalanced like a liquid bond fund.

5

### Stop when the household changes.

A health event, new spending need, loss of other income or larger tax bill overrides a dip-buying plan. If surplus cash remains unused after six months, revisit its purpose rather than waiting forever.

☆ **A 10% or 20% market drop is a review trigger, not an automatic buy signal.** The spending floor, household allocation and concentration limits still govern. Rebalancing can add risk while prices are falling. [2]

Use look-through exposure: a technology stock held in the core and in the growth sleeve is still the same economic risk. The models on pp. 8–9 do not assume gains from tactical deployment or rebalancing.

05 / FEES AND ONGOING VALUE

# Make the fee base visible.

Illustration only: the same portfolio, the same stated 1% advisory rate, two different billing agreements.

**Fee on the full $1,000,000 relationship**



$10,000 / year

**Fee on $600,000 of managed equities only**



$6,000 / year

**$4,000**
Illustrative annual advisory-fee difference.

**0.60%**
Blended advisory fee across the household.

**40%**
Reduction in this advisory-fee line—not all costs.

The illustration assumes no advisory charge on the $150,000 reserve or the $250,000 fixed annuity. That treatment must be written into the agreement. Other firms may also exclude these assets, use tiered pricing, or offer a flat planning fee. A bucket label itself creates no saving.

**"No explicit annuity fee" is not "no economic cost."** Fixed products may reflect insurer margins and compensation in their credited rate. Riders, surrender charges, market value adjustments, fund expenses and separate manager fees must also be disclosed. [4], [7]

**What ongoing management should deliver:** a withdrawal plan; reserve monitoring; rebalancing; tax-lot and wash-sale coordination; concentration review; beneficiary checks; and timely annuity-renewal reviews. Ask for a report showing what was actually done—not just a product list.

Illustration uses beginning balances and a flat annual fee for easy comparison. Actual billing often uses changing balances. A low-cost, similarly allocated portfolio is a necessary comparison; reduced fees do not by themselves justify an annuity purchase.

05 / INSURANCE WITHOUT SHORTCUTS

# Do not confuse four different promises.

Use insurance to solve a defined problem—not to make every dollar sound protected.

| Type | What it can do | What must be understood |
|---|---|---|
| **Fixed-rate deferred annuity** | Contractual interest for a stated guarantee period. | Early access can trigger surrender charges or market value adjustments. The insurer's claims-paying ability matters. |
| **Fixed indexed annuity** | Interest tied to an index formula, often with a floor on index-linked losses. | Caps, participation limits and exclusions restrict upside. Riders can cost extra; withdrawals can reduce values. It is not direct stock ownership. |
| **Variable annuity** | Investment choices with optional income or death-benefit guarantees. | Account value can fall. Contract, investment and rider fees may apply. A death-benefit guarantee is not a liquid principal guarantee. |
| **Registered index-linked annuity (RILA)** | Limited downside buffering or floors with investment exposure. | Losses remain possible. Interim withdrawals can create additional reductions. It is not the fixed-rate bucket in this paper. |

**Putting the entire relationship into an annuity is not the default here.** The proposed fixed sleeve is 20%–30% in the sample allocations. Concentrating everything in insurance may reduce flexibility—but a well-designed income or legacy contract can still be appropriate for a specific portion of a plan. [4]–[6]

**Account value ≠ surrender value ≠ death benefit ≠ lifetime-income benefit base.**
Ask which number you can withdraw today, which is payable only at death, and which is only a calculation used to determine future income.

An annuity already held in an IRA adds no separate tax-deferral advantage. Its justification must be the insurance or contractual benefit. Guarantees are not FDIC insurance. Existing contracts require a replacement analysis before any change. [4], [6]

06 / HOUSEHOLD IMPLEMENTATION

# What you own—and where you own it.

Manage the household as one plan while preserving each account's ownership, tax treatment and liquidity needs.

| Account | A starting rule of thumb | Important exception |
|---|---|---|
| **Taxable / joint account** | Keep spending reserves accessible. Consider tax-efficient equities, qualified-dividend strategies and direct indexing when worthwhile. | Ordinary interest and dividends can create annual tax drag. Appreciated securities may be useful for giving or legacy planning. |
| **Traditional / pre-tax IRA** | Often a useful home for ordinary-income-heavy or tax-inefficient holdings. A fixed annuity here is an insurance decision, not added tax deferral. | Withdrawals are generally taxable. Preserve liquidity for each owner's required distributions; spouses' IRAs cannot be pooled to satisfy an owner's RMD. |
| **Roth account, when available** | Long-horizon diversified growth can fit when risk capacity supports it and qualified-distribution rules are met. | No Roth balance is assumed in this household. Do not let tax preferences create an unsuitable concentration. |

ONE POSSIBLE LOCATION MAP | DOLLARS IN THOUSANDS

| Account | Reserve | Fixed | Core | Growth | Total |
|---|---|---|---|---|---|
| **His traditional IRA** | — | $150 | $50 | $50 | $250 |
| **Her traditional IRA** | — | $100 | $50 | — | $150 |
| **Joint taxable account** | $150 | — | $400 | $50 | $600 |
| **Household total** | $150 | $250 | $500 | $100 | $1,000 |

This is a location example, not instructions to sell existing holdings. Cost basis, capital gains, foreign tax credits, charitable plans and each spouse's required distributions can change the answer. Highly taxed dividend strategies may belong in an IRA; low-turnover equities can fit taxable accounts. [8], [9], [12], [13]

Assumes both IRAs are fully pre-tax. IRA implementation would preserve tax-deferred status through appropriate transfers, not an unnecessary taxable cash-out. The small checking account is outside the example. [12]

06 / TAX-AWARE EQUITY MANAGEMENT

# $250,000+ taxable? Ask a better tax question.

Use this amount as a review trigger—not a legal threshold, universal platform minimum or promise of savings.

The sample household has $600,000 in a joint account, including $450,000 of equities under the location map. That is enough to justify asking whether a separately managed, tax-aware stock portfolio or direct-indexing approach offers value after all additional costs. [11]

| Planning job | What it actually means |
|---|---|
| **More control** | Owning securities directly can allow individual tax-lot decisions and avoid the pooled mutual fund's capital-gain distributions. Your own sales and dividends can still be taxable. |
| **Harvest usable losses** | Realize eligible losses and maintain diversified exposure with suitable replacements. Benefits depend on available losses, gains to offset, tax rates and implementation costs. |
| **Do not promise to erase gains** | Existing embedded gains do not disappear when assets move in kind. Harvesting often defers tax by lowering replacement cost basis; future liquidation can bring the tax back. |
| **Coordinate every account** | Review purchases in both spouses' accounts, IRAs, dividend reinvestment plans and outside accounts. Substantially identical purchases within 30 days before or after a loss sale can trigger wash-sale rules. |

**Napkin math:** $20,000 of eligible losses offsetting gains otherwise taxed at an assumed 20% could defer or reduce **$4,000** of current tax. It is not $4,000 of investment performance. Compare the result with additional fees and future tax costs. [9]–[11]

What people call "phantom capital gains" are often taxable fund distributions even when the investor sells no shares or reinvests the payout. Direct ownership changes that distribution mechanism; it does not eliminate capital-gains tax. [9]

Net capital losses exceeding gains may offset up to $3,000 of other income annually ($1,500 if married filing separately), with eligible carryforwards. IRA wash-sale purchases can create especially unfavorable results. Tracking error and costs can reduce direct-indexing benefits. [9]–[11]

07 / THE RELATIONSHIP REVIEW

# Three levels of help. One appropriate fit.

A market storm can expose a coordination gap—not just an investment problem.

## 01 Investment planning

**What should my portfolio own?**

Allocation, diversification, investment selection, risk review and rebalancing. Appropriate when the main need is managing the investments.

## 02 Goals-based advice

**How will my money fund the life I want?**

Retirement income, Social Security and pension decisions, withdrawal sequencing, spending reserves and progress toward specific goals.

## 03 Comprehensive wealth management

**Is the whole financial picture working together?**

Coordinated investment, tax, legal, insurance, estate and—when relevant—business planning, with the appropriate licensed professionals.

Not every household needs the third level. It becomes more relevant when decisions collide: an IRA withdrawal affects taxes; a sale funds an annuity but realizes a gain; a beneficiary designation undermines a trust; or a business exit changes retirement risk.

**Ask your advisor: "Does our relationship cover the coordination I need—and who is responsible for making sure the parts work together?"**

These are descriptive service levels, not regulatory classifications or a promise of financial improvement. A comprehensive advisor coordinates with tax and legal professionals rather than replacing them.

08 / CASE STUDY 1

# “We do not need this money for spending.”

Fictional retired couple: $250,000 in his IRA, $150,000 in hers, $600,000 joint taxable; checking excluded.

Their other income covers living expenses. They are not yet subject to required distributions. Their priorities are retaining growth potential, avoiding an all-cash decision and reducing the effect of a downturn on assets ultimately intended for loved ones.

| Four-bucket portfolio | Starting amount | After one year |
|---|---|---|
| **Liquid reserve** | $150,000 | $156,000 |
| **Fixed annuity at assumed 6%** | $250,000 | $265,000 |
| **Equity core: −34% total return** | $500,000 | $330,000 |
| **Growth sleeve: −34% total return** | $100,000 | $66,000 |
| **Advisory fee paid from reserve** | — | ($6,000) |
| **Household value after the shock** | $1,000,000 | $811,000 |

**$83,000**

More than the 80%-stock reference, which ends at $728,000.

**$5,000**

More than a 60%-stock / 40%-cash comparison ending at $806,000.

**What protects the legacy?** Less stock exposure limits the modeled loss, while the fixed sleeve accumulates interest. Assuming the base annuity pays contract value at death, its $265,000 is payable under its terms—not the depressed value of stocks it replaced. The next page evaluates a separate enhanced-benefit alternative. [4]

**What if markets rise instead?** With stocks up 20%, the four-bucket example ends at $1,135,000, versus $1,160,000 for the higher-equity reference: $25,000 of opportunity cost. No strategy wins in every weather condition.

Hypothetical household values, not an actual single-death settlement or after-tax inheritance. Ownership, beneficiary timing and estate costs are not modeled. Traditional IRA benefits remain subject to beneficiary tax and distribution rules. [12]

08 / CASE STUDY 1 CONTINUED

# An enhanced death benefit is a separate decision.

Do not attach an attractive estate rider to the 6% fixed-rate assumption as though both are one contract.

A documented example is Athene Velocity's Family Endowment Rider, an optional **fixed indexed** annuity feature. Below, the insurer's age-65, zero-index-credit illustration is scaled from $1 million to $250,000 solely to demonstrate the mechanics. This is not a product quote or recommendation. [15]

| $250,000 sleeve | Plain fixed: assumed 6% | Documented indexed / rider illustration |
|---|---|---|
| **Year-one contract / accumulation value** | $265,000 | $267,875 |
| **Year-one eligible death benefit** | $265,000 | $270,000 Early benefit (this example) |
| **Year-one cash surrender value** | Not modeled; obtain quote | $228,621 |
| **Explicit annual rider charge** | None assumed | 0.85% of benefit base; $2,125 initially |
| **Year-five death benefit** | $334,556* | $311,546** Long-term drag (this example) |

**In this year-one example:** the $5,000 larger eligible death payment would lift the prior page's $811,000 legacy illustration to **$816,000**, all else equal. But it is not $5,000 of additional cash available to spend. The illustrated early-surrender amount is materially lower.

The rider illustration includes its charge and an 8% premium bonus; bonus vesting and withdrawal restrictions matter. Benefits can fall after withdrawals, and guarantees depend on the insurer. A larger death-benefit number is not necessarily a better lifetime result. [15]

**Tax reality:** annuity death benefits are not automatically income-tax-free life insurance. IRA distributions are generally taxable to beneficiaries. Taxable appreciated securities may instead qualify for a basis adjustment at death; compare after-tax inheritances with your team. [12]–[14]

* Assumes 6% guaranteed for all five years. ** Insurer illustration assumes no index credits or withdrawals; no 6% credit is added. Scaling is arithmetic, not a quote. The two IRAs need separate owner-specific contracts and quotes; no single-spouse settlement is implied. [15]

09 / CASE STUDY 2

# “We need $40,000 a year from our portfolio.”

Same $1,000,000 household. Gross annual withdrawal need includes a tax allowance; advisory fees are additional.

Set aside $150,000 in the reserve bucket. A $40,000 withdrawal need plus $6,000 of assumed advisory fees creates a $46,000 one-year floor. The reserve equals **3.26 years** of that amount before any interest or dividends—although inflation and changing needs can shorten it.

| One-year falling-market illustration | Ending amount |
|---|---|
| **Reserve: $150,000 × 1.04 − $40,000 − $6,000** | $110,000 |
| **Fixed annuity: $250,000 × 1.06** | $265,000 |
| **Equities: $600,000 × 0.66** | $396,000 |
| **Total remaining after the shock and withdrawal** | $771,000 |
| **Stock sales required to fund the modeled spending** | $0 |

RESERVE ALONE: A FINITE BUFFER




**The benefit:** spending is funded without selling stocks in this modeled decline or surrendering the annuity. Equities remain invested. The risk is reduced—not eliminated: reserves eventually run down, and the market may not recover before they do.

**The fair comparison:** the 80%-stock / 20%-cash reference also has a substantial reserve. A suitable liquid 60%-stock plan can provide the same spending discipline. The advantage comes from the reserve and withdrawal rules, not four labels.

Dividends are reinvested within the assumed −34% stock total return, not counted again as cash. Year-two reserve math holds 4% interest, $40,000 withdrawals and $6,000 fees constant solely for illustration; no second-year portfolio return is implied. [Methods, p. 23]

YOUR NEXT STEP

# Before you move money, make the plan visible.

## Schedule a Storm-Readiness Review with your financial advisor.

A useful review may confirm that your current plan is already sound. Or it may uncover a specific change that makes the next season easier to navigate.

1. **Where will the next 12–24 months of spending come from?**
2. **What could a severe decline cost us—and what do we give up if markets rise?**
3. **Are investments, taxes, insurance and our legacy plan working together?**

**Bring:** current statements and cost basis, your spending and income figures, relevant tax returns, annuity contracts, and beneficiary information. Share sensitive documents only through your advisor's approved secure process.

---

**The objective is not a new product.**
**It is a stronger connection between your money, your goals and the people you want to protect.**

APPENDIX / REPRODUCIBLE ASSUMPTIONS

# What is modeled—and what is not.

The arithmetic is deliberately simple so an advisor and client can challenge every assumption.

| Input | Definition |
|---|---|
| **Household** | $250,000 his IRA + $150,000 her IRA + $600,000 joint account = $1,000,000. Checking excluded; no actual holdings or cost basis supplied. |
| **Portfolio definitions** | Higher-equity reference: 20/0/70/10. Four buckets: 15/25/50/10. Same-equity liquid reference: 40/0/50/10. Order: cash / fixed / core / growth. |
| **Rates and costs** | Cash 4% net of money-market fund expenses; fixed annuity 6% credited, with no explicit rider or advisory fee in the base model. Advisory fee: 1% of beginning stock assets. Additional stock-fund/manager expenses, transaction costs and taxes are not modeled. |
| **COVID-sized stress** | 33 calendar days; stocks −33.8%. Cash and fixed interest compound by (1 + rate)^(33/365). Advisory fee is prorated by 33/365. No trading or withdrawals. This is not an actual 2020 portfolio backtest. |
| **One-year scenarios** | Stock total returns: −34%, 0% or +20%. Both equity sleeves get the same return. All interest accrues for one full year. Advisory fee and any $40,000 spending withdrawal are deducted at year-end. |
| **Income coverage** | Core dividends 3%; growth dividends zero. Dividends are part of total return, not an extra return. Annuity interest counts as available income only in the explicitly permitted-withdrawal case. |
| **Legacy rider comparison** | Published Athene Velocity illustration, dated October 1, 2026, scaled by 0.25. Zero index credits; no extra 6% rate applied. Quote, ownership, eligibility and state-specific terms must be verified. [15] |

**Formula:** ending value = starting cash × cash-growth factor + starting annuity × annuity-growth factor + starting stocks × (1 + stock return) − assumed advisory fee − withdrawals.

**Limits:** no probability of success, optimized allocation, tax-alpha estimate, inflation forecast, surrender-value model for the plain fixed annuity, or active-manager advantage is calculated. A true retirement sustainability study requires longevity, spending, taxes, return sequences and product-specific terms. All hypothetical outcomes can differ materially from actual results.

Planning illustrations were independently calculated for this paper and rounded for display. Professional review is required before client distribution; this paper is not a firm-approved financial promotion or individualized tax, legal, investment or insurance advice.

APPENDIX / SOURCES

# Sources and further reading

Primary-source materials reviewed November 10, 2026. Source titles below are clickable.


[1] S&P; Dow Jones Indices
**SPIVA U.S. Year-End 2020**
2020 decline, recovery and market context. The portfolio stress test is independently modeled, not taken from SPIVA.

[2] U.S. Securities and Exchange Commission / Investor.gov
**Beginners' Guide to Asset Allocation, Diversification, and Rebalancing**
Allocation, diversification, suitability of risk and the costs or tax effects of rebalancing.

[3] U.S. Securities and Exchange Commission / Investor.gov
**Money Market Funds**
Liquidity, changing income, inflation and the distinction from FDIC-insured bank deposits.

[4] U.S. Securities and Exchange Commission / Investor.gov
**Annuities**
Contract categories, insurer obligations, implicit and explicit costs, surrender provisions and optional benefits.

[5] U.S. Securities and Exchange Commission / Investor.gov
**Updated Investor Bulletin: Indexed Annuities**
Participation rates, caps, spreads, excluded dividends and contract limits.

[6] U.S. Securities and Exchange Commission / Investor.gov
**Variable Annuities**
Market exposure, contract and investment fees, rider costs, replacements and tax-deferral limitations inside an IRA.

[7] U.S. Securities and Exchange Commission / Investor.gov
**How Fees and Expenses Affect Your Investment Portfolio**
Compare advisory, product and underlying investment expenses; the fee example here is hypothetical.

[8] Vanguard
**How asset location can boost after-tax returns, July 24, 2026**
General framework for account location; no projected asset-location alpha is used in this paper.


Referenced organizations are sources, not sponsors or endorsers. Original calculations, scenario design and allocation examples are specific to this educational paper.

APPENDIX / SOURCES

# Sources and important disclosures

Primary-source materials reviewed November 10, 2026. Source titles below are clickable.


[9] Internal Revenue Service

**Publication 550: Investment Income and Expenses**

Taxable distributions, qualified dividends, cost basis and wash sales, including spouse and IRA transactions.

[10] Internal Revenue Service

**Topic No. 409: Capital Gains and Losses**

Loss netting, annual deduction limits and eligible carryforwards. Tax-bracket examples are assumptions, not household tax advice.

[11] FINRA

**The Basics of Direct Indexing**

Individual-security ownership, tax-loss harvesting, customization, tracking error and additional costs.

[12] Internal Revenue Service

**Publication 590-B: Distributions from Individual Retirement Arrangements**

IRA withdrawals, owner-specific required distributions and beneficiary taxation and distribution requirements.

[13] Internal Revenue Service

**Publication 559: Survivors, Executors, and Administrators**

Inherited-property basis, exceptions and income in respect of a decedent.

[14] Internal Revenue Service

**Publication 575: Pension and Annuity Income**

Taxation of nonqualified annuity payments, withdrawals and relevant death benefits.

[15] Athene / product-issued consumer illustration

**Athene Velocity Family Endowment Rider, brochure 87001, October 1, 2026**

Printed pp. 4 and 6: zero-interest illustration, charges, surrender values and terms. Used only to illustrate an actual documented rider structure; not an endorsement or quote.

[16] Fidelity

**Rebalancing your investments**

Examples of periodic reviews and allocation bands. The specific rules in this paper are proposed illustrations, not an empirically optimized strategy.


**Important:** Investment values can decline; diversification does not assure profit. Insurer promises depend on claims-paying ability. No regulator, insurer or advisory firm has approved this paper. Facts, product availability and tax rules can change. Evaluate your circumstances with qualified investment, insurance, tax and legal professionals.

APPENDIX / ILLUSTRATIONS AND READING

# The examples are auditable.

Calculations and source notes for pages 4, 10 and 11. Reviewed November 10, 2026.

## 01 / HISTORICAL RE-ENTRY ILLUSTRATION - PAGE 4

Page 4 reproduces Hartford Funds' 1996-2025 index illustration: $10,000 grows to $192,167 fully invested, $85,490 with the 10 best days omitted and $31,123 with 30 omitted. Of the 50 best days, 48% fell in bear markets and 28% in the first two months of bull markets. These hindsight exclusions do not test a timing rule. [17]

## 02 / CONSTRUCTED SEQUENCE EXAMPLE - PAGES 10-11

Initial capital = $1,000,000. Scheduled withdrawal in year t = $50,000 x 1.02^(t - 1), taken before that year's return. Actual withdrawal = min(scheduled withdrawal, beginning balance). Ending balance = (beginning balance - actual withdrawal) x (1 + annual return). Depleted balances remain zero.

Page 11 lists both return orders. Mean = 7.15%; annualized compound return without cash flows = 6.519206%, displayed as 6.52%. Without withdrawals, each reaches $3,536,376. With the stated withdrawals, early losses exhaust capital in year 19; late losses finish at $1,647,351. Unmet early-path withdrawals total $112,280.

The $40,000 sensitivity uses the same returns, timing and 2% annual spending increase: endings are $603,845 and $2,025,156. Returns are constructed, not sampled from history. No fees, taxes, contributions, annuity returns or separate dividends are added. Calculations use full precision and round only for display. No success probability or sustainable withdrawal rate is estimated.

## ADDITIONAL LINKED READING

**[17] Hartford Funds**

**Timing the Market Is Impossible**

Data dated March 2026; Ned Davis Research, Morningstar and Hartford Funds. Source of the historical 76% statistic and best-days chart on page 4.

**[18] Charles Schwab Center for Financial Research**

**What Is Sequence-of-Returns Risk?**

Rob Williams, January 30, 2026. Conceptual background on early losses, withdrawals and reserves. The workbook's return paths and calculations are independent.

**[19] FINRA**

**What Is Market Timing?**

Market timing, missed rebounds and trading costs; context for the planning choices and crossing analogy on page 3.

The final worksheet is a conversation aid, not a formal risk-tolerance score, a trading signal or an instruction to buy an annuity. Sources [1]-[16] appear on pp. 24-25. Firm review remains necessary before external distribution.

YOUR WORKSHEET / BRING THIS TO YOUR ADVISOR

# Your Storm-Readiness Check-In

One page to clarify what matters—and what deserves a closer look.

Name: _____ Date: _____

## 1 What is the portfolio meant to do? Choose up to two.

☐ Retirement income ☐ Legacy / family ☐ Both ☐ Other: _____

Annual amount needed from portfolio: $_____ Needed beginning: _____

## 2 How do you feel about the market today?

☐ Confident ☐ Cautious ☐ Concerned ☐ Unsure

What changed—headlines, family needs, health, spending or time horizon?

## 3 What loss could you tolerate—and still fund your life?

A 20% decline is $200,000 on a $1,000,000 portfolio. My likely response:

☐ Follow a reviewed plan ☐ Want less risk ☐ Need to sell ☐ Unsure

Largest temporary loss I could accept: $_____ Accessible spending reserve: ____ years

## 4 Is someone actively coordinating these items?

| | YES | NO | UNSURE |
|---|---|---|---|
| Spending reserves, diversification and rebalancing | ☐ | ☐ | ☐ |
| Tax location, eligible loss harvesting and wash-sale checks | ☐ | ☐ | ☐ |
| Fees, annuity access and beneficiary / legacy needs | ☐ | ☐ | ☐ |

## 5 What would you most like to improve? Choose your top two.

☐ Income reliability ☐ Downside control ☐ Lower taxes ☐ Lower costs

☐ More liquidity ☐ Legacy protection ☐ Growth potential ☐ Coordination

**Your next step:** Fit confirmed → maintain and monitor. Gaps or "unsure" → review before repositioning. A specific guarantee need → compare insurance terms. An urgent spending shortfall → address liquidity first.

**The one improvement I want to discuss first:** _____

Conversation aid—not a formal risk score or a buy/sell signal. Market views alone should not dictate trades.

# Storm Readiness Analysis

**Client(s)** _____ **Date** _____ **Advisor** _____

## 1 Current balances and holdings

Include cash in the totals. List annuities in their tax category, then identify them again in the last row.

| Account type | Current holdings / institution / contract | Current balance |
|---|---|---|
| Taxable - managed | | $ |
| Taxable - self-directed | | $ |
| Traditional retirement | | $ |
| Roth | | $ |
| **Annuities included above** | | $ |

Use current account values, not annuity income-benefit bases.

**Total P (first 4 rows)** $ _____

## 2 Annual portfolio income need

Use annual gross income; include taxes in spending.

Annual spending + estimated taxes $ _____

Less Social Security $ _____

Less pension income $ _____

Less other reliable income $ _____

**D Portfolio need per year** $ _____

D = spending less the income above; minimum $0.

Exclude portfolio dividends and withdrawals from income.

Equity % of P: now _____ % target _____ %

## 3 Liquid reserve and fixed bucket

**Reserve basis** ☐ Spending ☐ D If D = 0, use spending.

Months _____ (12 min) + extra $ _____

R = basis x months / 12 + extra $ _____

Liquid now $ _____ Gap $ _____

Cash gap = max(R - liquid now, $0). Keep cash accessible.

Additional years beyond reserve _____

Fixed target F = D x years $ _____

Eligible fixed assets already held E $ _____

**Fixed gap = max(F - E, $0)** $ _____

Fixed annuity to consider $ _____ ☐ None

Fund reserves first. F is an estimate: check inflation and contract access. E excludes reserves and assets funding income above.

## 4 Risk comfort and investment approach

**Risk score** ○ 1 ○ 2 ○ 3 ○ 4 ○ 5 ○ 6 ○ 7 ○ 8 ○ 9 ○ 10

1 = Preservation / lowest market risk 5 = Balanced 10 = Highest risk tolerance

Why this fits me _____ Time horizon _____ years

**Choose one discussion model for invested assets after the liquid reserve**

☐ Principal preservation: 100% cash, money markets and CDs.

☐ Income: Cash, income CDs and fixed annuities; a small portion in dividend equities.

☐ Balanced: 50% equities / 50% income and preservation assets.

☐ Growth and income: 60-70% equities (quality dividends); 30-40% fixed annuities / money markets.

☐ All equity: 100% equities; confirm reserve and income needs are already covered.

## 5 Equity design and taxable account review

Equity bucket: 100% equities; diversified core, quality dividends and limited sector concentration.

**Technology / AI** _____ % of P (0% or 5-15% to evaluate; count exposure already inside funds)

**Tax-sensitive?** Managed ☐ Yes ☐ No ☐ N/A Self-directed ☐ Yes ☐ No ☐ N/A

**Review** ☐ Basis / gains ☐ Tax cost of changes ☐ Distributions / asset location ☐ Losses / wash sales

**Review result** ☐ On track ☐ Changes needed **Action / amount** _____

Discussion worksheet; confirm suitability and sustainable withdrawals. No investment is risk-free. Dividends may change.

Annuities depend on insurer strength and contract terms. Money market funds are not FDIC-insured.

Sources: Investor.gov (annuities, diversification, money market funds); IRS Publication 550.