“Building a Moat”

This medieval technique can help you with your investments and retirement

Written by: Geoffrey Burroughs, CERTIFIED FINANCIAL PLANNER™

The last few months, for many, have moved extremely fast and extremely slow, simultaneously. Our day -to-day lives went from “hustle and bustle” to shelter-in-place. If you have children or grandchildren, you may have even tried a new profession - teaching. At the same time that your activities were coming to a screeching halt, your investments and retirement savings started moving at warp speed. For some, this was no problem. For others it created a feeling of panic which may have led to unfavorable decisions. Unfortunately, this will not be the last time the stock market has a violent move. I don’t know when the next will happen, but it will happen and it most likely it will come without warning. So, how can you protect yourself from…yourself, when it happens?

Back in medieval times, fortresses were built for unexpected attacks. Some were built on mountains or with other natural protective features, others created this protection by building a moat.

Did these protections prevent them from being attacked? No. However, in the case of an attack, it bought them valuable time to evaluate, reposition their men, defend and even counter.

The same holds true in investing, especially when it comes to retirement.

Most individuals feel the impact of loss twice as strongly as a gain. So, when the falling values of investments start, the need to react goes up. The time to do something to protect the fall has passed, the enemy is at the gate. Many people feel the need to react, and resort to selling. Most know this is not the right decision, but they just need time to think. Now they are stuck. If the market continues to go down, that typically means the economic environment is worse, which makes it harder to invest. If the economics get better, the market will have already moved up and they will have missed the move. All in all, it is a tough spot to be.

This is why you need to build yourself a “moat” beforehand. The purpose is that in the case of a dramatic drop in your investments, you will have time to think, adjust and possibly capitalize on the situation. But most important, you won’t do anything out of panic.

What is a moat?

Think of your investments as a timeline. The purpose of them is to get you from the beginning to the end. In the case of retirement, the moat is the first 3-5 years of this timeline. Regardless of what is going on, you need to make sure the money you need during this 3-5 year timeframe is safe and available. Yes, that probably means very little growth with these funds, but that is okay in this scenario. By having them ready to go in case of a rough patch, it will allow you to weather almost any storm. While you are using the safe money, your investments can recover their losses.

For example.

A retired couple needs $100k per year to live on. They receive $50k from social security. Therefore, every year they pull $50k from their investments to cover the shortfall. Their moat should be $150k-

$250k in a CD/ bond ladder (series of CDs that mature every few months), remain in cash or in a very short-duration bond instrument.

Let's look at this year, 2020, to see how they would have managed. At the beginning of the year, it looked like they were going to pull their income from their investment returns. Then the pandemic hit. In 3 weeks, their investments dropped 30%. Now their situation looks different, but they have options:

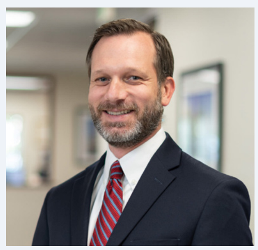
- **Option 1:** Still pull from their investments, even though they are down significantly. In doing so, they will lock in their investment losses.
- **Option 2:** If there is enough to meet their needs, pull income from dividends or bond interest.
- **Option 3:** Use "the Moat" instead of option 1 or to supplement option 2. They can pull the necessary funds from their cash or maturing bonds and by doing so, they leave their investments alone to recover in value.

As of now, the bounce back has been quick. However, their "moat" would have allowed them 3-5 years to leave their investments alone so they could recover their lost value.

So instead of waiting for the attack, build your moat now. Make sure it is solid, that you can count on it to be there when you need it and then move on to other things in your life.

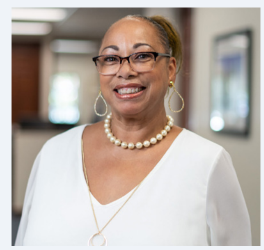
About the Horizon Group

We take a collaborative approach to help clients navigate complex financial situations and plan for the future. We specialize in integrated financial planning, investment management and divorce financial services.



Geoff Burroughs
CFP®, CDFA®
Vice President,
Financial Advisor
gburroughs@harborllc.com
410-659-8905

Katrina Kunkler
Vice President,
Director of Research
kkunkler@HarborLLC.com
410-659-8909



Lisa Howard
Associate Vice President,
Client Relationship Manager
lhoward@HarborLLC.com
410-659-8914

About Harbor Investment Advisory, LLC

Harbor Investment Advisory, LLC ("Harbor Advisory") is an employee-owned, full-service investment and wealth advisory firm focused exclusively on serving the needs of private clients, family entities, and institutions. Harbor Advisory provides comprehensive wealth management solutions for clients seeking objective and customized advice.

As a private and independent firm, Harbor Advisory is uniquely positioned to utilize a broad spectrum of resources from many of the world's premier research, analytical, and asset management firms. Harbor Advisory uses Pershing LLC, which is a subsidiary of The Bank of New York Mellon Corporation for integrated custody, safekeeping, and servicing of client assets.

www.HarborLLC.com