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MAG CORNER VOL. 7

Dear Clients,

This MAG Corner has taken longer than I had intended. This also means this MAG Corner is even longer than normal, so grab a coffee or a drink and settle in. I hope each and every one of you had a Merry Christmas and a wonderful time spent with friends and family. For me, my grandchild numbers keep getting bigger. My oldest daughter has one on the way, making life and family very full, and I am thankful. Fifteen years ago when I started this company, I had no grandchildren. Over those years I had so many of you, my clients, tell me how special they are, and now I truly understand that sentiment.

I am also blessed by all of you, our MAG clients. We are frequently told how the amount of income we are creating for you to live on has made your retirement life so full. Each one of those stories is so important to us, and why we do what we do. We are always and forever thankful to our clients and the trust you place in us for your retirement life dollars. We love what we do here, and your stories just fuel our desire to see you prosperous and secure in your retirement years.

When playing the game of life, we generally have three outcomes: win, lose, or draw. Sometimes we must lose. Sometimes we claim a win, and other times walk away without either a win or loss, known as a draw. Once in a while, we must lose to win in the end. What is very rare is to win every time you play any game, especially when playing in the financial game.

Today, I want to remind you that is exactly what happens when you invest for income if you understand the ground rules. We are going to cover those rules today, as well as the radical change that occurred because of the election. I also want to discuss some housekeeping happening with MAG. Let's dive right in.

We've had several clients question who is handling and running our investment portfolios. We have had clients express that they thought Charles Schwab was managing the funds. To clear the air, 100% of the money management is handled by myself and our in-house analyst team as we have done for 15 years. We generally meet weekly. The team does the heavy lifting of analyzing companies for new investments and keeping an eye on all current investments.

One of the key ways we do this is by participating in earnings calls. Each one of our holdings has a quarterly earnings call to talk about the past quarter's financial results. We listen to all of them. Currently, that means 55 to 60 calls at 60 to 90 minutes per call every 12 weeks. This is a big job but very important to do. It's the best way to keep our finger on the pulse of every company in the portfolio.



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Then weekly, we meet and discuss the earnings calls and any other important economic data. We take this data and formulate strategies that drive the overall planning for the portfolios. Bottom line: Schwab has nothing to do with managing the money. It acts as a clearing house to hold the accounts and process our instructions on buying and selling the securities. Again, 100% of the portfolio management is handled by my team and myself.

Most advisors do not run their firms in this manner. They will hire third-party money managers or use mutual funds to manage the funds. These outside sources generally add additional expenses for the client but not for the advisor. These expenses are typically not transparent. You will see the 1% for the advisor but not all of the other fees like what mutual funds charge. They like to do this because it frees up their time, and since the burden of paying the expenses is moved over to the client, they make more money.

For you see, it's actually quite expensive to manage money. Analysts and consultants are not cheap. Then you add the required technology, compliance, other expenses, and the total cost is higher than you might ever imagine. The typical advisor avoids all of these elements, and therefore keeps a bigger slice of the pie. Many advisors only have one or two assistants in their office. This is a dead giveaway that they are not managing the money themselves and are hiring outside money managers.

To be clear, there is nothing inherently wrong with this approach, but I think it's important to understand what is actually transpiring, and what those total outside expenses are costing the client. I find most people who come from other advisors have no idea what those additional costs are in total. They can easily add a half to more than one percent to the advisor fee, giving them a total fee of 1.5 to more than 2%. It's been my belief for the 15 years that I have run this company that the 1% an advisor charges should cover all of the money management cost.

Moving on to the new administration, I know most of you were quite happy with the election results because you had made it clear in our meetings what your feelings were on the matter. For those who were not happy, these words will still apply to you. It's no secret that Trump is first a businessman. This makes him pro business with his policies. This well-known fact brought a lot of excitement and hope to the financial markets after the election. We have seen the stock market make new highs. I think things are definitely more positive as a result. Hope and excitement are generally good because people will feel more positive and thus are more likely to spend money. Since we have a consumption economy, this is good news.

However, we are still dealing with the fastest increase in interest rates in the history of this country. The Fed raised interest rates 11 times between March of 2022 and July of 2023. It generally takes 6 to 12 months to feel each one of them, meaning we still haven't felt all of the pain from the increases. We also have a real estate market that shows signs of stress. Automobile manufacturers are seeing sales declines.



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The average person is struggling to make ends meet because of the inflation we have had. Inflation is coming down, but the significant price increase of these last years is still here and won't be going away. Once prices go up, they generally never come back down. The last numbers I saw, food alone is up more than 40% over the last three years. All of this to say, I think we still have a risk of significant volatility with the markets. I do believe this risk has somewhat reduced from earlier this year, but it's still something to note. It's also important to note that we have had a very long bull market. Speaking historically, guess what generally happens next? If you said even longer bear markets, you would be correct.

This is why it's important to have a retirement investment plan where, in my opinion, we always get to win no matter what the market does. We get to win whether the market goes up, down, or sideways. Let's get to those ground rules I mentioned earlier.

First, as you know our number one goal is income and income growth – not balance growth. A really important question to ask yourself is what's more important to keep in front of inflation: our balances or our incomes? I hope you answered income. Why? Because retirement is about income above all things. You can never spend your balance. What will you do for money to live on for the rest of your life if you spent the balance? Retirement has and always will be an income spend. No one takes their balance to the grocery store; they take their income. The most important question you should always know the answer to is how much can I take from my balance monthly/annually and it not run out? I like to think of your balance as your gross paycheck. It's important but not near as important as your net paycheck because that's what you get to spend.

A recent study showed that the number one fear of retirees is running out of money even over dying. Again, your total balance is less important than knowing what is the most you can take from that balance annually without fear of it running out. As a client of mine, this all should be familiar, and hopefully you know what that number is. If you don't, you can log in to your Schwab account and click the tab Investment Income at the top of the page to find that number (minus our management fee). Back to never running out of money, my definition of a perfect retirement is that you would have more income than you need until the day you die. What dictates how much you can take without running out is what investing style you use in retirement.

As most of you know, most advisors employ a growth strategy in which there is no income coming in. The only way to get money out is by selling assets, hoping you get enough growth to offset what you take out. The very real danger here is that you're agreeing to sell off assets not knowing what price you're going to get for the next 20 to 30 years. This is crazy in my mind. Which one of you would agree to sell anything of value not knowing the price you're going to get for that item, especially when you realize that if you sell too much before you die, you're going to be in grave trouble?



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Using this strategy, your income needs do not go down when the market drops. If you're in growth and the market drops, you are forced to sell off more assets to get the same income out. A 50% drop would require you to sell 100% more of your investments to get the same money out. In 1930, the market dropped by 90% and we didn't see it come back for 23 years. Imagine selling assets to live off with that event under your feet. This is why for years I have been against using growth as a strategy for income in retirement. You're putting money at risk knowing you can lose and just hoping to win more than you lose during the time you need it. For me, this is gambling. The market does eventually always go up, but the big question is will it happen in the short time we call retirement? This is the gamble. The average person has 15 to 20 years in retirement.

If you look at market history (https://cdn.hibuwebsites.com/47af36270d4743f8865f927399d-3be8e/files/uploaded/hard_lessons_stock_market_history_melia_advisory_group.pdf), you will see very long periods of time where the market has a lot of volatility with little to no growth. When you deploy an income strategy, you're eating the egg and leaving the chicken alone. Your balances will go up and down, but the amount of money you can take out without running out of income is not impacted by these events.

You have heard me use the farmer analogy. Our balances are like the farmers' land value. The farmer would never sell his land for income but lives off of the crops from the land. Land values go up and down, but he is not impacted because it has no bearing on his crop income. In summary, we are always winning no matter the market conditions because we are always buying more chickens, acres of land, i.e. more shares of income-producing assets. Thus, we are always growing the all-important income no matter the market.

If you understand the fundamental rule of never being able to spend your balance down, you will pay more attention to what you get to spend from the balance, and then understand we should be growing that number every year. I have seen this over and over where clients take some of the income but still reinvest some income to buy more shares, which means income still grows throughout one's retirement years. Keeping our incomes in front of inflation is a beautiful thing to watch because it means we are winning no matter what the market does.

The market is driven by two emotions: fear and greed. We have been running on greed, and the market has had record growth for a few years now. Do you know what happens historically after a long greed cycle? If you guessed volatility, also called a secular bear market, you're exactly right. We should be entering the fear cycle as soon as in a year or two. Our economy still has significant hurdles to overcome, which I will be covering more in the future. You could argue that if it weren't about the excitement of AI, we would already be there.



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Right now of the S&P 500, mostly the top 7 stocks are doing well. They are up enough to carry the market, but the rest are mostly down. This is not a good place to be because you have a narrow field of support, making it much easier to tumble. Ever notice how you really hear from your friends about their money when they are in the greed cycle, but how quiet they become when it switches to the market losses of the fear cycle? That is, they're quiet until the losses get really painful. Sadly, the greed cycle is the hardest to walk away from because investing is emotional, and it feels good when it's rising, loading the person up on dopamine.

Like the saying goes, greedy pigs get slaughtered. A lot of people won't want to leave until the fear cycle has kicked in, they have suffered some pain from losses, and they find themselves in the slaughter, wishing they had gotten out sooner. It's so important to remember it's a gamble of time and, in my opinion, one should not take with their life savings. Life is short in retirement, and you probably won't have the time to recover. When the market drops and it will, those happy now with the market growth will have their stomach turn.

Those who were with me during covid will remember the email I sent out after the significant drop in asset values. I stated the chickens are skinnier, but they're still laying their eggs. Don't stop spending; we're going to be fine. In fact, that is exactly what happened and to top it off, we picked up some great buys during that time.

All of this to say, one of my number one concerns is that my clients don't worry during their retirement years. For me, if you worry, that is not a successful retirement. With the income model, we get to win whether the market gives us gains (wins), trades sideways (draw), or drops (losses). If you really understand that, you won't worry. Our number one goal is to grow the incomes you get to take from your retirement accounts. No matter what the markets do, we are creating real income dollars that give us the ability to buy more income-producing shares, thus growing incomes each and every year – no matter what the balances do in that year.

In short, we get to win no matter what the market does. The fun part is to realize that when our balance drops, we get to win even more because the shares are on sale, getting us higher yields on each purchase and thus growing incomes even faster.

Retirement years are so special and short. For the first time in life, you get to do what you want when you want. If someone is in growth selling off assets and the market has a significant drop, what do you think their comfort level will be for spending money and enjoying their retirement? I have had people tell me their stories of tears when the market dropped and they literally put a freeze on their retirement, when they were only doing the bare minimum to get by and having to waste their precious retirement years waiting until the market returned to a level they feel comfortable with spending again. This is so sad.



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My hope is that understanding all of this will put you in the category of not worrying. Again, why should you worry because we get to win no matter what the market does. I can tell you for a fact, clients who have been with me for some years are almost always in that category because they have seen the truth of our mission of income.

One last thing on a personal note: I am about to get older. Next month I will be 59. It's so hard to believe that I am knocking on 60. Egads, how did that happen? At the same time, I am proud to say that I exercise more than I ever have, and as a result believe I am in the best shape of my life and excited for what life is going to bring in the years to come. Remember to call us if you need anything; we are here for you!

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