Redhawk®
Wealth Advisors

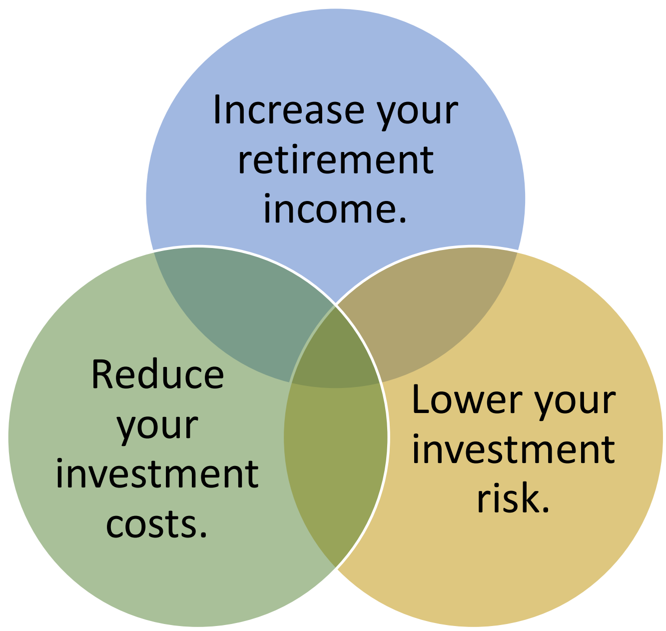
SPECIAL REPORT

RISK-GUARD™ OVERVIEW

By Rick Keast

Risk-Guard™ objectives.

The main goal of Risk-Guard™ is to provide you with a better financial outcome in retirement. Over the years in working with thousands of clients, we have boiled down the key success criteria into these three critical elements.



When working with clients, there are many times we can accomplish all three, however (to be totally transparent) there are times when we can only satisfy one or two out of the three. There are even instances when we cannot accomplish any. What is most important is that you get the entire truth of your financial situation to understand where you stand and what you can do to improve your financial outcome.

Over the years, there have been times when we could not improve a client's current portfolio, yet they became clients anyway. Why? It was because Redhawk made it easy for them to understand the benefits of the Risk-Guard™ process.

The remainder of this document will cover the key steps of the Risk-Guard™ process. The examples provided are hypothetical in nature and not actual examples of client experiences. We are providing these examples to illustrate how the Risk-Guard process works.

REDHAWK® WEALTH ADVISORS

Step 1: What is your risk number?

Your risk tolerance is the degree of variability in investment returns that you are willing to live with. You should have a realistic understanding of your ability and willingness to stomach large swings in the value of your investment accounts. For example, if you take on too much risk, you might panic and sell at the exact same time everyone else is panicking, thus locking in extensive realized losses.

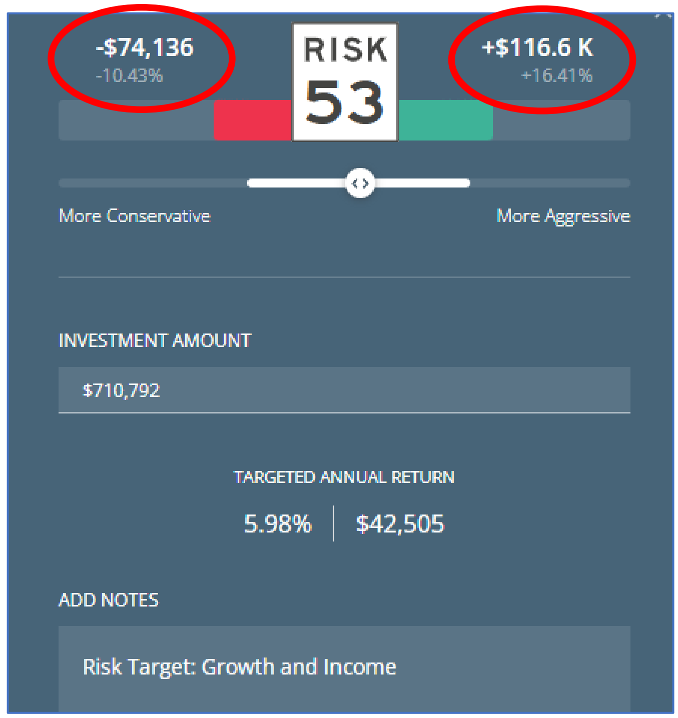
Diversifying your investment accounts among different asset classes plays a key role in reducing risk. For instance, if one of your funds experiences a loss, the other funds may have a positive return at the same time, thus balancing out your risk. Having diversified investment accounts is a wise practice and the benefits of diversification generally outweigh the risks.

If you invest all your money in a single fund and it has a bad year, you could lose a sizeable portion of your account. However, if only 20% of your money was in that fund, you still have the other 80% of your account working for you.

We use an application called Nitrogen[1] to help you see just how much risk you are taking or need to take in your investment accounts. Nitrogen has been built with the goal to provide you with a clear picture of where you are in the risk spectrum and where you need to be. Simply put, it aims to do a better job at capturing your appetite and capacity for risk.

A major mistake made by many investors is that when the markets pull back, they sell to take care of their account and lock-in material losses. To exacerbate this ill-fated strategy, they then likely sit out some or all the ensuing market recovery and then wait until they feel comfortable to get back in the market which can be at or near the top.

Your Risk Number

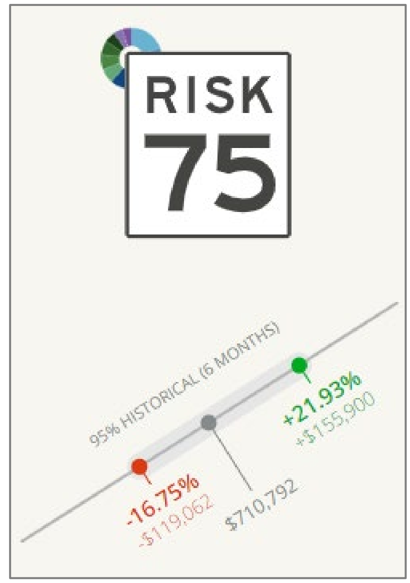


Source: Nitrogen.

The Nitrogen risk number[2] and corresponding risk/reward range (your comfort zone) aids you in quantifying your level of risk. So, what does your risk number mean? As you can see in the graphic above, if you score a 53 out of a maximum score of 99, you may be more comfortable with the risk of losing 10.43% while having the opportunity to gain 16.41% over the next six months, gross of advisory fees.

Step 2: What is the risk number of your current portfolio?

Determining your risk number is an important step in putting together a better financial outcome for your retirement. Our next step is to determine the risk number of your current portfolio.



Source: Nitrogen.

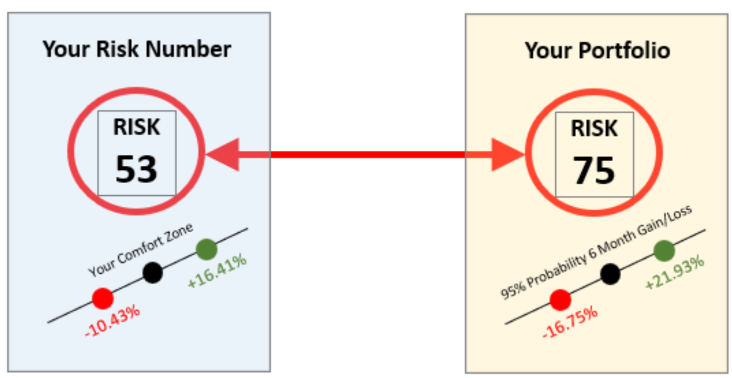
The risk number is calculated for each investment and then the risk number for the entire portfolio is determined by taking the weighted average of all the investments. As you can see in the graphic to the right, the current portfolio has a risk number of 75. Here is a breakdown of the other numbers that are shown:

- The risk number of 75 for the current portfolio is considered aggressive.

- The current portfolio has a 95% probability that it may lose 16.75% with the opportunity to gain 21.93% over the next six months, gross of advisory fees.

Step 3: How does your risk number compare to your current portfolio?

The next step is to compare your risk number with the risk number of your current portfolio. The two risk numbers should be similar. If your risk number is lower than your current portfolio's risk number, that means you might be taking on more risk than you are comfortable with. If your risk number is higher than the risk number of your current portfolio, you may be able to increase the risk in your current portfolio. Obviously, other factors need to be considered when making changes to your portfolio.



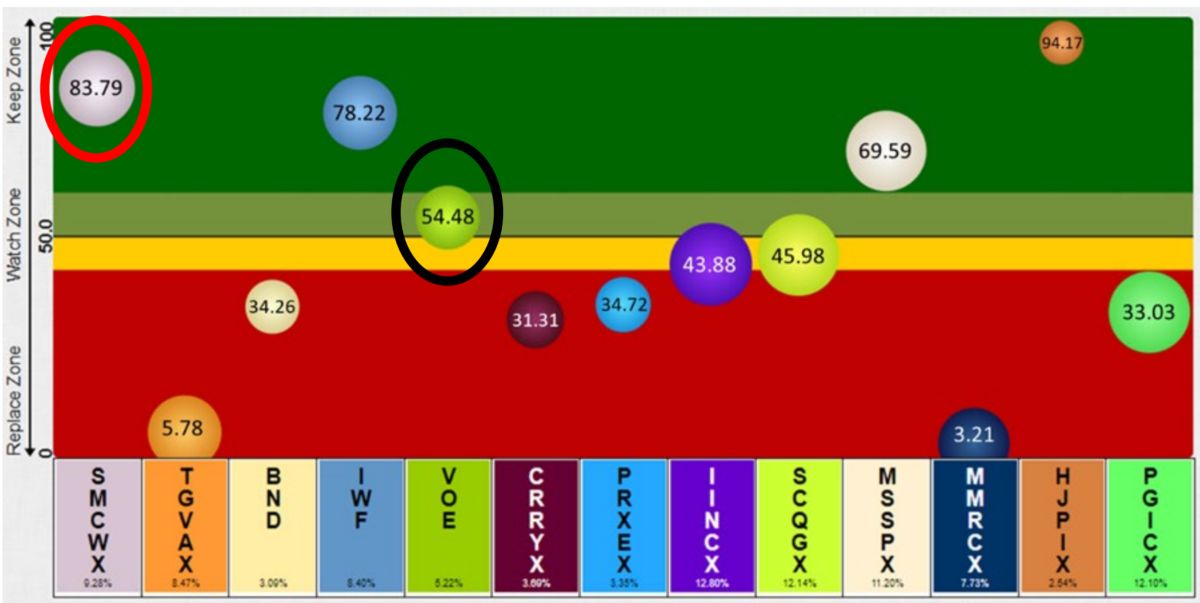
Source: Nitrogen.

Let us look at a hypothetical example. In the diagram to the right, your risk number is 53 and your current portfolio has a risk number of 75. Because of the wide variance (53 vs. 75), you may be taking on too much risk and you have the potential to become very uncomfortable if your portfolio loses more than 10.43% over the next six months, gross of advisory fees. To lower your current portfolio's risk, shifting some of the equity positions into fixed income could lower the risk number of the current portfolio.

Step 4: How are the holdings in your portfolio performing?

Now that we have determined your risk number, comfort zone, and the risk number of your current portfolio, it is time to evaluate your investments and see how they are performing. There are many ways to determine how your investments are performing, but at the end of the day, it is the rate of return based on the risk taken.

You always want to make sure that the funds you have in your portfolio are performing well against its peers. We analyze the performance of funds in your current portfolio and plot them in a chart so you can easily see which funds are performing well and which ones are not, relative to their peers (see the diagram below).



Source: The E-Valuator.

The higher the score the better the performance relative to their peers. If a fund has a performance score that is in the green "keep zone," (see the fund that has a score of 83.79 and is circled in red) then it is performing well, and it might make sense to keep the fund in the portfolio. When we manage a portfolio, once a fund scores below 60 (see the fund that has a score of 54.48 and is circled in black), we will consider replacing it with a fund that is scoring 90 or above.

Step 5: How does your current portfolio compare to the proposed portfolios?

Because your risk number is a 53 and your current portfolio's risk number is a 75, you should consider whether you are taking on too much risk. We have put together a couple of suggested portfolios that we believe have the potential to lower your risk and to improve your financial outcome. For purposes of this document, we are suggesting two options that we believe could be in your best interest.

Option 1: Managed money only.
Under this option, we recommend that your assets are invested in portfolios that are managed by a professional money manager. The assets would be invested in a mix of equities and fixed income that align with your goals.

Option 2: Managed money with a fixed index annuity.
Under this option, we recommend that your assets are invested in portfolios that are managed by a professional money manager and in a fixed index annuity (FIA) with a highly rated insurance carrier. The assets with the professional money manager would be invested in a mix of equities and fixed income that are more aggressive than your risk number. Additionally, the other assets would be invested with an insurance company that will mitigate the loss of your principal and provide retirement income. Since the FIA has a risk number of 1, we can increase the risk of the assets managed by the professional money manager.

As part of our analysis, we like to "stress test" your income in retirement and seek to maximize your monthly retirement income while at the same time working to increase the probability that you will not run out of money in retirement. So now let us see how your hypothetical portfolio compares to the two options we are suggesting.

Source: Nitrogen.

Step 6: How did Risk-Guard™ perform?

As stated in the beginning, we have boiled the key success criteria down to three critical yet very simple rules that we believe will have the potential to give you a better financial outcome in retirement. So, how did we do?

As you can see in the chart below – Risk-Guard™ was able to hypothetically provide you a better financial outcome in retirement with Option 2 (see green arrow in the chart below) by:

- Increasing your hypothetical retirement income from $5,100/month to $7,000/month.
- Lowering your hypothetical investment risk number from 75 to 51.
- Reducing your hypothetical investment costs from 0.86% to 0.10%.

Better Financial Outcome

Objective	Your Portfolio	Option 1 Managed Money Only	Option 2 Managed Money & FIA
1. Increase your hypothetical retirement income.	$5,100 per month	$6,300 per month	$7,000 per month
2. Lower your hypothetical investment risk.	75	54	51
3. Reduce your hypothetical investment costs.	0.86%	0.25%	0.10%

Source: Nitrogen.

In this hypothetical example, we were able to satisfy all three of the objectives of Risk-Guard™ and provide a better financial outcome in retirement!

Acknowledgements

1. Nitrogen, “Empowering the world to invest fearlessly.” When financial advisors aren’t afraid to talk about risk, investors aren’t afraid to make the right decisions. https://www.nitrogen.com.

2. Nitrogen, “How is the Risk Number Calculated.” Last updated on May 9, 2019. https://kb.nitrogen.com/hc/en-us/articles/115009161028-How-is-the-Risk-Number-Calculated-

If you have any questions or want help, please call Redhawk Wealth Advisors, Inc. at (952) 835-4295 or email info@redhawkwa.com.