A RESEARCH BRIEF FOR INVESTORS APPROACHING OR IN RETIREMENT

The Retirement Risk Shift

Why AI, Index Concentration, and Market Dispersion May Require Engineered Outcomes

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Executive Summary

For more than a decade, retirement investors were rewarded for doing one thing: staying invested in broad market indexes and leaving them alone. Near-zero interest rates, trillions in central-bank liquidity, and the relentless rise of a handful of mega-cap technology companies made the "set-it-and-forget-it" portfolio look unbeatable.

That era is over. The structure of the market has changed — and for anyone within roughly ten years of retirement, on either side, the change matters more than it does for anyone else.

This brief examines five structural shifts now reshaping retirement risk: the end of the liquidity-driven bull market; index concentration that has put roughly 40% of the S&P 500's weight into just ten stocks[2]; artificial intelligence acting as a force of disruption and dispersion, not just growth; the breakdown of the stock-bond relationship that traditional "60/40" portfolios depend on; and — most important of all — sequence-of-returns risk, the mathematical reality that the order of your returns can matter more than the returns themselves.

The conclusion is not that markets are doomed, or that anyone can predict the next correction. It is simpler and more useful: the playbook that built your savings is not the playbook that protects your income. During accumulation, you needed market exposure. In retirement, you need engineered outcomes.

WHAT YOU WILL LEARN Why "diversified" index portfolios are more concentrated than they appear • Why the first ten years of retirement drive roughly 77% of your final outcome • Why bonds stopped protecting balanced portfolios when it mattered most • What "outcome engineering" means — and the questions to ask before restructuring anything.

1. The Decade That Spoiled Us

From roughly 2010 through 2023, global markets operated under conditions that had never existed before. After the financial crisis — and again, dramatically, during the pandemic — the Federal Reserve expanded its balance sheet from about $800 billion to roughly $6.5 trillion, suppressing interest rates and flooding financial assets with liquidity.[1]

The consequences were profound and, for investors, mostly wonderful. Volatility was muted. Dips were brief. Valuation multiples expanded year after year. Passive index funds — cheap, simple, automatic — captured all of it, and the strategy of buying the index and never looking at it again was not just convenient. It was the winning strategy.

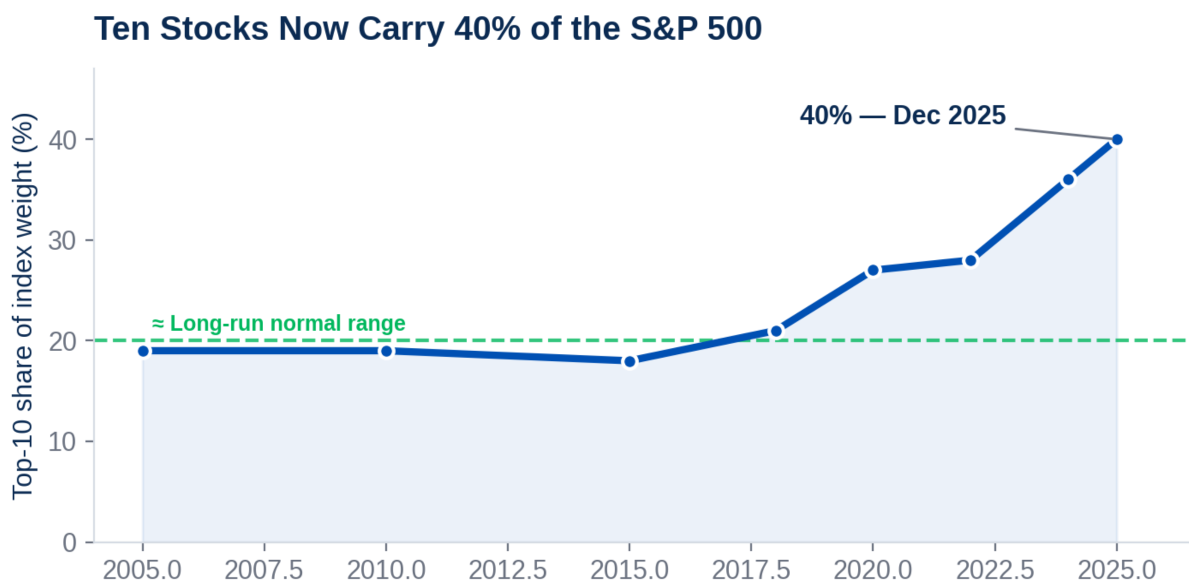
But it is essential to understand why it won. Passive indexing worked, in large part, because falling interest rates and expanding liquidity lifted nearly everything at once. That tailwind has stopped. Interest rates have normalized — the federal funds rate stood at 3.50%–3.75% as of the Fed's April 2026 meeting, with policymakers openly divided about the path ahead amid elevated geopolitical and inflation uncertainty.

None of this means stocks can't do well from here. It means the conditions that made the last decade feel safe and automatic were exceptional, not normal — and a retirement plan calibrated to exceptional conditions is a fragile plan.

> ***"The rules that built your portfolio were written for a market that no longer exists."***

2. The Diversification Illusion

Ask most index investors why they feel safe, and the answer is diversification: "I own 500 companies." On paper, that's true. In economic substance, it no longer is. As of December 31, 2025, the ten largest stocks in the S&P 500 represented roughly 40% of the index's entire weight[2] — a level of concentration last seen in episodes like the Nifty Fifty era of the early 1970s and the dot-com peak of 2000.



Top-10 holdings' share of S&P 500 index weight. Values approximate; sources in notes. Concentration peaked near 40% at year-end 2025.

The engine of that concentration is a small cohort of mega-cap technology companies — the so-called "Magnificent Seven." Since 2019, their combined market value rose roughly 500%, reaching approximately $20 trillion by late 2025 and at times representing close to a third of the entire index.[3] A retiree who owns an S&P 500 fund believes they own the American economy. What they disproportionately own is a leveraged bet on U.S. mega-cap technology, AI leadership, and the assumption that capital keeps concentrating.

For a 35-year-old, that bet may be perfectly reasonable — they have decades to recover if it sours. For a 65-year-old drawing income, the calculus is entirely different, because history is blunt about what happens when concentration unwinds.

In the 1973–74 bear market that followed the Nifty Fifty era, 313 of the 318 growth funds then in existence lost money, and the era's most beloved stocks collapsed — Avon Products fell from $140 per share to $18.50.[4] After the 2000 peak, when the top ten stocks were 27% of the index, Cisco — the bluest of blue chips — declined roughly 90%.[5] In both cases, the market eventually recovered. Retirees withdrawing income through the drawdown often did not.

THE KEY INSIGHT Owning 500 stocks is not the same as having 500 sources of return. When ten names drive the index, your "diversified" portfolio behaves like a narrow bet — and bets behave badly at exactly the wrong moments.

3. AI and the Great Dispersion

Artificial intelligence is the most significant technological shift in decades, and this paper makes no argument against its potential. The argument is about what kind of force it is for markets. The last decade's growth was broad: low rates rewarded nearly every growth business at once. AI is different — it creates winners and losers simultaneously. Economists call this dispersion.

Consider software, the darling sector of the 2010s. AI is compressing development cycles and lowering the cost of building products, which erodes the very moats — switching costs, recurring revenue, scarce engineering talent — that justified premium valuations. The Federal Reserve's own March 2026 meeting minutes flagged AI disruption to business models as a factor weighing on equity prices, noting that the software sector had underperformed as those concerns mounted.[6]

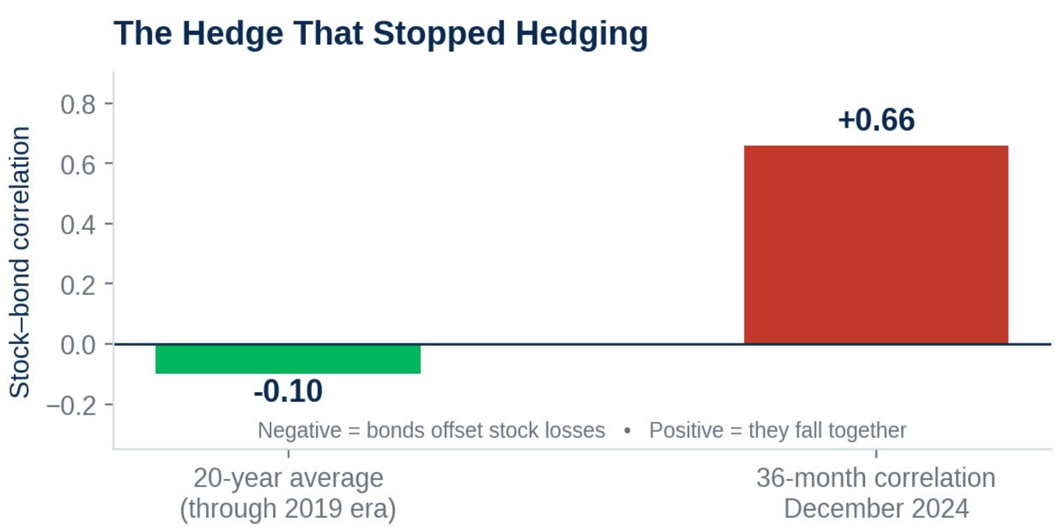
Meanwhile, value is migrating from code to concrete. Global data-center electricity demand is projected to more than double, from 415 terawatt-hours in 2024 to roughly 945 TWh by 2030 — about the total electricity consumption of Japan[7] — and the four largest technology companies alone spent over $200 billion on capital expenditures in 2024, up 62% in a single year.[8] Chips, power generation, grid equipment, cooling, copper: the AI buildout is an infrastructure story as much as a software story.

Why does this matter for a retirement portfolio? Because dispersion is precisely the environment where "the index" stops telling you the truth. When some sectors boom while others are disrupted, headline index returns can mask enormous turbulence underneath — and a portfolio concentrated in yesterday's winners can lag badly even in an "up" market. Leadership is rotating. The next decade is unlikely to resemble the last one.

4. Why the Old Safety Net Frayed

For two generations, the answer to equity risk was a simple recipe: 60% stocks, 40% bonds. The logic rested on one assumption — that when stocks fall, bonds rise, cushioning the blow. For most of 2000–2019, that assumption held.

It no longer does. The 36-month correlation between stocks and bonds reached +0.66 by December 2024, against a 20-year average of roughly –0.10.[9] In plain English: the two asset classes that were supposed to offset each other have been moving together — including on the way down.



Stock–bond correlation: long-run average versus the 36-month reading at December 2024. A positive correlation means bonds fall alongside stocks.

2022 was the proof. With inflation elevated, stocks and bonds fell together, and analysts noted that the 2020s produced the only major market decline in roughly 150 years in which a 60/40 portfolio lost more than an all-stock portfolio.[10] The mechanism is structural, not accidental: when inflation is the threat, rising rates hurt bonds and stocks at the same time. With inflation still above target and enormous government borrowing pressuring yields, the conditions behind that positive correlation have not gone away.

The practical conclusion for retirees is uncomfortable but clarifying: the bond side of a traditional balanced portfolio can no longer be counted on to do the one job it was hired for. Protection, if you want it, has to be engineered deliberately — it no longer comes free with the recipe.

> ***“In 2022, the seatbelt failed during the crash. That is worth sitting with.”***

5. Sequence Risk: The Math That Changes Everything

Everything in this paper so far — concentration, dispersion, the broken stock-bond hedge — matters because of a single mathematical reality that most investors have never been shown. It is called sequence-of-returns risk, and it is the reason retirement investing is fundamentally different from all other investing.

Here is the core idea: while you are saving, the order of your returns doesn’t matter — a bad year early or late nets out the same. The moment you begin withdrawing income, order becomes everything. Losses early in retirement force you to sell more shares at depressed prices to fund the same withdrawal. Those shares are gone forever. When the recovery comes, it compounds on a permanently smaller base.

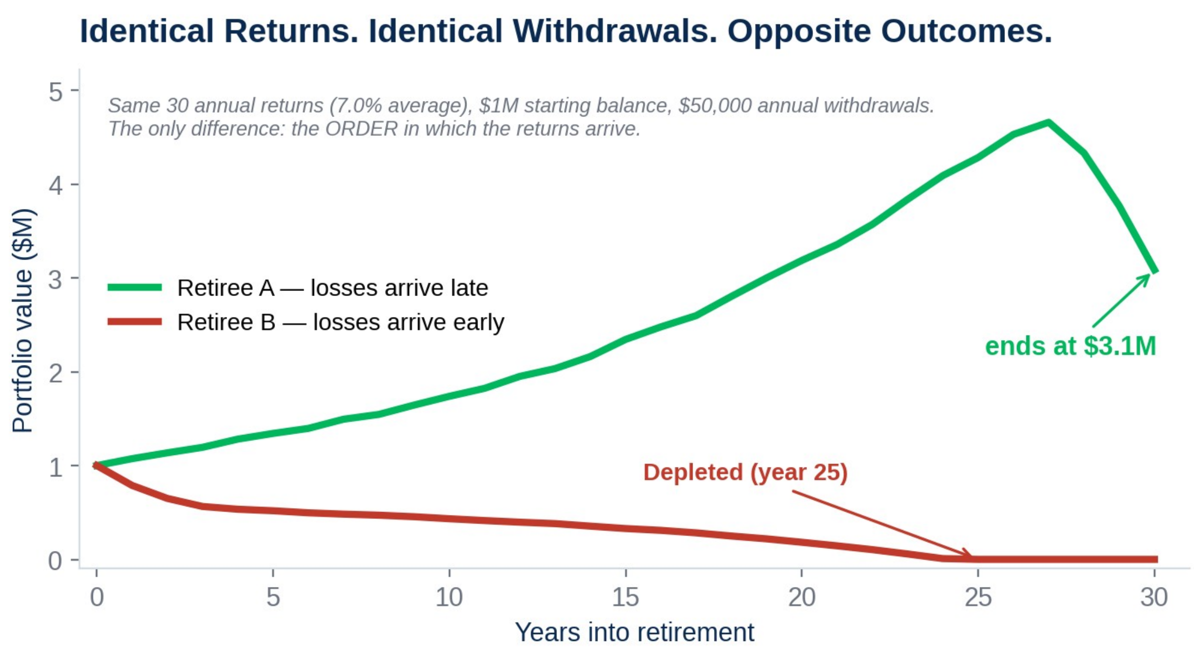
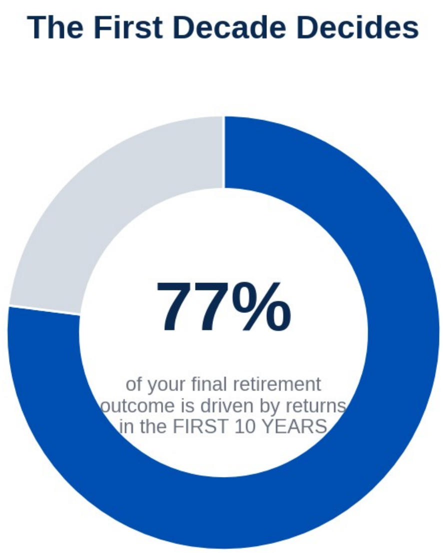


Illustration only (not a prediction): two hypothetical retirees experience the same 30 annual returns averaging 7%, withdrawing $50,000 per year from $1 million — in opposite order. One finishes with $3.1 million; the other is depleted in year 25.

This is not a fringe concern — it is the central finding of modern retirement research. Wade Pfau, one of the field’s leading academics, has documented that the compounded return in the first ten years of retirement explains roughly 77% of the final retirement outcome.[11] Fidelity's published illustrations show the same pattern: identical portfolios and withdrawals, opposite return order, and the difference is a portfolio worth over $3 million versus one depleted in 27 years.[12]



Based on research by Wade Pfau: the first decade's compounded return explains ~77% of the final outcome.

The implications ripple outward. Morningstar's 2025 research puts the highest "safe" starting withdrawal rate at just 3.9% — below the famous 4% rule — precisely because today's starting conditions (elevated valuations, concentration, volatility) raise the odds of a bad early sequence.[13] And the damage compounds behaviorally: retirees who hit early losses and don't cut spending are far more likely to exhaust their savings, yet cutting spending in a downturn is exactly what most people cannot bring themselves to do.

WHY THIS SECTION MATTERS MOST You cannot control what markets return. You cannot control the order returns arrive in. What you can control is whether your essential income depends on that order at all. That is the entire purpose of the next section.

6. From Asset Allocation to Outcome Engineering

Traditional planning asks: "What should I invest in?" — stocks, bonds, cash, in what proportions. After everything above, we'd suggest the better question for a retiree is: "How should my exposure to market risk be structured?" You are not trying to change the market. You are changing how you participate in it. We call this outcome engineering: building a retirement structure to achieve specific objectives — capital preservation, controlled participation in growth, income stability, reduced drawdown risk — rather than simply holding asset classes and hoping the order of returns cooperates.

The income floor concept

The foundational move in outcome engineering is establishing an income floor: ensuring that essential expenses — housing, food, healthcare, insurance — are covered by income sources that do not depend on market performance. Social Security is the first layer. A pension, for those who have one, is the second. The question is what fills the gap.

The power of a floor is mathematical, not emotional. If your essentials are covered no matter what markets do, you are never forced to sell investments during a downturn — which means the sequence-risk math in Section 5 largely stops applying to your lifestyle. Your growth assets can then stay invested through volatility, because they are funding wants, not needs.

One structural tool: the fixed index annuity

Among the instruments designed for this job, one has grown notably in usage: the fixed index annuity, or FIA. Indexed products represented about 45% of total U.S. annuity sales in 2025, up from roughly 24% a decade earlier[14] — growth driven largely by the same retirement-risk concerns described in this paper.

An FIA is an insurance contract, not a market investment. In simplified terms: your premium is protected from index losses by the issuing insurance company, and you receive interest credits linked to the performance of a market index, subject to limits such as caps or participation rates. Credits typically lock in at regular intervals (an “annual reset”), so a good year’s gains are not given back in a bad year. The trade-off is real and should be stated plainly: upside is limited, the contract has surrender periods that restrict liquidity, and guarantees depend on the financial strength of the insurer. An FIA is not a replacement for growth investments. Used appropriately, it is a foundation under them.

Note one structural irony worth understanding: an FIA can credit interest based on the same concentrated index this paper warns about — yet the risk profile is transformed, because the structure removes the drawdown-driven forced selling that makes concentration dangerous to retirees in the first place. Same index; different way of participating in it.

Is this appropriate for you? The honest answer: it depends.

Whether any structured approach belongs in your plan — and in what proportion — depends on your expenses, your guaranteed income sources, your tax situation, your liquidity needs, your health, and your goals for your spouse and heirs. Anyone who recommends a product before understanding those things is selling, not advising. That is precisely the analysis a proper retirement risk review is for.

7. Preparation Over Prediction

This paper has made no predictions. We don’t know when the next 25% drawdown arrives, whether the Magnificent Seven keep magnifying, or what AI does to the economy by 2030. Neither does anyone else.

What we know is structural: the liquidity era that made passive investing feel safe has ended; index concentration sits near historic extremes; AI is driving dispersion between winners and losers; the stock-bond hedge has been failing when it matters; and the math of sequence risk makes the early retirement years disproportionately decisive.

Retirement planning is not about predicting market crashes. It is about recognizing that conditions evolve — and structuring your income so that when markets inevitably lurch, your lifestyle doesn’t lurch with them. The goal is not maximum return in all environments. It is a sustainable outcome across all plausible ones.

> ***"During accumulation, you needed beta. In retirement, you need engineered outcomes."***

YOUR NEXT STEP

The Free 15-Minute Retirement Risk Review

This paper explains the risks in general. A Retirement Risk Review shows you yours: your actual concentration exposure, your potential sequence risk, your income sustainability, and the structural options that fit your situation — if any do.

Fifteen minutes. No 40-page contract. No pressure — a professional second opinion on the one plan you can't afford to get wrong.

Schedule at 15minuteadvisor.com

Important Disclosures

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Fixed index annuities (FIAs) are insurance contracts, not securities, and are not an investment in the stock market or in any index. Index-linked interest crediting is subject to limitations such as caps, spreads, and participation rates, which are set by the insurer and may change. FIAs typically include surrender charge periods during which withdrawals above permitted amounts incur charges; withdrawals may be taxable and, if taken before age 59½, may be subject to an additional 10% federal tax. All guarantees are backed solely by the financial strength and claims-paying ability of the issuing insurance company. FIAs are not FDIC insured, are not bank deposits, and are not guaranteed by any bank or government agency. Product features vary by carrier, product, and state; certain features may carry additional cost.

Hypothetical illustrations in this paper, including the two-retiree sequence-of-returns example, are for educational purposes only, do not represent any actual product, account, or investor experience, do not reflect fees or taxes, and are not predictions or guarantees of future results. Past performance does not guarantee future results. Index figures and market statistics are drawn from third-party sources believed reliable as of the dates noted; accuracy and completeness are not guaranteed, and figures may have changed. Indexes are unmanaged, cannot be invested in directly, and index returns referenced may exclude dividends.

Insurance products are offered through licensed insurance professionals. [Insert advisor/agency name, license numbers, and states of licensure here prior to distribution. This document should be reviewed by your IMO/carrier compliance department before consumer use.]

Sources & Notes

Figures are as of the dates noted in the text and were verified or compiled in June 2026. Statistics summarized from third-party research are paraphrased; readers should consult original sources for full context.

1. Federal Reserve Board, balance sheet data and FEDS Notes on balance sheet policy (expansion from ~$800B in 2005 to ~$6.5T by late 2025).
2. Index concentration data: top-10 holdings ≈ 40% of S&P 500 weight as of December 31, 2025 (index provider and institutional research summaries; share subsequently eased to ~37% by March 2026).
3. Market data summaries on the “Magnificent Seven”: combined market value growth of roughly 500% from 2019 to a peak near $20 trillion in October 2025.
4. Historical accounts of the 1973–74 bear market and the “Nifty Fifty” era: 313 of 318 growth funds posted losses in 1974; Avon Products declined from ~$140 to $18.50.
5. Dot-com era records: top-10 stocks ≈ 27% of S&P 500 capitalization in 2000; Cisco Systems’ ~90% decline, 2000–2002.

6. Federal Open Market Committee, minutes of the March 2026 meeting (AI-related disruption concerns; software sector underperformance).
7. International Energy Agency, Energy and AI (2025): data-center electricity demand projected to grow from 415 TWh (2024) to ~945 TWh (2030).
8. Company filings and industry analyses: combined 2024 capital expenditures of Amazon, Microsoft, Alphabet, and Meta exceeding $200B (+62% year over year).
9. Institutional research on asset correlations: 36-month stock–bond correlation of +0.66 (December 2024) versus ~–0.10 twenty-year average.
10. Morningstar and related analyses of the 2022 drawdown: the only major decline in ~150 years in which a 60/40 portfolio fell more than an all-equity portfolio.
11. Pfau, Wade. Research on retirement income and sequence-of-returns risk: first-decade compounded returns explain ~77% of final retirement outcomes.
12. Fidelity Investments, published sequence-of-returns illustrations ($1M portfolio, $50,000 annual withdrawals; outcomes of >$3M versus depletion in 27 years depending on return order).
13. Morningstar, The State of Retirement Income (2025): highest safe starting withdrawal rate estimated at 3.9%.
14. LIMRA, U.S. annuity sales data: indexed products ≈ 45% of total annuity sales in 2025, versus ~24% a decade earlier.
15. Federal Reserve, FOMC statement of April 29, 2026 (target range maintained at 3.50%–3.75%; elevated uncertainty including Middle East developments).