The Biggest Hidden Danger Facing Today's Retirees

Saturday's With Jim

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Dear Friends,

We will soon be publishing the American Association of Individual Investors update of the 1995 "Princeton" research that showed the 30-year viability of a 4% withdrawal rate from a 50/50 stock-bond investment account. Today we sharpen our focus on the major risk which could deplete your income capital before your life ends, even with the industry standard 4% withdrawal.

Sequence of Returns Risk

Experiencing a large drop in account balances within a few years after retirement creates sequence of returns risk. In a recent post (December 29, 2018) from *The Retirement* Café entitled, "Lessons from 2018," Dirk Cotton pointed out that almost half of the risk one faces in achieving lifelong investment income comes within the first ten years of retirement.

The 4% withdrawal rate had a better than 90% chance of lasting 30 years except when retirement started around 1929. Retirements at other market highs, like 1968, fared poorly for a time (there was a terrible bear market in 1973-74), but after 1982 the market rose with pauses for another 18 years. The jury is out how retirees in 2000 and 2001 will fare.

It is too early to know if sequence of returns risk will be a danger for those who retire this year, next year or soon thereafter, but given that the runup was so great and the world of the last 70 years is crumbling, it is incumbent on us, we think, to be very, very risk conscious as we know that most don't have the assets to support a bond-only retirement. As you know, bonds don't have the long-term returns of stocks, but they are generally far less volatile and provide a cushion in downturns. Gaia is not downbeat at all, as bear markets are a fact of life and recoveries begin within about two years from the bear's onset. We do think, however, that we should expect muted long-term performance for the next few years.

So what?

Using volatile investments to produce a rising income is no mean feat and requires careful thought at the outset. The Retirement Researcher blog post referenced above concludes with, "Being less confident back when I retired would have served me well."

For reference, *The Retirement Café, Retirement Planning for the Unwealthy,* is a blog that the author writes to help himself and others through the retirement experience. You can visit the blog at http://www.theretirementcafe.com/.

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