

Portfolios to Last a Lifetime

by Patrick McGinnis

The No. 1 financial goal for most Americans is financial independence. Everyone wants the freedom to stop working while enjoying the same—or an even better—lifestyle than during our working lives. Whether this means working charitably, traveling extensively or just plain spoiling the grandkids, taking the leap from a reliable paycheck to relying on one's investment portfolio can be a scary proposition.

During your lifetime, you will have two main portfolios: a career portfolio and an investment portfolio. Long hours are invested at the office building career portfolios that produce cash to be moved into your investment portfolio. Typically, the goal of this process is to reach a point at which the investment portfolio is large enough to provide the lifestyle you desire. The difficult part is determining how much is enough.

The market performance in the last quarter of 2007 and first six months of 2008 may have pushed some future and recent retirees to ask whether there is *ever* enough. Relying solely on your investment portfolio for your livelihood requires that you relinquish control of your financial life to the volatility of the market.

The good news is that recent research suggests you do have some control. A study by JP Morgan looked at 20-year time frames between 1926 and 2005 and found that asset allocation had less impact on wealth preservation than the level of spending. The biggest determinant in whether retirement is, "Hello, Beach," or "Hello, welcome to Wal-Mart," is your rate of withdrawal.

How much can you take out of our portfolio and have it last a lifetime? It may come as a surprise to someone with a \$5 million investment portfolio that spending more than \$20,000 per month could put serious stress on your portfolio's ability to sustain itself. A rule of thumb suggests that taking 3-to 5 percent annually from a well diversified portfolio should allow it to last a lifetime. When we put this rule to the test, we see that even within this range, the differences can be meaningful.

We used a Monte Carlo simulator to generate 10,000 lifetimes (*defined as 30 year periods*) of returns, testing varying withdrawal rates at different asset allocations to see if the portfolio was successful.

Withdrawal Rate	Asset Allocation		
	70% / 30%	50% / 50%	30% / 70%
3%	>95%	>95%	>95%
4%	93%	88%	89%
5%	<50%	59%	65%
Asset allocation is % in fixed income / % equities & alternatives			

Within this commonly acceptable range of withdrawal rates, we see that as the withdrawal rate increases, the rate of success quickly decreases. The analysis illustrates concurrence with that of JP Morgan's conclusion that withdrawal rate is more important than asset allocation, as a determinant of a successful retirement.

It is important to consider the sensitivity of this forecast and the constantly changing nature of your life. Your Moneta principal is happy to discuss your withdrawal rate and review a Monte Carlo simulation and Retirement Sufficiency Analysis for your individual situation. Because very little in life remains constant, it is important to update this analysis every 12 to 18 months. Our goal as your Family CFO is provide advice that inspires confidence so that, over the long-term, you trust us to be your partner in planning for this important time in your life.