



Re: Retirement withdrawals after attaining CM

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In response to message posted by **pbradford6**:

I've been working on this article for the past 2 weeks or so that tries to answer your question. So since you asked, here's what I've come up with so far.

In my research, I've encountered four approaches to investing during retirement. Each has advantages and disadvantages. The first approach is to withdraw a fixed percentage from each asset class each year. The disadvantage is that when stocks are down, more shares need to be sold to meet the fixed withdrawal percentage amount. While declining prices helps a dollar cost average investor accumulate more shares, it has the opposite effect for the retiree. Declining prices forces the retiree to instead sell more shares. And even though prices will eventually recover, it will be very difficult to recover those extra shares that were sold during the downturn. A declining stock market is now detrimental to the retiree's withdrawal strategy.

Click the following link for an article that follows the fixed percentage approach:

<http://aaii.com/promo/mstar/feature.shtml>

The second approach seeks to remedy the drawback from the first approach. Instead of withdrawing a fixed percentage from each asset class each year, the second approach would withdraw first from only cash and bonds. This approach is the basis of the Grangaard Strategy and Buckets of Money Strategy. During the years that cash and bonds are spent, stocks are not touched and allowed to grow. At some future point, profits from stocks are taken to replace the cash and bonds that were partially or all spent. The disadvantage of this second approach is that during the latter part of the holding period, the asset allocation becomes increasingly weighted toward stocks. Thus, the overall portfolio may potentially become more volatile. The following link brings you to the Buckets of Money website. Then click on "View Demo" at the bottom of the page.

<http://www.rjlinc.com/bomdirect/index.cfm>

A third approach can be considered to be a variant of the Grangaard Strategy. This third approach attempts to navigate a middle course. I've seen this approach referred to as Dynamic Rebalancing. In this strategy, a decision is made each year whether to take a normally fixed percentage from each asset class. As long as stocks were up in the preceding year, funds would be redeemed from all sources including stocks. However, if stocks were down, then funds would be withdrawn only from cash and bonds. I've only seen one source that presents data for this strategy. I would be eager to see more research done on this third approach as it probably would keep to a more traditionally conservative asset allocation. Click the following link for an article that describes the Dynamic Rebalancing approach:

<http://www.fpanet.org/journal/articles/2...>

A fourth approach can be called the Dividend Distribution strategy. I've thought up this approach, but I haven't yet fully developed it. Instead of reinvesting dividends from stock and bond funds like one does while accumulating a retirement nest egg, the retiree will now spend those dividends. The rate of dividend income will depend on the asset allocation. But a simple conservative allocation could be 10% Money Market/40% Total Bond Index Fund/35% Total Stock Index Fund/15% REIT Index Fund. If the retiree assumes a 4% withdrawal rate (and the other three approaches are also in the range of 4%), about 2.5% to 3% can come from dividends. The remainder can come from selling shares of stock funds.

Investing during retirement will be the most important and most difficult task for most every person with a self-directed retirement account. Given this, it's surprising that very few books or articles are written about it. That should change as more and more baby boomers head into retirement and face the task of managing their nest egg to last them the rest of their life.

So if you ask me which is best, I honestly don't know. There are trade-offs in each strategy. As in all cases relating to money, seek an approach that you are most comfortable with.

