

Spending and Protecting

The question that stresses those near or in retirement is “will my nest egg last and can it be protected?” The recent experience with inflation has given all of us a lesson in purchasing power erosion. This particularly concerns retirees who are no longer adding to their retirement savings but are drawing from it. We are also living longer, adding to the pressure on retirement savings.

One of the critical concerns of retirees is what we call “sequence of returns”. This refers to the risk of experiencing a major downturn in the financial markets, and as a result investment values, at the time a retiree or near retiree is looking to withdraw money from retirement accounts. No one wants to see their retirement funds drop by 10%, 15% 20% or more just when distributions are needed. This can be a vexing question when deciding on allocating between stocks, bonds and perhaps other asset classes. How do you balance taking appropriate risk in order to achieve the long-term return expectations required to fulfill longevity goals, versus having the confidence that there will be sufficient funds for near term living needs. What is the appropriate balance between liquidity and growth for lifetime spending?

Allocation is always a critical decision when we construct portfolios. While it is a risk and return calculation as we accumulate assets, it may be better viewed as a spending versus investment decision in retirement.

Think of what your spending needs will be for the foreseeable future. Whether that is a year or longer (think perhaps three years), that is up to you. These funds can be invested in short-term bonds or cash to minimize risk. The remainder can be invested in equities and perhaps other investments to target growth. Of course, investing for growth also opens us up to declines, which is why we want to preserve our near-term cash needs.

The key to this is reallocation. Reallocation is an activity that many investors do not do on their own, or at least not with the frequency we view as appropriate. Selling what is up and buying what is down is psychologically difficult, but essential for long-term success. As the spending account referenced above is spent down, gains from the investment portion (stocks, etc.) can be liquidated to replenish the spending account. If the investment account is down, replenishing the spending account can be put off. Having multiple spending periods in reserve gives us the flexibility to take advantage of gains when they occur and not be forced to sell while values are down. By having more than next quarter's spending in the spending account, you have the benefit of waiting to shift funds to spending from investment through rebalancing.

It is a different way of looking at allocation and reallocation, but may very well be the key to having confidence in not outlasting your nest eggs.

Client: Fortitude Capital Management
Size: 1/4
Location: Sponsorship

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REAL ESTATE RESOURCE

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Address	List Price	Sale Price	DOM	Beds	Baths	SqFt	Style
255 Hill Ave	\$285,000	\$265,000	12	3	1	1,400	1 Story
1N262 Main St	\$350,000	\$350,000	7	3	2,1	1,589	2 Stories
23W144 North Ave	\$369,900	\$360,000	43	3	1,1	1,602	Split Level
2N111 Amy Ave	\$375,000	\$389,000	4	3	2	1,500	1 Story
21W575 Glen Valley Dr	\$424,900	\$390,000	11	3	2	1,800	1 Story
111 S Ellyn Ave	\$425,000	\$420,000	16	4	2	1,952	Raised Ranch
478 Cottage Ave	\$440,000	\$440,000	5	2	1	1,060	1.5 Story
21W554 Mayfield Ct	\$395,000	\$441,000	3	3	2	2,006	1 Story
2S861 Devonshire Ln	\$475,000	\$497,000	5	4	2,1	2,476	Split Level
2S227 Mayfield Ln	\$489,900	\$503,000	5	4	2	2,224	Raised Ranch
109 Kenilworth Ave	\$524,999	\$520,000	25	3	2	1,601	1.5 Story
640 Marston Ave	\$550,000	\$550,000	5	4	2,1	2,089	Split Level w/ Sub
330 Hillside Ave	\$500,000	\$555,000	6	3	2	1,625	2 Story
1S555 Cotuit Ct	\$599,900	\$580,000	43	6	2,1	2,844	2 Story
850 Hillside Ave	\$599,000	\$600,000	3	4	2	1,772	2 Story
935 Ellynwood Dr	\$585,000	\$675,000	4	4	2,1	2,378	Split Level w/ Sub
861 Evergreen Ave	\$679,000	\$700,000	6	5	3	3,200	2 Story
684 Chidester Ave	\$679,000	\$750,000	5	3	3	1,360	1 Story
601 N Main St	\$875,000	\$900,000	4	3	3,1	2,400	2 Story
579 Forest Ave	\$1,249,000	\$1,150,000	9	4	3,2	4,550	2 Story



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