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# Investment Strategy for Retirement

“Making sure you don’t run out of money during retirement”

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1

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2

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2

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3

## My personal disclaimer

- I changed from investing in individual stocks using the BI methodology to investing in index funds about 24 years ago.
  - Not because BI method did not work (It works great!)
  - Not because I was guaranteed to do better (I probably haven't)
  - It was too much work and time consuming for me to keep a strong portfolio

3

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4

## Two unique time frames for investing

- Investing for retirement (you have seen this before)
  - Grow a large nest egg
  - Maximize allocation to equities
- Investing/divesting during retirement (today's focus)
  - Don't run out of money
  - Maintain large allocation to equities
  - Keep living expenses in fixed income

4

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## Investing during retirement

- Overarching goal
  - Don't run out of money!
- Investing objective
  - Growth of capital (need for later years in life)
  - Preservation of capital (needed for next few years)
  - Minimize selling in a down market (don't lock in losses)
- Investment strategy
  - Large allocation to equities
  - Laddered CDs or bonds for living expenses

5

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6

## How do I know that I can retire?

- Retirement income must meet or exceed retirement expenses for the rest of your life!
- Sources of retirement income
  - Social Security
  - Pensions
  - Rental income
  - Investments
- Retirement expenses
  - Everything you must pay for (medical, housing, transportation, food, loans, taxes, etc.)

6

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7

## Let's look at an example

- Retirement expenses
  - Everything that you must pay for (housing, medical, food, loans, gifts, taxes, transportation, etc.) - \$80,000 annually
- Sources of retirement income
  - Social Security -- \$35,000 per year
  - Small pension – \$5,000 per year
  - Income from investments
    - needs to be \$40,000 to meet expenses

7

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8

## How big must your investment nest egg be to retire?

- Multiply the first-year annual income needed from your investments by 25
  - Example:  $25 \times \$40,000 = \$1,000,000$
- Now you have a reasonable approximation of the total amount of investments needed to fund your retirement.
  - Notice that your withdrawal rate is 4% (1/25).
- Using a withdrawal rate of 4% has been shown to have a high probability of making one's balanced portfolio last for 30 years.



8

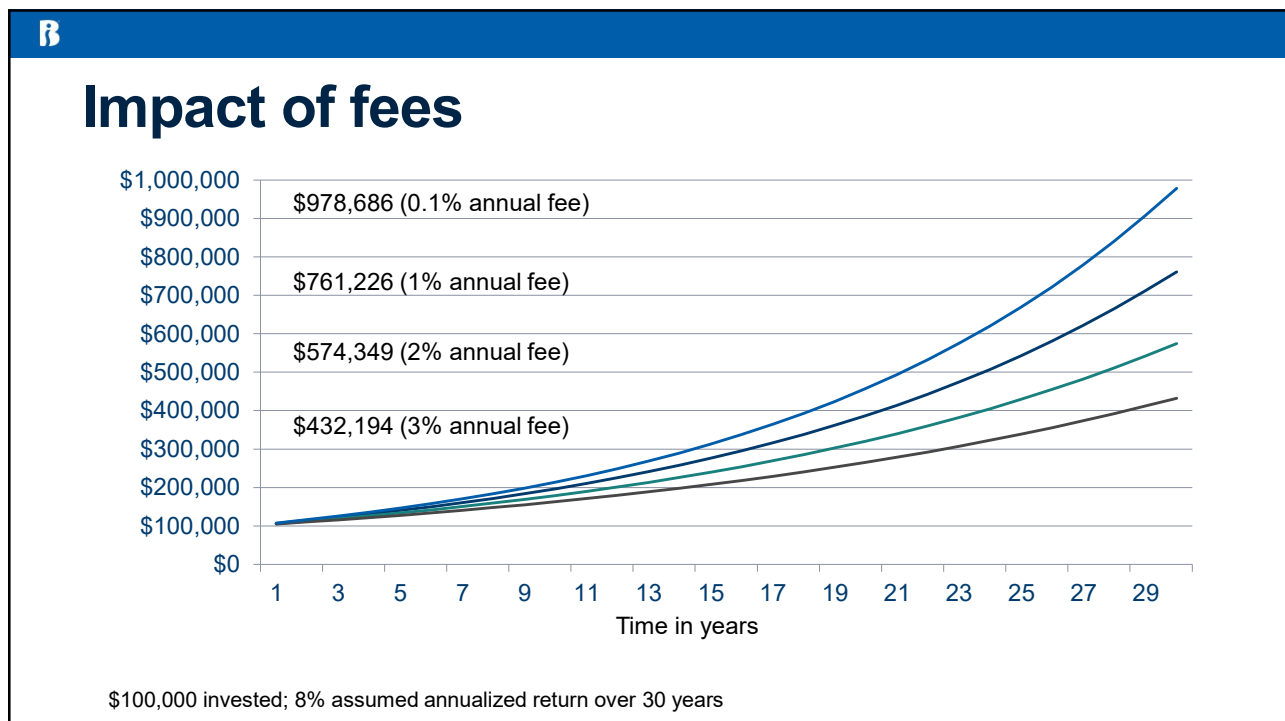
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### 30-Year Starting Safe Withdrawal Rate %, by Asset Allocation, 90% Success Rate

Equity Weighting %	10 Years	15 Years	20 Years	25 Years	30 Years	35 Years	40 Years
100	8.3	5.8	4.6	3.8	3.3	3.1	2.9
90	8.6	6.0	4.7	4.0	3.5	3.2	3.0
80	8.9	6.2	4.8	4.1	3.7	3.3	3.2
70	9.2	6.4	5.1	4.3	3.8	3.5	3.2
60	9.4	6.5	5.2	4.4	3.9	3.5	3.3
50	9.6	6.7	5.4	4.5	3.9	3.6	3.4
40	9.8	6.8	5.4	4.5	4.0	3.6	3.4
30	9.9	6.9	5.5	4.6	4.0	3.6	3.4
20	10.0	6.9	5.5	4.5	4.0	3.6	3.3
10	9.9	6.9	5.4	4.4	3.9	3.4	3.2
0	9.7	6.7	4.2	4.3	3.6	3.2	2.9

Source: Morningstar. Data as of Sept. 30, 2023.

9



10

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## Simplest Equity Investment Plan

- Invest everything in a Total Stock Market Index fund
  - You will be well-diversified domestically
  - It will be extremely low cost (~.03%)
  - Reinvest the earnings and you won't need to do anything
  - You will achieve the stock market rate of return
- Simple is good
- Simple is easy
- Simple is very profitable

11

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## Almost-as-simple plan

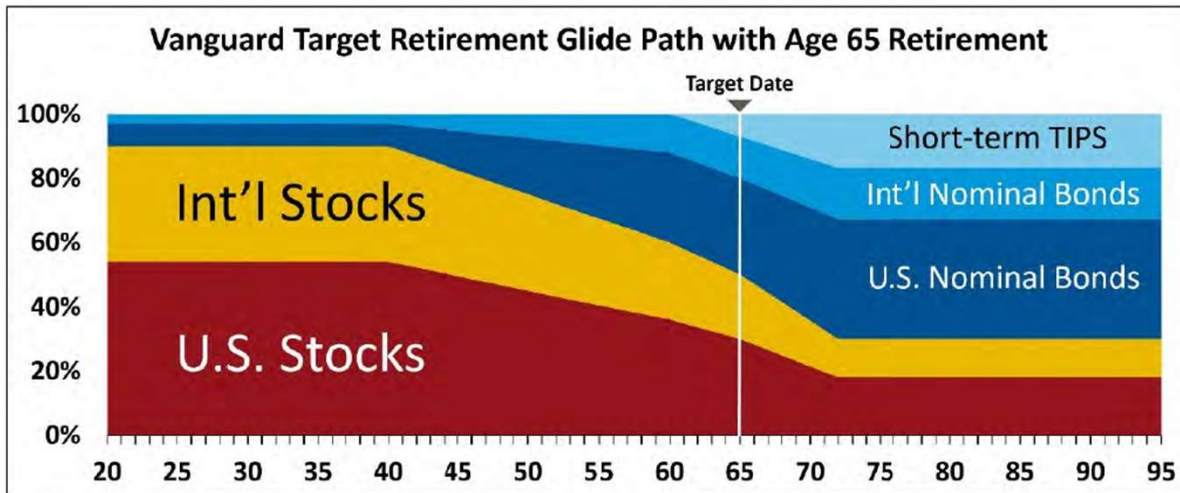
- Invest 50% in Total Stock Market Index fund
- Invest 25% in Small/Mid Cap Index fund
- Invest 25% in International Stock Index fund
  - You will be globally diversified
  - It will be very low cost
  - Reinvest earnings and do nothing
  - You will achieve stock market returns

12

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13

## Target Date Funds (good and bad)



13

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## Helpful tips in early years of retirement

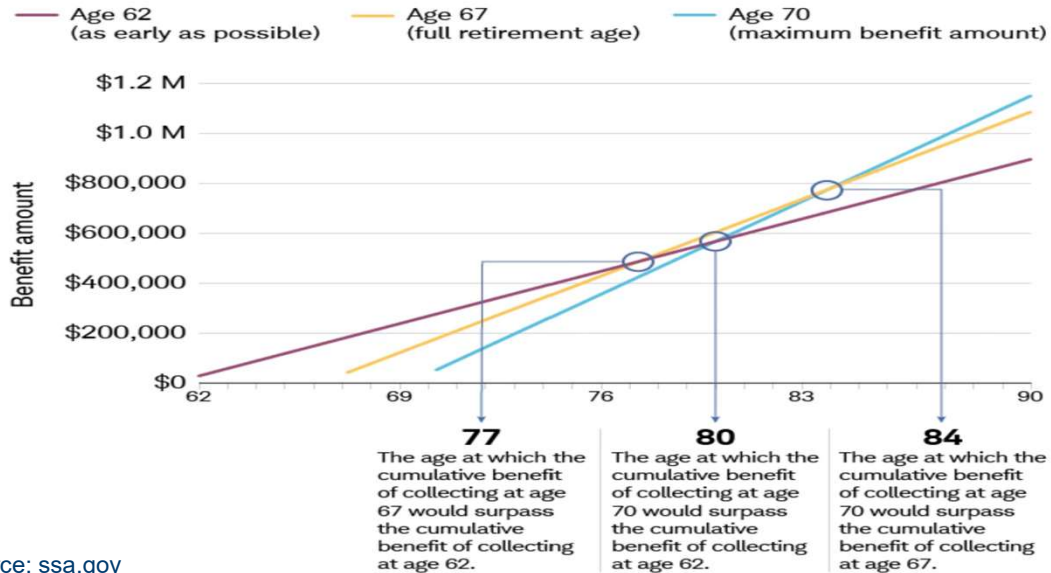
- Consider converting traditional IRA money to Roth IRA
  - Typically from retirement date to age 73
  - Only if you can stay in the lower tax brackets
  - Don't use the converted money to pay the taxes
- Consider delaying Social Security
  - Age 62 \$700 per month
  - Age 67 \$1,000 per month (assuming this is full retirement age)
  - Age 70 \$1,260 per month
- Strive to have mortgage paid off prior to retirement

14

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15

## When waiting pays off



15

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## A Practical (My) Retirement Model

Assume \$1,000,000 investment asset base

Assume \$40,000 living expenses are needed from investments

- Stocks
  - Grows about 7-9%
  - Long-term growth comes from this side
- Bonds (CDs) & Cash
  - Grows about 2-4%
  - You live off this side

How much do we keep in bonds and cash?

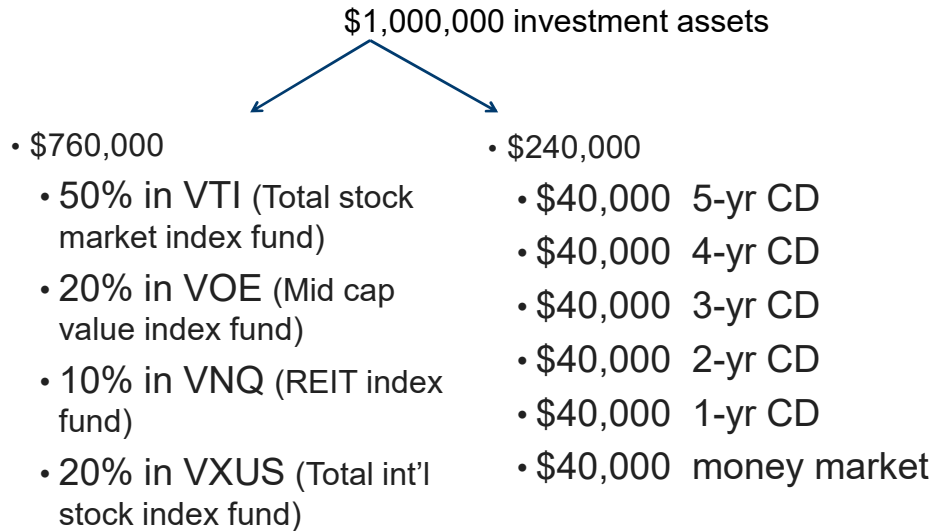
16

16



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## My Current Retirement Model

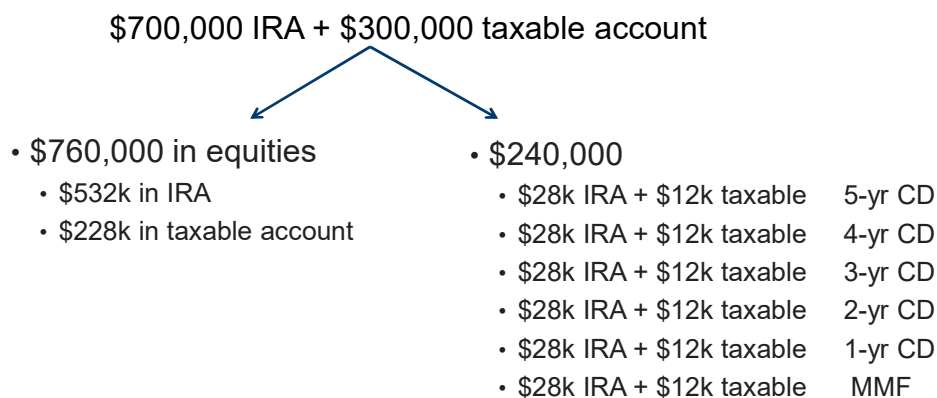


17

17

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## Retirement Model w/ IRA



RMD on a \$700,000 IRA is about \$27,000

18

18

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Thank  
YOU!



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19

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## Question and Comments

Investment Strategies for  
Retirement

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20