



PERSONAL FINANCE



Don't Let Bad Math Ruin Your Retirement

[By Tim Hanson]

Congratulations - you're a stock market genius! During a lifetime of smart investments, you scrimped and saved your way to a portfolio worth more than \$1 million.

Now you're 55 and ready to retire to a sunny island, take the occasional trip to see the grandkids, and still have plenty in the bank to handsomely tip the caddies after they help you birdie that par-five.

No problem ... if you've run your numbers right. But do you have any idea how much you can withdraw from your portfolio to make it all happen?

The price of the good life

If a 10% withdrawal rate sounds reasonable to you, I hope you're ready to go back to work. If the market doesn't perform up to snuff, you could deplete your savings in a mere 15 years. That means that at the age of 70, you could be looking for work again in a market where your skills have one-tenth the value they used to. That's not the retirement you hoped for when you said goodbye to the rat race, but it's the retirement you'll get if you fail to prepare and follow a sound financial plan.

A great retirement starts with a solid financial plan in place from the first day of your working life. That said, *it's never too late to start planning*. Putting together a complete financial plan that determines intelligent asset allocation, manages taxes and fees, calculates responsible withdrawal rates, and accounts for rising costs of living will still put you ahead of the majority of Americans.

Even master investor Peter Lynch wasn't fully ready for the future in 1995, when he wrote that a 7% annual withdrawal rate would be prudent for an all-stock portfolio. He later retracted his analysis when financial columnist Scott Burns proved that Lynch's strategy could make for a most unhappy ending.

Prepare your portfolio

Before you hit the beach, make sure your portfolio has some cover. Pare those stakes in volatile winners such as **GrafTech International** (NYSE: GTI), **Priceline.com** (Nasdaq: PCLN), **Varian Semiconductor** (Nasdaq: VSEA), and **Reliant Energy** (NYSE: RRI). Although each of these stocks has more than doubled over the past 12 months, they also sport betas greater than two, and they have precipitously dropped in the past-characteristics that investors with short timelines should avoid.

Now, consider taking that newly freed capital and reallocating a portion of it to blue-chip dividend payers such as **Coca-Cola** (NYSE: KO) and **Johnson & Johnson** (NYSE: JNJ), and index funds such as SPDRs (AMEX: SPY). Unlike the volatile four mentioned above, Johnson & Johnson is a relatively stable boat with more than 120 years of history, a healthy 2.6% dividend, and a diverse product line.

But since there's no reason for near-retirees to hold more than 60% of their portfolios

in equities, stash the rest in a healthy mix of bond funds such as the Bill Gross-run Managers Fremont (which recently received the *Motley Fool Rule Your Retirement* stamp of approval) and Treasury Inflation-Protected Securities (TIPS).

Now for the all-important withdrawal rate. You'll want to draw down your IRAs, 401(k)s, pensions, and other retirement accounts in a way that funds your retirement lifestyle and preserves your net worth.

Financial planner William Bengen first showed - and history has confirmed - that a 4% annual withdrawal rate is a great place to start. But you'll also want to know which accounts to draw down first, ways to avoid big tax hits, and how to keep pace with the government's minimum distribution requirements. After all, those devilish details are what retirement planning is all about.

Be your own money manager

Preparing for retirement can be a complicated business - even for great investors - *if* you don't put together a proper plan. Running the numbers and experimenting with different withdrawal scenarios will take the guesswork out of your future, helping you avoid that dangerous scenario where you run out of cash.

No matter how complicated it gets, always remember that *you* are the best manager



PERSONAL FINANCE

of your own money. You have your own best interests at heart, you won't charge yourself fees, and you're willing to devote every minute of your time to your future. These put you ahead of most "professional" money managers from the get-go.

But even the most Foolish Fools need some retirement help, which is why we keep former Wall Street financial planner Robert Brokamp around. To start building your financial plan, try a 30-day free pass to Robert's [*Motley Fool Rule Your Retirement*](#)

newsletter service. You'll enjoy access to all back issues, interviews with expert money managers, retirement calculators (including one for withdrawal rates), how-to guides, and the Fool's dedicated discussion boards. [Click here](#) to learn more. There is no obligation to subscribe.

This article was originally published on June 30, 2005. It has been updated.

[Tim Hanson](#) owns none of the companies mentioned in this article. [Priceline.com](#) is

a Stock Advisor selection. Coca-Cola is an Inside Value recommendation. Johnson & Johnson is an Income Investor pick. No Fool is too cool for [disclosure](#).

This feature may not be reproduced or distributed electronically, in print or otherwise without the written permission of uclick and Universal Press Syndicate.

EmploymentCrossing is the largest collection of active jobs in the world.

We continuously monitor the hiring needs of more than 750,000 employers, including virtually every corporation and organization in the United States. We do not charge employers to post their jobs, and we aggressively contact and investigate thousands of employers each day to learn of new positions. No one works harder than EmploymentCrossing.

Let EmploymentCrossing go to work for you.