

“Finally, The Truth About Safe Money From An Unlikely Source: Nasdaq.com!”



www.nasdaq.com

RETIRING: Retirees Need Less Stocks, More Annuities

By Robert Powell, A DOW JONES COLUMN

Retirees should invest just 5% to 25% of their portfolios in stocks, or at least that's the case for those whose primary goal is to minimize the risk of running out of money and sustaining their withdrawals, said one report published by Putnam Investments new think tank.

For his part, W. Van Harlow, Ph.D., CFA charterholder and director of research at the Putnam Institute, is suggesting a conservative asset mix largely because of what he views as the greatest risk to a retiree's portfolio: the unfavorable "sequence of returns" in the securities' markets.

That's a fancy way of saying retirees who have too much money in equities face the very risk that the stock market will keep falling at the very same time they are withdrawing money for their accounts. And that doing so increases the odds that they will outlive their money or, more likely, reduce their withdrawals and presumably their standard of living. (By the way, many retirees experienced this risk firsthand from 2000-2009. So it's not one of those risks that people talk about, but never have to face in reality.)

In an interview, Harlow noted that once a retiree starts taking money from their retirement accounts, the withdrawals become "path dependent." And if the success of a retirement income plan rests on whether the markets go up or down, one has to figure out how to protect oneself against that volatility, and especially against the risk of unfavorable "sequence of returns." And the best way to do that is by reducing one's overall exposure to equity to no more than 25%, he said.

So, using Putnam's research as your guide, any overall portfolio where the percent allocated to stocks greater than 25% would be subject to the risk of unfavorable sequence of returns.

Meanwhile, the 79-page GAO report, which was undertaken by at the request of Sen. Herb Kohl, D-Wisc., the chairman of the Special Senate Committee on Aging, details how Americans can avoid the risk of outliving their savings.

