Two Strategies to Avoid Outliving Your Money

In July 2007 there was a sense of unease in the markets and I was warning investors to prepare themselves with a low draw on their portfolios. I also gave investors two ways to help prevent outliving their money. Read here:

> *At the start, retired investors and investors saving seriously for retirement (76 million boomers will begin retiring next summer) must answer two basic questions: (1) What is the proper mix of stocks and bonds? (2) How much money can be drawn annually from an investment portfolio? I have used Ibbotson data and examined 20-year rolling time periods from 1926 on. I have concentrated on minimum returns in order to advise a portfolio mix most likely to assure a draw of my advised 4%. The highest minimum return over 20-year rolling periods was achieved with a portfolio mix of 50/50 bonds and stocks. That minimum return was 4.6%. I would treat a 50% fixed-income portfolio component as suitable. And there is no way I'd go over 4% (inflation adjusted) for my annual draw. In fact, if possible, investors of suitable means are advised to cut back to a 3.5% draw (of an initial portfolio). Of course, the two best ways to make sure that you and your spouse do not outlive your money are to (1) work longer, and (2) slash your annual living expenses.*

If you are still working, there is a third way to stretch your retirement portfolio, save more. Saving more today and compounding it for later is the key to a happy retirement. Prudent investors may also consider a 3% draw today.