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“Safer” Options July 2010

A client called recently asking if there were "safer" options for the portion of their retirement savings invested in the world's greatest companies (i.e. equities). Many of us, myself included, have been searching for years for a "safer" way to invest for retirement.

First and foremost, in my mind at least, the only rational way of defining risk is: having enough income in retirement to maintain one's dignity and independence. In order to be truly "safer," an investment must increase our probability of maintaining dignity and independence.

Having searched high and low for seven years, which has included tens of thousands of pages of information on the topic, I am reminded of the famous Winston Churchill quote: "Democracy is the worst form of government ever crafted by the hand of man, except for all the others."

In a similar fashion: Buying and holding a collection of the world's greatest companies (i.e. equities) is the worst form of investing for retirement ever crafted by the hand of man, except for all the others.

For example, a firm I work with recently published a white paper looking at the 637 thirty year periods from 1926-2009 on a monthly basis. In every single one of those 637 periods, a portfolio comprised 60% of the world's greatest companies (i.e. equities) and 40% bonds, could have sustained a 5% withdrawal rate. 100% success rate! Is this any guarantee of the next 30 years? Nope. At least no more than waking up every morning of your life guarantees you will wake up tomorrow.

No other investing "strategy" has proven more successful at maintaining one's dignity and independence in retirement. My search for a safer method will continue until my last breath. Should a safer method be discovered, I will be the first to tell you. Until then, as painful as it is, buying and holding a collection of the world's greatest companies is our best chance of success.

P.S. If buy and hold is just too painful (and boy is it ever painful), we can discuss options that guarantee your retirement income in exchange for a cut of your growth annually. While expensive, giving up a portion of your growth is much cheaper than panicking out of the market when you are down 40%, or having a fixed income in a rising cost retirement.

*Your Future. Your Peace of Mind.
Comprehensive Strategies for Successful Retirement*