TENON FINANCIAL
RETIREMENT PLANNING & INVESTMENT MANAGEMENT

Retirement Planning Insights

June 2022

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Up Front

Trips to Austin and Chicago

Last month I made a trip to Austin Texas to meet a few clients. Up until now, I've only known them virtually through Zoom, e-mail, phone and social media. It was great to finally "meet" them!

I always knew Austin was a foodie town, but I didn't realize just how foodie it is. In addition to eating some great tacos and BBQ, I also had the experience of eating veal sweetbread (which I found out "sweetbread" is neither sweet nor bread… it's just a more pleasant way of saying "neck and throat"). I also had some mixed drinks that were made of things I never knew belonged in mixed drinks, such as egg whites. Also, I was introduced to caperberries as a drink garnish…mind blown!

I'm also proud to share that I used an electric scooter to get around town for a few of my visits. The meetings were close enough to my hotel that it would have been silly to drive and try to find parking, but far enough away that walking wasn't feasible (especially since it was over 90 degrees and humid every day). Electric scootering was the perfect mode of transportation.

After meeting up with my clients, my wife flew into town so she and I could do some touristy stuff. I got my first sunburn of the year, we bought some eclectic artsy stuff from a street vendor and we had some kind fellow take our picture in the restaurant at our hotel.

Next month I'll be in Chicago for a few days meeting another few clients whom I've thus far only known virtually. As much as it's incredibly easy and efficient to conduct an advisory relationship virtually, there is no replacement for meeting someone face-to-face, even if it's only once.

Side note – one of my favorite Saturday Night Live skits is the Chicago Bears "Super Fans" bit from the 90's. If only the late Chris Farley was still with us so I can hear him say "Polish Sah-sich" one more time…

-Andy

Retirement Planning News

Will current markets and inflation kill the 4% Rule?

As I've talked about in my **podcast** and **YouTube** channel, the "4% Rule" was never intended to be a formal rule. Instead, the financial industry has latched onto it and treated it as if it's a rule.

In fact, the originator of the research that has since been named the 4% Rule never called it a "rule." However, for better or worse, the 4% Rule has become ingrained into the psyche of the retirement planning universe as a starting point for determining a "safe" portfolio withdrawal rate.

There has been a lot of debate in recent years about the viability of the 4% Rule and whether its logic and findings still hold. The argument against the 4% Rule is that stock prices have been at historic highs and bond yields at historic lows, and these things can't support the 4% Rule as stock prices have to come down to earth and bond yields are too low to provide meaningful income.

However, as discussed in my podcast and YouTube links above, the data belying the 4% Rule already account for some of the worst macroeconomic environments on record, including the Great Depression and stagflation of the 1970s.

Let's quickly revisit what the 4% Rule actually means: The findings of the research belying the 4% Rule show that over any 30-year period starting in the early-1900's, a portfolio invested 50% in the stocks of the S&P 500 and 50% in intermediate maturity U.S. Treasury bonds would support an initial withdrawal of 4% of the starting portfolio value. Furthermore, for every year going forward, the amount of the withdrawal could be increased by the amount of inflation that year.

For example, if you start a 30-year retirement with $1,000,000 of portfolio assets invested 50/50 in the stocks of the S&P 500 and intermediate-term U.S. Treasury securities, you'd be able to withdraw $40,000 the first year, and increase the withdrawal each year by the amount of inflation that year, without running out of portfolio within 30 years.

The 4% Rule is based on the most you'd be able to take out assuming the WORST combination of market returns and inflation over all 30-year periods dating back before the Great Depression. With that in mind, the 4% Rule is already a very conservative approach. In actuality, in most of the 30-year periods over the last century, an initial withdrawal of much more than 4% could have been taken without the portfolio depleting within 30 years.

Those who challenge the notion that a 4% initial withdrawal is "safe" often cite the fact that stock prices have recently been at historic highs and bond interest rates have been at historic lows. Additionally, prior to a year ago, inflation was quite muted. As such, critics of the 4% Rule are of the opinion that future stock and bond market returns will be weaker than in the past, and inflation will be higher than in the past.

Obviously, no one knows what the future will hold. However, the fact that the 4% Rule already captures historical environments as dire as the Great Depression and the 1970s, it's defensible to believe the future won't be worse than the past.

Forbes recently published the article, **"Will Inflation and the Stock Market Conspire to Kill the 4% Rule?"** In the article, the author makes a case for why the 4% Rule shouldn't be written off.

The article states that the originator of the 4% Rule had since increased his finding to 4.7% as the "safe" withdrawal rate that would have lasted under any 30-year period. (He increased it because his original 1992 study only included stocks in the S&P 500. After later adding in stocks of smaller companies and international countries, the results were better than in the original findings). If 4.7% is the new 4%, then withdrawing only 4% should be that much safer.

The article also reiterates that 4% is already the worst case assumption in the original study. By saying the 4% Rule won't hold up now, it's implying the future market returns and inflation will be worse than they've ever been over that last 100+ years. Not to say that's impossible, but it's a really big and really dire speculation to say that.

Granted, my crystal ball is no better than anyone else's. However, it's a very bold assumption to say the next 30 years will experience a worse combination of market returns and inflation than any other 30-year period in modern history. With that said, I wouldn't throw out the 4% Rule just yet.

Practical Retirement Planning

What you should (and shouldn't) do as a result of weak financial markets and high inflation

I'm sure you've looked at your recent retirement account statements and have read the headlines; the financial markets are substantially down and inflation is the highest it's been in four decades.

Whether you're still planning your retirement or are already living in retirement, here are some things to consider doing (or NOT doing):

- **Have a plan** – Make sure you have some sort of financial plan. Whether you do it yourself or work with someone to help you make one, having a plan helps ensure you're not flying blind. A plan will help address what to do – or not do – in good times and bad. For example, a common knee-jerk reaction to bad markets is to sell when things are down. But, generally speaking, that's the exact opposite of what a well thought out retirement plan would say should be done.
- **Focus on what you can control, instead of what you can't** – You have no control over the financial markets, inflation or tax legislation. You have complete control over your investment allocations, investment selection and when you buy and sell things. You have at least partial control over how long you work, your expenses and your physical and mental health.
- **Consider working longer, or part-time** – One of the most financially beneficial things you can do for your retirement plan is working longer, even if it's part-time. Depending on your financial situation, you may not NEED to work more. But if your plan is a bit constrained, working longer could be the best way to help the financial strength of your plan. Working longer not only helps minimize having to take money out of your savings, but it can also further add to your savings.
- **Be cognizant of expenses** – While you don't necessarily have to live like a pauper, chances are there is some trimming of expenses you can do. Whether it's spending a bit less on discretionary activities or even just comparison shopping for lower cost substitute products at the supermarket, reducing expenses is another great way to strengthen a financial plan.
- **Make sure you're not over or underinvested** – Here is where having a plan will help you decide what the appropriate level of investment and risk is for you. Assuming you were properly invested to start with, a down market is not the time to sell out of positions. Just like an up market is not the time to be buying more.
- **Take advantage of possible tax planning opportunities** – If you planned on doing Roth conversions, a down market is a better time than not to do them as depressed asset prices mean you can convert more shares for a given dollar amount of conversion. Also, if you have positions at a loss in a taxable brokerage account and you wanted out of the positions anyway, now could be a good time to "tax loss harvest" to realize those losses.
- **Be mindful of investment expenses and advisory fees** – Do you know how much you're paying in fees for your investments and - if you use an advisor - advisory fees? These fees may be higher than you think, and can add up over time. Now may be a good time to revisit what fees you're paying and if you'd be better served for less fees elsewhere.
- **Turn off the news**! – Not to trivialize what's going on in the markets and the world, but most of what you see and read is just sensationalist click-bait info to grab your attention. Tune it out, don't pay attention to the day-to-day and instead stay focused on the longer-term big picture!

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