



## Errata and Letters to the Editor

August 30, 2011

Our article, [The Simplest, Safest Withdrawal Strategy](#), which appeared last week, contained a couple of errors.

We stated that we used an assumed return of 9.58% for equities in our 60/40 portfolio based on the “historical average used by Ibbotson & Associates in their simulations.” That assumption was taken from this [study](#) by Ibbotson, but that study does not say how Ibbotson arrived at this assumption, so it was incorrect for us to state that it was based on a historical average. Nonetheless, Ibbotson’s assumption of 9.58% is very close to the historical annual return on large-cap US equities of 9.86% from 1926 through 2010.

Our simulations of the 60/40 portfolio also contained a mathematical error, which caused us to slightly understate the success rates.

The above corrections were made to the original article on August 29. We also updated the article to show success rates for a more optimistic assumption for equity returns of 11.6%. Lastly, we noted that Ibbotson’s assumed standard deviation of 20.32% approximates the standard deviation of monthly returns for US large-cap equities from 1926-2010, which was 19.19%, but the standard deviation of annual returns for that period was 16.7%. We noted that using that lower standard deviation would improve success rates.

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The following is in response to our article, [The Simplest, Safest Withdrawal Strategy](#), which appeared last week:

Dear Editor,

I greatly appreciate your work in this piece. Using TIPS beats most other portfolio options for retirement income, but I don’t think it is the best one. You cite Zvi Bodie for the idea that “the primary goal in retirement is to ensure that one is not a financial burden to one’s children.” I agree. But then one needs to deal with longevity risk – a 30-year window is not enough to do that (especially since so many people fear running out of money so much – recent studies say they fear it even more than death). In my view, but for the wealthy, a solution offered as relatively “safe” (not to mention “simple”) requires the use of annuitization, perhaps in conjunction with a portfolio solution.

Robert P. Seawright  
Chief Investment & Information Officer



Madison Avenue Securities, Inc  
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Another reader asked whether I-bonds (inflation-protected Treasury-issued savings bonds) could be used in this strategy. Those bonds have the advantage that they are not subject to real interest rate risk. However, two issues make them undesirable for a de-accumulation strategy. Purchases of I-bonds are limited to \$5,000 per individual or \$10,000 per couple per year. Also, there is a penalty for redeeming those bonds during the first five years of the holding period.

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*The following is in response to Kristen Luke's article, [What You Don't Know About Stock Photos Can Hurt You](#), which appeared last week:*

Dear Editor,

As a photographer who makes a portion of her living from selling stock photographs (both royalty free and rights managed), I'm happy to see you advising people to make sure they properly license photos and follow the license they are granted. Misuse and outright theft of images is pretty rampant and it's obvious that some people don't even realize that they are stealing someone else's livelihood by doing it. The photo you download is the result of years of training, hard work, expensive equipment and talent. Fortunately, technology such as [tineye](#) helps both agencies and photographers find instances of theft and misuse. Photographers own the copyright to their images the moment they click the shutter, and if they have registered those images with the US Copyright Office (not necessary to own the copyright but better protection for the photographer), copyright violators may be liable for attorney's fees as well as damages – including punitive damages.

Thanks for spreading the word. You're helping your readers and us hardworking pros too.

Best regards,

Marianne A. Campolongo  
Freelance writer, editor and photographer  
Chappaqua, NY  
[www.campyphotos.com](http://www.campyphotos.com)



The following is in response to Lance Roberts' commentary, [Boomers are Going to be a Real Drag](#), which was published on August 25:

Dear Editor,

The article's logic is flawed. Consider the following.

Boomers are far from a homogenous group. Their assets are not even remotely evenly divided. The wealthiest will likely not liquidate their holdings, instead preferring companies that pay dividends. Our tax code's step-up in basis will push this approach. Why sell?

Those with too little savings cannot be assumed to liquidate their holdings as fast as described. The [Employee Benefit Research Institute's](#) 2011 Retirement Confidence Survey showed that 74% of respondents expect to work for pay in retirement. A consequence of working longer will be an increase in savings in lieu of any selling. And, for those in this group that do actually retire, their *de minimus* per capita holdings are not likely to make a dent in the market.

For those boomers whose per capita wealth is "in the middle," the devil is in the detailed data. Without knowing more, no conclusions can be made.

There cannot be sellers without buyers, so who will be the buyers? They could be institutional (who do not face mortality issues). Institutions are already the biggest investors today. They buyers could likely be foreigners. This pool of investors is much larger than the boomers and globalization is expanding.

The U.S. population is growing and Japan's has been shrinking. That in and of itself raises significant questions about Roberts' comparison to Japan's experience.

Historical data... really? Haven't boomers changed everything in their wake? Haven't they already signaled that their retirements will be (or need to be) different than their parents? The Federal Reserve report cited by Roberts said they "... have already diversified in preparation for retirement." How was this causation established? A couple of bear markets in the last decade may have had something to do with the diversification.

Relating solely to investments, income has primacy for retirees, and growing income is even better. How, outside of dividend-paying stocks can this be achieved? That is not to say stocks are low risk, but are bonds today any better? Furthermore, aren't cheap stocks (with P/E ratios less than 10) with high dividends (>3%) low risk? It's not the asset class, but rather the asset price that denotes risk. Professionals managing money know this, and can buy stocks for their boomer clients even while they are retired.

It's not that the Roberts' conclusions will be wrong – only time will tell. However, the causation established for a dormant stock market is weak at best.



Best regards,

Michael Falk, CFA, CRC  
Founder, MSF Asset Consulting  
Riverwoods, IL

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Dear Editor:

The Federal Reserve Bank of San Francisco's "Headwinds" [report](#) and, as far as I'm aware, all of the reporting thereon, including Lance Roberts' commentary, missed a 2009 CBO background [paper](#) on the same subject which comes to a different conclusion.

I'm not pitching which argument I buy, but the CBO piece ought to be part of the discussion.

Sincerely,

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