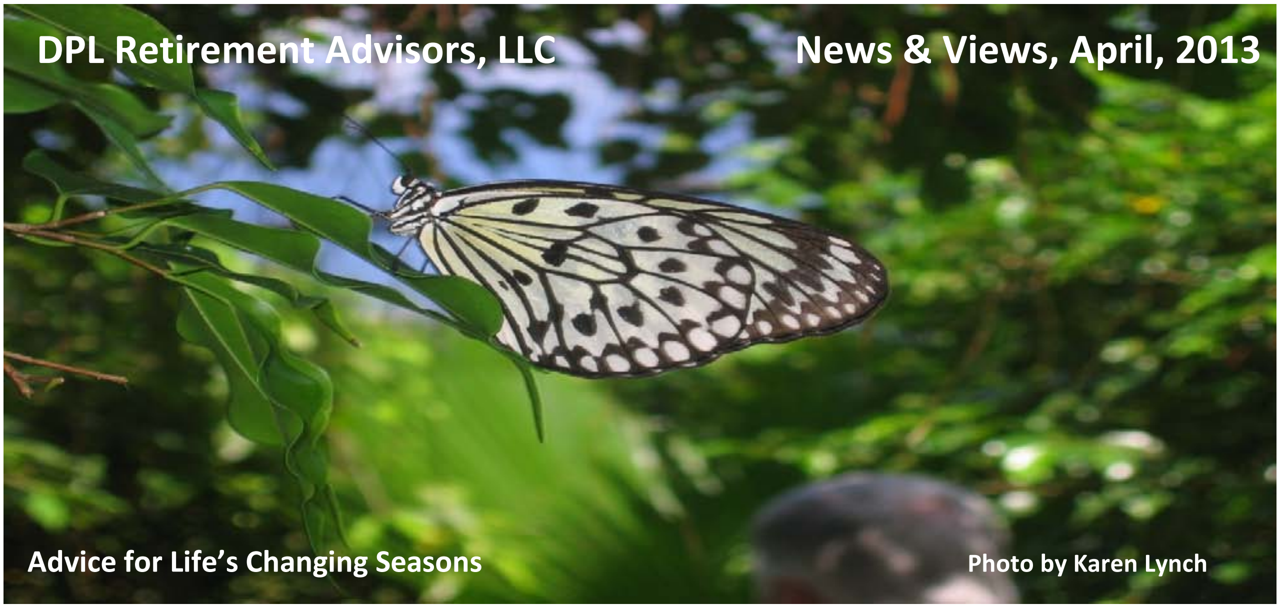

A Record Smashing 1st Quarter for U.S. Stocks

As they did in the last few years, US stocks posted strong returns, and reached record new highs. In the first quarter, the Standard & Poor 500 Index* returned 10.03%. Even fears about fiscal cliffs and the seizure of depositor funds in Cyprus did not trigger a sell-off. According to the Lipper data** published in the WALL STREET JOURNAL, midcap and small cap stocks outperformed large cap stocks, returning about 13.3%. Large cap growth, returning 7.27% in the quarter, was the only sector that did not post double digit returns. Global equity markets returned 3.6% to 5.1%, while emerging markets lost about 1%. Bond returns were generally flat last quarter. Investor cash has started to flow back into the equity markets. Before you become irrationally exuberant, remember the journey taken to reach these new highs. Starting back in October 2007, the S&P 500 Index fell 56.8% over a one year, four month, and 28 day period. Then, beginning on March 9, 2009, it rose 132% over the next four years and 19 days. We have just completed a five year, five month and 13 day trip back to the market's late 2007 levels. In 2010, the US stock market posted a 16% decline over the two months beginning in April, after a good 1st quarter. In 2011, there was a 19.4% decline over a five month period beginning in April. Last year, the 2nd quarter return was -2.75%. In 11 of the 12 times since 1929 the S&P 500 Index returned more than 10% in the 1st quarter, the market finished positive for the year. Fast starts can lead to a solid finish, but not without first giving back some recent gains. Now may not be the best time to increase your equity exposure. I am concerned that median household income, a key driver of our economy, is still down 7.3% since the start of the recession, and has been flat for the last decade. The stock market cannot outrun a slow growing economy indefinitely.

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"Workers saving too little to Retire" – WALL STREET JOURNAL 3/19/2013

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Fear, Greed and the Demise of the 4% Withdrawal Rate

A long time ago, I was giving a co-worker a hard time about buying a set of knives advertised on late night TV. His response was "they come with a lifetime guarantee". Another co-worker asked an excellent question: "Who's lifetime; yours or the company that sold you the knives?"

Retirement Income Planning is a hot topic right now. The fear many "baby boomers" have about outliving their income in retirement is real. Life expectancies continue to increase; if a healthy 65 year old couple retired this year, there is an excellent chance at least one of them will still need income past age 90.

While everyone is happy about the recent all-time highs achieved by the stock market, the current levels are not much different than they were in 2007, or even 2000. Projecting what your retirement portfolio will earn for the next three decades can be as difficult as successfully completing your NCAA basketball tournament brackets.
Of course withdrawing 4% of the balance of your retirement portfolio every year only works if the portfolio is earning more than 4% every year. The financial services industry is blanketing the media with a never ending series of monte-carlo simulations, proving just how easy it is to run out of money in retirement. If you withdraw money too quickly, earn too little on the balance, or if the stock market drops significantly during your first year or two in retirement, you are doomed. All of this plays nicely into the fear I mentioned above.

That leads me to "Greed". If I can convince you that you will run out of money, would you buy a product from me that guarantees you will not? I believe that fixed and variable annuities can have a place, albeit a small place, in some retirement portfolios. I also believe these complicated and often expensive insurance products are grossly oversold because of the high sales commissions they can generate. Are your needs first, or are the salesperson's?

Back to the steak knives. The Axa Equitable Life Insurance Company is the latest insurer to announce significant changes to their variable annuity products. 26 investment options were replaced, and the Guaranteed Lifetime Withdrawal Benefit was reduced from 8% to 6%. Approximately 500,000 existing policies were affected by these changes. A number of insurers have either dropped out of the annuity business, or drastically cut back their generous withdrawal guarantees. State insurance regulators do an excellent job ensuring that insurance companies hold the reserves needed to meet the promises made in their annuity products. So unlike the steak knife company, insurers rarely just go out of business. However, insurers are smart enough to know when to stop guaranteeing an unsustainable level of future income.

Retirement income, like most things in life, does not come with a guarantee. A withdrawal rate of 4% per year will still work for most people, most of the time. It is, at least, a good place to begin your planning process. Annuity products, when carefully researched, can help reduce some of the risk of outliving your income in retirement. But just like a small lifeboat in a storm, if everyone tries to get in, the boat can tip over. So what should you do?

- Portfolios, just like your car, will break down without regular maintenance. Why not review your asset allocation or withdrawal rate whenever you change your oil?
- Do you change your own oil? It is not difficult to do, but most people will delegate that responsibility to someone who has the proper tools and experience to do it right and quickly. Delegating makes sense if it can save you time and/or money. I thought about changing my title to Portfolio Maintenance Supervisor, but I didn't like the acronym.
- Be prepared to withdraw a little less in some years and maybe a little more in other years. If you have planned well and saved enough, hopefully the only thing that changes each year is the size of your vacation.

I can help you with that IRA you have been ignoring.

Dennis P. Lynch

The views and opinions expressed are those of Dennis Lynch as of 4/11/2013 and are subject to change based upon market conditions. Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk. Past performance is not a guarantee of future results.
*The S&P 500 Index is a price weighted index of 500 actively traded stocks. Investments cannot be made directly into an index.
**Lipper, a division of Thompson Reuters, manages a mutual fund performance tracking and rating system. Lipper Indexes allow an investor to compare a particular mutual fund to other funds utilizing a similar investment style. A Lipper index is composed of the 30 largest funds of a given investment style. For more information about Lipper's methodology, visit their web site at
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