

Having Enough for the Long Haul

Preservation of Capital...
...What About Bonds?

Women Alone Together
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Presented by:
Kris Dwyer, CDFA

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Preservation of Capital... ...What About Bonds?

Stages of Money

- Our Early Years --- We cost money.
- Our 20's/30's --- We earn and spend.
- Our 40's/50's/60's --- We earn, spend and invest.
- Our 60's/70's/80's/90's/100's (!) --- We spend and preserve.

We move from accumulation to preservation.
“I can't afford to lose anything.”

How do you preserve a portfolio?

- Don't spend --- Turn your portfolio into a money museum; *look, but don't touch!*
- Go for the guarantee --- Can preserve capital, but erode purchasing power. *Go broke safely!*

A Better Way?...Let's See!

Step #1 --- Ask Yourself...

- How much income do you need from your assets?
- How much income can you safely take out?

Step #2 --- Learn...

What investments are available to help with preservation of capital?

Investment #1 --- Bonds

What is a bond?

Promise to pay

Are bonds “safe”?

- Income vs. principle
- Bonds have bear and bull markets, too
- Duration / Maturity is critical

Only way to guarantee stability of principle with most bonds is to buy individual bonds and hold them to maturity.

Flavors of bonds

U.S. Savings Bonds – EE (fixed) and I (variable rate), buy at the bank or at www.savingsbonds.gov or 800-4USBONDS.

Treasuries – buy through broker, mutual fund or at www.treasurydirect.com, big minimums for individual bonds.

TIPS – Treasuries with an interest rate adjusted with inflation.

Corporate Bonds – Beware of credit issues.

Municipal – Federal tax-free, state tax-free if you buy your own state's bonds.

High Yield – Don't try on your own!

Bond Fund – you hire a portfolio manager, great diversification

How to manage the risk of bonds?

Technique called “laddering” --- think diversification.

Can also ladder CD's.

Investment #2 --- Fixed Annuities

Very conservative

Usually irreversible

Investment #3 --- Variable Annuities

Be aware of costs

“Buy” the guarantee

Mix with other investments – Never 100%

Step #3 --- Put it all together...Time Horizon Investing...

Time Horizon Investing

Let's talk about Agnes. Our beloved Agnes has a portfolio of \$800,000. She receives Social Security and a small pension payment each month. She is very familiar with her expenses and where her money goes each month. She knows she needs to take some income from her portfolio and wants to make smart decisions, both about how much to take out and how to invest her portfolio.

Where to start? Well, what is a conservative withdrawal rate?

$$\$800,000 \times 3\% = \$24,000 \text{ or } \$2,000 \text{ per month}$$

Next, think of the first year and a half of income...

$$\$2,000 \times 18 = \$36,000$$

Then, think of the next 5 years of income...

$$\$2,000/\text{mo} \times 12 \text{ months} \times 5 \text{ years} = \$120,000$$

Last, think of after 6 and a half years

$$\$800,000 - \$24,000 - \$120,000 = \$620,000$$

A good start to having enough for the long haul!