

**Portfolio Stochastic Design Scans:  
Retirement Income & Growth Investing**

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**“ In the end, how your investments behave is much less important than how you behave. ”**

**Benjamin Graham  
The Intelligent Investor**

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## **2008 Year End Retirement Arithmetic**

**White Papers can be a bit technical for many retirees as comments from outside and inside the family constantly remind. So in this TechNote I want to walk through year-end arithmetic that all retirees should do to make sure the IRS minimum required IRA withdrawals are taken and that income requirements for next year have a margin of safety. The amount retirees over 70.5 years must take each year is based on the previous calendar year-end market value of the IRAs they own. This year, 2008, that number will be larger than the current IRA value for most retirees and could create a hardship for some. As of this writing the Congress has not made an exemption to the current valuation rule for withdrawals. The IRS website provides a simple one page worksheet for doing the arithmetic in Publication 590. That's not what this TechNote is about.**

**In my case after 27 years of over 11% annualized growth, my 2008 year-to-date IRA book value is off 30%. If I had to sell anything at these prices to pay my required distribution it would turn a paper loss into an actual loss. Fortunately I do not because I keep about 10% in cash for just this kind of "Black Swan" market year. In addition the funds in my portfolio collectively hold another 10% in cash equivalents. When you enter retirement almost all of us have to shift priorities from growth and income, to income and growth. That requires rebalancing at a minimum and in my case some restructuring.**

**Financial planners write books on making the most of your 401k during retirement. The book that I read before retiring in 2004 was The Grangaard Strategy by Paul**

**Grangaard. His strategy is executable meaning it is not just sage advice. It can help you invest right during retirement and at the very least it helps you conduct a review of your retirement plans at a critical time. If you are interested, Google “Paul Grangaard, CPA” and you will find several reviews of his approach as well as his commercial website. The first of Grangaard’s 12 Principles is to expect to outlive the averages. Your life expectancy at 70 is 17 more years according to the IRS and it is their actuarial data that defines the minimum required distribution.**

## **Retirement Income & Growth Strategy**

**The Grangaard retirement strategy uses an income ladder with periodic 5-year transfers from your tax-deferred equity investments to a bond fund ladder or an annuity that pays your living expenses. The transfer amount is designed to cover 5 years of living expenses after which the next transfer takes place. The strategy relies on compounding to provide the growth that “keeps your kettle full”. I spent a lot of time studying the strategy and liked it but had concerns about “Black Swan” risks that were left to the investor to sort out. If 2008 was one of the transfer years, that could be a problem. Even the equity funds in the U.S. Government 401k (TSP) for 2008 YTD (11/30) had book values that were way down; C = -37.66, S = -41.07 and I = -46.52 but in line with the market indices they track.**

**The strategy that I use is more like an escalator than a ladder. It continuously keeps cash flowing into a bank account in my tax-deferred IRA to fund the minimum required IRS withdrawals and the taxes on them. That**

**does not mean I don't pay attention to the 12 principles Grangaard advocates, they are very helpful, I just implement them incrementally instead of discretely. For example my tax-deferred portfolio has a bond fund, LSBDX, and even though it's book value is off 27% it continues to pay about the same monthly dividend into a Raymond James bank account in my IRA. There are several other dividend paying funds in the IRA and in most years they are reinvested for growth. In a "Black Swan" year like 2008 several were diverted to cash. I manage cash flow on a quarterly basis to keep a stable margin of safety in the cash account. The cost of doing this is at most a small reduction in portfolio total return in a good year and in a "Black Swan" year like 2008 it can actually help not hurt the total return. That is what this TecNote is about, maintaining a stable margin of safety.**