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Re: Quarterly Newsletter/Spring 2016

Dear Clients and Colleagues:

In this newsletter we will review the 2016 First Quarter market performance and discuss the three primary retirement income strategies.

Trivia

The answer to last quarter's trivia question is Dick Kazmier. The Princeton University tailback won the Heisman Trophy in 1951 but decided not to play pro football.

This Quarter's Trivia Question: What would a dollar invested in large US stocks on January 1, 1950 have been worth on December 31, 2013?

First Quarter Market Performance[1]

S&P 500 -- **+1.35%**
MSCI EAFE (Developed Int'l Stocks) -- **<-3.01>**
MSCI EM (Emerging Market stocks) -- **+5.71**
Barclays U.S. Agg. Index (Bond Index) -- **+3.03**

Retirement Income Strategies

There are three primary strategies for generating sustainable retirement income: 1) the systematic withdrawal approach; 2) the time based segmentation approach; and 3) the essential versus discretionary expense approach.

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[1] Indices are unmanaged and one cannot invest directly in an index. Past performance is not a guarantee of future results. MSCI EAFE Index serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia. MSCI EAFE Emerging Markets Index is a free float-adjusted market capitalization index designed to measure equity market performance in the global emerging markets. Barclays U.S. Aggregate Bond Index represents the US investment-grade fixed-rate bond market. S&P 500 Index is a market index generally considered representative of the stock market as a whole. The index focuses on the large-cap segment of the U.S. equities market.

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Systematic Withdrawal Approach – 4% Rule

This is by far the most popular approach to retirement income planning. In the mid-1990s, one study concluded that based on historical returns a portfolio of 60% large cap US stocks/40% US intermediate term treasury bonds could support a 4% inflation adjusted withdrawal rate for a thirty-year period even in bad market cycles. This became known as the 4% Rule. For example, with a $1m retirement portfolio, the retiree would distribute $40,000 in year one and adjust the static $40,000 withdrawal amount by inflation on a compound basis each year. There are several variations on the 4% rule: e.g., distribution of a fixed percentage of the ending principal balance each year; adjustment to the inflation adjusted withdrawal based on market performance (decrease withdrawals in down markets and increase in up markets). Some researchers now advocate for a higher safe withdrawal rate while others question whether 4% is sustainable in a low interest rate environment.

Time Based Segmentation Approach – Bucket Approach

With the Time Based (or Bucket) approach, the retirement portfolio is broken into segments. The first segment is invested conservatively to meet expected spending; the second segment is invested with moderate risk; and the third segment is invested more aggressively. For example, cash and short-term investments for the first five years; a moderate portfolio for years 6-15; and a more aggressive portfolio (higher allocation to stocks) for years 15 plus. The portfolios are adjusted as the segments roll from one to another.

Essential Versus Discretionary Approach – Flooring

With the Flooring approach, anticipated retirement expenses are classified as essential (e.g., housing, food, utilities) or discretionary (everything else). Low risk investments are selected to meet the essential expenses and the remainder of retirement assets are invested more aggressively and are available for discretionary spending. This approach provides both a safety net and higher potential appreciation of the remainder of the retirement portfolio.

There is significant overlap between these three approaches and each has its merit.

Please contact us if you would like a professional assessment of whether you are on track for retirement or for an analysis of your investments.

2016-21730 Exp 04/17