Common Stock Investing in Retirement

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Last week we reviewed a WSJ article that focused on investment returns and what might be a viable withdrawal rate to keep principal intact while not running out of money in retirement. Most investment organizations recommend a so-called "roll-down" strategy that shifts the mix of bonds and stocks in a portfolio to reduce risk as retirement approaches. However, this strategy also reduces the potential for building the value of a portfolio near and during retirement. This "roll-down" strategy is also suspect when the rate of return on bonds is near historic lows.

Victoria Capital's strategy in managing accounts for retirement do not employ a "roll-down" methodology. Our investment management history demonstrates that our approach has advantages over this strategy. To demonstrate our value-added, we site the historical performance of a client who came to us in 2003 that was already retired. At inception, the client had two accounts, one retirement account and one taxable account. The retirement account was managed using our Growth & Income strategy and the taxable account was managed using our Thematic Growth Equity strategy. These accounts both had a history of sizeable annual withdrawals. The retirement account started with $1 million. Over the subsequent 18 years, the client withdrew approximately $72,000 per year or a total of $1.3 million or about $300,000 more than he put in. Even with those substantial withdrawals, his account at the end of September 2021 was $1.2 million for an annualized return of 8.4%. This return is after all trading and advisory fees.

The Growth Equity strategy yielded the following results: the initial deposit was $142,000. Over the same 18 years, he withdrew $342,000, $200,000 more than he deposited. Even after those withdrawals, he still had $211,000. By holding a diversified portfolio of growth stocks, the client was able to experience a 17.3% annualized return from this portfolio! Again after all trading and advisory fees.

These are two actual examples demonstrating that the Growth & Income and the Growth Equity strategies that do not use a "roll-down" approach provided a reasonable standard of living in retirement – and beyond! Note that these returns were achieved during a period that experienced two major bear markets, one in 2008-2009 and one in 2020. Obviously, there is never a guarantee that these returns can be duplicated going forward but experience demonstrates that retirement goals can be achieved without using the traditional "roll-down" methodology. We site these actual examples to demonstrate that a growth stock strategy has produced portfolio returns that have maintained a desired lifestyle in retirement with no diminution in the value of the portfolio.

For investors who are convinced that a growth stock strategy is too risky for a retirement portfolio, these examples should reduce those fears and provide some room for a viable growth stock strategy in a retirement account.