"Time is on my side, yes it is. Time is on my side, yes it is."
-- The Rolling Stones, 1964

For those of us who remember when this Rolling Stone's hit song played on our transistor radios, time was indeed on our side. We felt we would live forever and change the world for the better.

We can argue about our success in making the world a better place but we're now pretty much convinced we are not going to live forever. And while we had plenty of time to recoup any losses that our investments sustained when we were younger, it's important to understand how time horizons and volatility can affect our retirement plan in a potentially negative way.

Table A below shows that Large-Company Stocks had a 9.8% average rate of return from 1926 to 2012. But year to year returns fluctuated significantly with the best year returning 54% return while the worst year lost 43.3%.

Table A:
Historical Returns for Various Asset Classes (1926-2012)

Asset class	Growth of $1 ($)	Average Annual Return (%)	Volatility* (%)
Large-Company Stocks	3,045	9.8	20.3
Small-Company Stocks	15,532	11.9	32.5
Long-Term Government Bonds	119	5.7	9.8
Treasury Bills	21	3.6	3.1
Inflation	13	3.0	--

*As measured by standard deviation, which is the amount by which actual returns varied around the average; the greater the standard deviation, the greater the volatility.
Source: Ibbotson Associates. http://corporate.morningstar.com/ib/asp/detail.aspx?xmlfile=1298.xml

Table B below shows how volatility can create havoc on a retirement portfolio. Assume that a 65-year old has $1,000,000 of assets and 4% of the portfolio is used to fund retirement initially with 3% annual increases for inflation. After the first year's return of -43.3%, assume returns alternate between +20% and -10% annually.

Table B: How early negative volatility can harm a retirement plan					
Age	Starting Principal	Withdrawal	Investment Return (%)	Investment Return ($$$)	Ending Principal
65	$1,000,000	-$40,000	-43.30%	-$433,000	$527,000
66	$527,000	-$41,200	20.00%	$105,400	$591,200
67	$591,200	-$42,436	-10.00%	-$59,120	$489,644
68	$489,644	-$43,709	20.00%	$97,929	$543,864
69	$543,864	-$45,020	-10.00%	-$54,386	$444,457
70	$444,457	-$46,371	20.00%	$88,891	$486,977
71	$486,977	-$47,762	-10.00%	-$48,698	$390,518
72	$390,518	-$49,195	20.00%	78,104	$419,426
73	$419,426	-$50,671	-10.00%	-$41,943	$326,813
74	$326,813	-$52,191	20.00%	$65,363	$339,984
75	$339,984	-$53,757	-10.00%	-$33,998	$252,229
76	$252,229	-$55,369	20.00%	$50,446	$247,306
77	$247,306	-$57,030	-10.00%	-$24,731	$165,545
78	$165,545	-$58,741	20.00%	$33,109	$139,912
79	$139,912	-$60,504	-10.00%	-$13,991	$65,418
80	$65,418	-$62,319	20.00%	$13,084	$16,182
81	$16,182	-16,182	**Out**	**Of**	**Money**

Table B above shows that the poor investment return from the first year (-43.30%) has negatively affected the principal to the point that the annual 4% withdrawals are overwhelming the Investment Returns in the later years. In 16 years, this retiree is out of money!

While it is unlikely that one will retire in the year where the largest decline in 86 years occurred, understanding how starting retirement in "down" years such as 2000 or 2008 can significantly affect the success of your retirement is an important part of planning for retirement.

"Plan for the worst ... Hope for the best" is an important maxim for retirement since there are no "do-overs."

Please feel free to contact me at (610) 999-3599 for a no-cost, no-obligation phone consultation to review some strategies for making your retirement as safe and enjoyable as possible.

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"Education is the key to making informed financial decisions."