New England Capital Financial Advisors
Independent Objective Advice

July, 2012
Volume 22

PLEASE SEE **PAGE 2** FOR IMPORTANT INFORMATION ABOUT OUR WEBSITE!

New England Capital Times

New England Capital Financial Advisors, LLC
Registered Investment Advisor

Safe Withdrawal Rates from Retirement Accounts Part II

By Christopher W. Beale, CFP®

In our last newsletter I discussed the complexities of how much retirees can withdraw safely without running out of money during their lifetime. (Please see past newsletter April 2012, volume 21 on our website: http://www.newenglandcapital.com). As promised, I will expand my explanation of the "4% rule".

As a quick review, the 4% rule is based on research from Bill Bengen, and others, initially done almost 20 years ago based on historical data going back to 1926. His research showed that 4% could be withdrawn from a retirement portfolio in the first year, followed by cost-of-living adjustments in every succeeding year. He proved that these annual distributions would last for at least 30 years. Many factors can influence the successful implementation of the 4% rule. I will concentrate on only three with emphasis on negative sustainability problems: 1) client violations of the rule; 2) Lower portfolio returns; 3) inflation.

By far the biggest risk factor to prematurely running out of money from retirement portfolio happens when **clients violate the rule** by withdrawing more than 4%. At New England Capital we have had reasonable success at maintaining stable portfolios even when withdrawals have been greater than 4% due to a number of favorable circumstances: Proper diversification, optimizing asset allocations within the portfolio, mindfulness of total expenses, proper tax planning, incorporating insurance products such as immediate annuities, variable annuities with living benefits, longevity annuities, and long-term care insurance, can all help increase the sustainability of portfolios even when withdrawals are greater than 4%.

Certainly if someone is retired for more than 20 years, they can and should expect withdrawal rates to be greater than the 4% original withdrawal rate. Even the Internal Revenue Service requires that distributions increase dramatically as clients enter their late 80s and into their 90s. Reasons for clients requesting more than our 4% income distribution plan vary widely. Some need to financially help adult children or elderly parents; some have unexpected one-time expenses; some have ongoing medical expenses; and some simply continue their overspending patterns during retirement.

(Continued on Page 3)

Economic Update

By Christopher M. Lee, CFP®

Since we are halfway through 2012 I think that this is a good time to reflect where we have been for the year, what was important, why was it important, and what to look for going forward this year.

Halfway through the year the S&P 500 (the 500 largest US companies) is up 8.3%, which is not a bad return for half a year! The problem is that if you focus on the short term noise/headlines (Spain, Greece, national debt levels both US and globally), high unemployment, and the possibility of higher taxes, you missed a decent return. It is easy to get nervous watching CNBC, MSNBC, and CNN, never mind the local television. As you can see by looking at your statements, we have had some increases in the year and some decreases in the year. BUT – if you turned off all that media, focused on the longer term perspective, you saw an 8.3% increase in the market (S&P 500) year to date.

(Continued on Page 3)

Our website has been recently updated and renovated! Please take a tour of our new and improved website at

www.newenglandcapital.com

"There are two primary choices in life: to accept conditions as they exist, or accept the responsibility for changing them."

– Denis Waitley, American Motivational speaker and writer

Some of the new features of the website are:

Home – On our home page, you can sign up for our newsletter via email (if you are not receiving it via email already) by using the link (it is a big envelope on the home page). If you have friends or family that would like to receive our newsletter, please have them sign up on our home page as well.

Who We Are – This section lists all of the planners and staff of New England Capital Financial Advisors, LLC (NECFA) along with their bio's and email addresses.

Events – This section will list future events that we will be holding including seminars and client events. Right now we have posted recent pictures of *Christmas in The Village* as we have sponsored this event for the past six years and it is always held the first Saturday in December in South Meriden.

Resources – This pull down menu is where our NECFA newsletters will be housed. You will find the page lists the current and archived newsletters as well. Under the *Resource* pull down menu, you will also find a **Calculator** section that lists many financial planning calculators and tools for you to use. We also have a **Links** section that will take you to the present custodians that you have with NECFA.

Disclosure - This section contains our disclosure document that is required by the SEC. All future updates to our *Firm Brochure* will be posted on the website as well.

Contact us – This section now shows a map of our office as well as an email address to contact us.

Client Access – This is our most exciting new addition to the website! This link gives you access to your own personal on-line storage folders. You can store your key documents online including your employer retirement plans, insurance policies, wills, tax returns, and trust documents. This new *Client Access* (or client vault) offers extraordinary security. Files are encrypted while they are uploaded or downloaded and they are stored using high encryption (encryption is the process of transforming information using an algorithm to make it unreadable to anyone except those possessing special knowledge, usually referred to as a key).

We will also be able to upload documents from our office right to your personal folder (so you can easily retrieve them), including meeting notes, applications, summaries of your accounts, and important tax documents.

You will also have the availability to share certain limited documents with your other professionals (i.e. Attorneys and Accountants) as well.

If you are interested in this service you will need to get set up with your own specific User ID and password. We will need to send you a "Welcome Email" with instructions. If you wish to get set up on this, please call Elma or Ann at our office at (203) 935-0265, or email them at elmadautovic@newenglandcapital.com or anncarabetta@newenglandcapital.com and let them know that you want "Client Access".

Safe Withdrawal Rates from Retirement Accounts Part II
(Continued from Page 1)

Whatever the reason for taking out more than we had planned, the result can be devastating and it violates Warren Buffet's second rule of financial success. Warren Buffet has two rules for financial success: the first is to have a plan and the second is to stick to that plan.

It may seem obvious that we can't spend the same dollar twice, meaning the dollar we spend can no longer be used to generate future portfolio returns. Or as every farmer knows, once you've eaten your seed corn you won't have any future harvest.

The second risk factor is **lower portfolio returns** especially early in retirement (also called sequence of returns risk) has proven to be troublesome later in retirement. The worst 30 year period in Bengen's research was an individual or couple retiring in January 1st,1969. We are concerned about a similar situation for people who retired on January 2000. The 2000 retirees experienced two separate 50% or more declines in the stock market in their first decade of retirement. The biggest difference between the 1969 retiree and the 2000 retiree has to do with my third risk factor which is **inflation.**

The annual cost-of-living adjustment to the distribution rate is designed to maintain lifestyle through retirement. Unfortunately higher inflation early during retirement can result in rapid escalation of withdrawal rates and premature depletion of the portfolio. Since we only have 12 years of history for the individual who retired in 2000, let me compare this with the first 12 years of our 1969 retiree. For the 12 years after 1969 inflation averaged 7.8%. The inflation rate for our 2000 retiree was less than one third or 2.5% per year. The greater inflation rate from 1969 to 1981 and the subsequent cost-of-living adjustment caused a substantial increase in the withdrawal rates and a more rapid depletion of the portfolio. Historical research and my 30 years experience as an financial advisor shows that portfolios have prematurely "blown up" for these three reasons: self-inflicted sabotaged by clients taking out more than the 4% rule, below average investment returns, and/or above average inflation especially during early retirement years.

Flexibility and vigilance are keys to uncertain times, and we are certainly in uncertain times. Retirement plans need not and should not be static. They must be modified over time due to changing circumstances. Stock market valuations at retirement times may change initial withdrawal rates. Currently, historically low fixed income yields must be incorporated into future planning. Central-bank manipulations and future consequences of those manipulations will affect future inflation expectations. Please, don't get me started about the political uncertainty coming from our leaders in Washington DC and our state capitols. We must do what our leaders in Washington haven't done: that is to look realistically at our financial situation and make difficult choices if necessary. Ignoring what we see and simply kicking the can further down the road is no longer an option. Only then will we truly be able to call every day our Independence Day.

Economic Update

(Continued from Page 1)

We did get some good news that came out last Friday with the EU (European Union) who have finally come up with quick fixes and long-term plans that show they are serious about restoring confidence in their currency union. They have come to a tentative agreement to let Europe's rescue fund inject aid directly into stricken banks and intervene on bond markets to support troubled member states (similar to our Troubled Asset Relief Program). The first order of business in Spain (just like the US back in 2008) is to get the banking system back on its feet, credit flowing again, people buying houses and companies investing in the kind of growth that will make a dent in that frightening unemployment rate. As you read all of the upcoming "noise", notice somewhere toward the bottom of those stories that the European Union has already set aside 440 billion euros in its bailout mechanism.

"Wisdom is not a product of schooling but of the lifelong attempt to acquire it."

-Albert Einstein, father of modern physics

"Inaction breeds doubt and fear. Action breeds confidence and courage. If you want to conquer fear, do not sit home and think about it. Go out and get busy."

-Dale Carnegie, American writer and lecturer

(Continued on Page 4)

Economic Update

(Continued from Page 3)

The money is there, and the best news is that none of it is coming out of the pockets of US taxpayers.

Going forward for the rest of year and into the future we are cautiously optimistic of where we are going. Right now corporate balance sheets for the top 1,500 stocks, there is $1.5 trillion of idle cash earning zero return on investment. Something will happen to that cash. If you think about the pace of improvements in the financial areas (which is quite remarkable when you think about where we were only a few years ago) you can understand why that pace has been slow, with regulation uncertainty and certainly all of the capital requirements that have put a headwind on most of their growth or opportunity to expand their lending practices.

You also can't look at housing without getting somewhat optimistic. Most real estate cycles are seven to eight years long, so we're actually right where you would think we would be in a normal real estate market, as we are starting to see some stabilization in prices. Housing, most predominately, is the largest asset in almost everyone's family, and when we start to build confidence in that market, I feel that it will trickle through to a lot of other things (consumer confidence, consumer spending, etc).

Through this downturn you've also watched companies do more with less. It does not matter what size business, whether large or small, you've seen a lot more organizations take costs out. They have also not added jobs. At this point, we have not seen small businesses contribute to the employment backdrop like we normally would see at this point in the cycle; another potential leg of the recovery. We are at a really interesting stabilizing point in the economy and in the markets, but we continue to be pretty positive on the outlook.

Going forward, one of the concerns that we have at New England Capital Financial Advisors, LLC is interest rates. Interest rates will rise at some point. The Fed has suggested that they will keep rates lower for longer, but that was not a guarantee. So if the economy does move, you will start to see interest rates move. We worry that we might have a 1969 scenario where interest rates moved, but they moved faster than anyone expected and that stagnates both the bond and the equity markets.

Knowing all of these things – where do we head now with your investments? Since I have been with Chris Beale (for almost 20 years now), our philosophy has always been to not get caught up in the headline risk and try to avoid getting caught up in the next best thing or "sliced bread". We do a lot of work behind the scenes here. We have quarterly investment committee meetings with not only our staff, but other CFP®'s and advisors as well. In addition to those meetings, we also attend investment conferences, review professional circulations, and participate in conference calls as well.

At New England Capital Financial Advisors, LLC we handle our clients' money with the utmost prudence and care and take our responsibility with your money very seriously. There have been many scary headlines out there, a lot of uncertainty and a lot of pessimism. The one thing that I am realizing is that there is no substitution for experience in this business. We feel that our experience, expertise, and the trust you have put in us will help guide you through these uncertain economic times.

New England Capital Financial Advisors, LLC

Registered Investment Advisor

79 Main Street
South Meriden, CT 06451
(203) 935-0265

See us at:

www.newenglandcapital.com

E-MAIL:

chrisbeale@ newenglandcapital.com   chrislee@ newenglandcapital.com

darrentapley@ newenglandcapital.com   anncarabetta@ newenglandcapital.com

elmadautovic@newenglandcapital.com