Press Contacts:
Robert Huebscher
Advisor Perspectives
(781) 376-0050
rhuebscher@advisorperspectives.com

James Reno
Reno Communications, Inc.
(339) 927-7073
jamie.reno@renocommunications.com

New Study Evaluates Safe Withdrawal Rates for an All-Bond Portfolio

Four Percent Withdrawals Are Possible under Inflationary and Deflationary Scenarios

LEXINGTON, MA – March 24, 2009 – Financial planners cite few principles as often as the "4% rule," which says that an equity-centric portfolio can support withdrawals starting at 4% per year of the principal balance, adjusted for inflation, without depleting the principal over a 30-year period.

A new study by Advisor Perspectives shows that the 4% rule works for an all-bond portfolio as well. By analyzing a portfolio consisting of 50% Treasury Inflation Protected Securities (TIPS) and 50% AAA-rated state-issued general obligation municipal bonds, investors can withstand a broad range of inflationary and deflationary scenarios. Principal would be depleted only if inflation averages over 7% per year, more than twice the average rate over the past quarter century.

An all-bond portfolio offers the important benefit of risk reduction, as compared to the equity-centric approach. Given that the 4% rule was developed to fund portfolios for retirees who may not have the option to re-enter the work force, risk-reduction is an important goal.

Assessing the viability of an all-bond portfolio requires only an analysis of various inflationary and deflationary scenarios. Unlike the equity-centric approach, the cash flows from the portfolio are known with virtual certainty, and there is far less risk of adverse market conditions. The equity-centric portfolio is subject to volatility in the equity markets, as well as to risks of inflation and deflation.

The worst-case scenario for the all-bond portfolio, based on actual historical data, would be a repeat of the inflationary period that began in 1966. Under these conditions, the portfolio would support a withdrawal rate of 4.08%, surpassing the traditional 4% threshold. In this case, retirees would have ample time to adjust spending habits or shift asset allocations. By contrast, the worst-case scenario for an equity-centric portfolio would be to start retirement at a time such as mid-2007, leaving the retiree with severely depleted initial balances.

Commenting on the study, Advisor Perspectives CEO Bob Huebscher noted, "We believe this study offers critical insights for the financial planning profession, particularly for retirees that seek lower risk in the de-accumulation phase. While this strategy admittedly gives up the upside potential of the equity-centric approach, it achieves the important goal of insuring a safe and well-funded retirement."

Advisor Perspectives publishes a weekly electronic newsletter that is distributed to more than 70,000 financial advisors, with a focus on investment strategy. In addition, *Advisor Perspectives* provides a database showing the asset allocations and mutual fund selections for a broad universe of advisors serving high- and ultra-high net worth investors.

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