Are you CELEBRATING a new high-water mark for your portfolio?

Every November 30, in essence, I take a snapshot of what happened to my portfolio this past 12-months. December 1 to November 30 is my “calculation year.” I know that the market close on November 30 will be a good day. I know I’ll reach another high-water mark for our portfolio; I’ll calculate to a real increase in our annual Safe Spending Amount (SSA; see Chapter 2, Nest Egg Care [NEC]). I’m really starting on a new retirement plan, knowing our SSA is the worst it will ever be for the rest of our lives. I’ll assuminh that your calculation and withdrawal date is the same, the high-water mark on November 30 is also a cause for celebration for those who are just starting their plan **and** for those who plan to start their retirement and take their first withdrawal, say, in a year or two. ALL of us have hit the Safe Spending Amount that we know will never decrease in the future. The purpose of this post is to explain why this is true for all of us – and particularly for those who have not yet retired.

== Our new SSA ==

Next week Patti and I will take our seventh full withdrawal from our nest egg for spending in 2022.

I withdrew 4.85% from our portfolio last December for our spending in 2021. I can see now that our portfolio value on November 30 will tell me that our 12-month, real – inflation-adjusted – portfolio return will be much more than 4.85% I withdrew last year. I withdrew 4.85% but it looks like my real return – adjusting for inflation – will be more than double that. I’ll have more in real spending power this December 1 than I had before my withdrawal last December 1. I have More-Than-Enough for my current SSA, and therefore our SSA moving forward has to increase in real terms (unless I decide to take out a lump of the More-Than-Enough to spend or gift).

When we’re retired, we’re always asking, “Was this year the start a Most Horrible return sequence?” The answer for this past 12 months is obviously, “NO!”. A Most Horrible sequence has to start with a down year, not a good year when you calculate to a greater SSA. The 12-month sequence starting next December 1 may be may be the start, but it didn’t start last December 1.

Over the past seven years, I have had two down years that *could* have been the start of a Most Horrible sequence. That was my 12-month years at the end of 2015 and 2018. I was not able to calculate to a real increase in our SSA; I was on the same plan. But returns the following years overcame those two not-so-good years, and I started, in effect, on a new plan. You can see the detail on my long-form calculation sheet from last year; I’ll update this next week.

== Your first SSA ==

If this year is the start of your plan, you should be happy as hell. You may think, “Wow, have we had three FANTASTIC years for stock returns. The SSA I calculate now is WAY BETTER than I thought it would be just last year. Is the market at a peak? Maybe I shouldn’t withdraw my calculated SSA and I should pay myself – or ourselves – less that I calculate in 2022.”

Don't do that! I think that is a natural concern given the returns these past three years. But we have no indication that the 12-month period beginning December 1 is the start of a Most Horrible sequence. Yes, inflation is higher than the last 30 years, but the economic conditions now are far better than at the start of Most Horrible sequences. We may have decline next year or we may not, but it is WAY TOO EARLY to think about spending less than your SSA. We older folks only have a limited number of years left, and we should pay our full SSA to ourselves to ENJOY retirement when we are younger.

== Your first SSA, say, in a year from now ==

I owe my thinking here to my friend Jay, who is planning on retirement in one or two years. Here’s the conclusion: if your first full withdrawal for retirement is in the future, you should still calculate your SSA as if you were withdrawing this December 1 for your spending in 2022. That SSA is the worst it will ever be – even if the market declines from now to when you take your first withdrawal, say, two years from now. This sounds flakey, but the logic is clear.

My friend Jay suggests a thought experiment. Patti and I visited the Einstein Museum in Bern Switzerland about six years ago. Einstein discovered his theory of special relatively by constructing a thought experiment. My friend, Jay, is my new Einstein. Here’s the thought experiment:

“Jay and Ray are identical twins. They look at their portfolios at the end of this November, and they have the exact same amount, $1 million. They have identical portfolios, holding the index funds, weights and mix recommended in *Nest Egg Care*. They both decide they want to take a full withdrawal for spending in 2022.

They email me and ask me to help them calculate their Safe Spending Amount to withdraw the first week of December for their spending in the upcoming year. They both are of good health, and they agree that 19 years – through 2040 – for Zero Chance for depleting their portfolio makes sense.

I look up their Safe Spending Rate (SSR%) in *NEC* (See Appendix D) and find it’s 4.40%. I email back and say, “You both can withdraw and totally spend $44,000 from your next egg over the next 12 months. That’s in addition to your Social Security and other income. That $44,000 is the WORST it will ever be. It will at least adjust for inflation in future years. You very likely aren’t starting out on a Most Horrible sequence of returns, and chances are that you’ll calculate to real increases in your SSA over time. (See Chapters 2 and 9, *NEC*.)”

I don’t hear from them until December 1, 2022. Their 12-month portfolio return was not good – it’s -12% real return. That -12% the real portfolio return is similar to that of 1969, the start of the actual Most Horrible sequence in history. Let's assume inflation was 0%, just to make the explanation simple. Jay and Ray each email me, “What can I withdraw now?”

I email back and give them both the same answer, “You have no adjustment for inflation this year. You should withdraw the same $44,000 that you did last year and you can spend/give it all in the next 12 months: you’ll have the same $44,000 in constant spending power every year for at least through 2040.

“Yep, this was a bad year, and this *could be* the first year of the start of a Most Horrible sequence of returns, but we don’t know that. Remember, we assumed the worst case ever in our planning. That’s what drives our Safe Spending Rate (SSR%) to a low level. That’s why you can withdraw that real $44,000 every year and be comfortable that you will not deplete your portfolio through 2040.”

A few days later, Jay emails me, “I failed to tell you: I actually changed my retirement date. I did not withdraw my SSA last December 1. My wife and I decided we could live off our income this last year, and we withdrew nothing from our nest egg, nor did we add to it.

“My first withdrawal for my spending is now. You just told me I could withdraw $44,000. I talked to Ray and he tells me you said the same to him. I have $880,000 portfolio value; that has to be a bit more that Ray has because of his withdrawal last yar. Do you agree that I can still take a withdrawal of $44,000?”

I tell Jay, “Yep, take the $44,000. You’re in the same basic boat as Ray. You both *may* be riding on the same Most Horrible sequence of returns, but know you can take that amount – adjusting for inflation – through 2040. You, Jay, will may beat that date a bit because you have a bit more in your portfolio than Ray does now. Let’s keep it simple: stick with $44,000.”

What I’m not going to do: I’m not going to apply a 4.40% SSR% (Jay’s one year older, but let’s assume that his SSR% did not change.) to a lower portfolio value than his high-water mark of $1,000,000. I’m not going to apply 4.40% to his current $880,000 portfolio and tell him he can only take $38,700 withdrawal for his SSA.

I will run this thought experiment in my spreadsheet I’ve used in recent posts that is, in effect, a Retirement Withdrawal Calculator. I’ll describe the results in a future post, but I think you have the basic logic if your first full withdrawal for spending is in a future year:

1. You can only ride a Most Horrible sequence of returns once.

2. You plan really starts at its most recent high-water mark for your portfolio value. I used November 30 as my calculation date. This November 30 will be a high-water mark. Assuming you use that calculation date in the future, calculate your SSA now as if your first withdrawal is on December 1 this year. The SSA you calculate now is the worst it will ever be for the rest of your life. It can only get better.

Returns may be negative the next year – or cumulatively negative for several years. That means you may have been riding along a Most Horrible sequence of returns. But you cannot logically set aside two years that look like the start of a Most Horrible sequence and then use the Safe Spending Rates (SSR%s) in *Nest Egg Care* and apply them to your lower portfolio value. You’d be assuming that you’ve ridden along two years of the Most Horrible sequence of returns and then be assuming the Most Horrible sequence of returns start anew.

**Conclusion**: We all are at a high-water mark for our portfolio value and this is something to CELEBRATE. I take my snapshot every November 30 to calculate our Safe Spending Amount for the upcoming calendar year. This high-water mark will result in a greater, real SSA than last year; I’m conceptually on the start of new retirement plan. I’m using my new, age-appropriate SSR% that assumes this next year is the start of the Most Horrible sequence of returns.

Someone withdrawing their first full SSA for spending in 2022, use their age-appropriate SSR% applied to their current high-water portfolio value for their calculation and is off to the races, similar to me.

But someone who thinks they will retire in, say a year or two, have also really started the math of their plan now. They should calculate their SSA NOW– even though they won’t take it. That SSA is also the WORST it can ever be, even if they – we all – face poor returns that lower our portfolio value and limit our future increases in SSA only to inflation.