

**THE CASE**

Just as the first wave of baby boomers has begun to reach retirement age, they are being greeted with one of the toughest economic and market environments of their lifetimes. Now all of a sudden, the common practice of generating retirement income from total return by annually rebalancing portfolios to lock in gains no longer seems as wise as it is common. The key failure of this approach is that investors must sell shares when prices are depressed—a peril made clearly visible to today’s investors.

**Traditional safe withdrawal rate assumptions rely heavily on past performance.** How comfortable are today’s investors with annual total return projections in the 8% to 10% range when the cumulative total return of the S&P 500 this decade (Jan 2000–Dec 2009) has been –28.1%?

**Annualized Total Return for S&P 500 as of 12/31/2009**

Investment Period	Annualized Return
60 years (1949–2009)	11.0%
50 years (1959–2009)	9.5%
40 years (1969–2009)	9.9%
30 years (1979–2009)	11.2%
20 years (1989–2009)	8.2%
10 years (1999–2009)	-1.0%

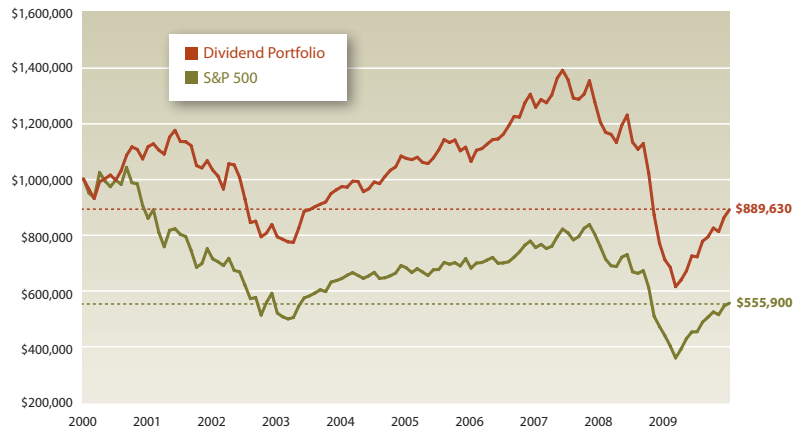
**Rising Dividend Portfolio vs. Total Return Approach to Meeting Annual Income Needs**

**Taking income from dividends instead of total returns should result in higher cash flows and help preserve an investor’s principal value.**

When stocks are sold during down markets from an investor’s portfolio to meet annual income needs, the investor not only reduces his/her base of income-producing holdings, but there is also the risk of reducing the ability to make up losses once the markets recover.

This hypothetical illustration shows the value of \$1 mil invested on January 1, 2000. 5% is assumed withdrawn at the end of each calendar year to meet income needs.

**Pro Forma Example of What Happens to Market Value after Annual Income Withdrawals of 5%\*  
Dec 1999–Dec 2009**



**Dividend Portfolio**

Ending Market Value:	\$889,630
Total Income Received:	\$510,795
Total Investment Value: (Current Market Value + Income Received)	\$1,400,425

**S&P 500**

Ending Market Value:	\$555,900
Total Income Received:	\$352,596
Total Investment Value: (Current Market Value + Income Received)	\$908,496

**Summary of Annual 5% Withdrawals**

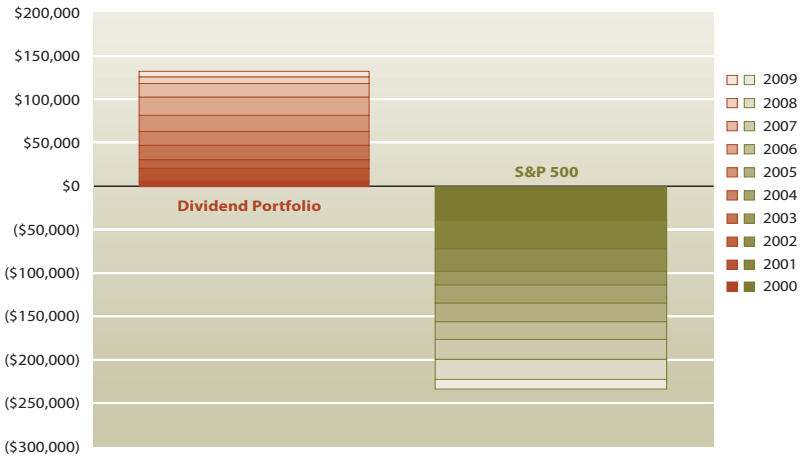
Year	Dividend Portfolio	S&P 500
2000	\$50,000	\$50,000
2001	\$55,757	\$42,949
2002	\$51,570	\$35,701
2003	\$39,639	\$26,029
2004	\$48,615	\$32,189
2005	\$53,640	\$34,078
2006	\$53,091	\$34,046
2007	\$62,783	\$37,717
2008	\$60,163	\$37,901
2009	\$35,536	\$21,986

\* The pro forma Dividend Portfolio returns were based on an actual client’s performance before the deduction of fees (return from dividends and return from principal). The balance of all dividends (after 5% annual withdrawals) were reinvested. The 5% annual income distribution was determined based on the market value at the end of the previous year. This chart is for illustration purposes only.

**Positive vs. Negative Compounding**  
(2000–2009)

**Selling shares when prices are depressed creates a negative compounding effect on a retirement income portfolio.**

By the end of 2009, the Dividend Portfolio would have **contributed** \$132,639 toward positive compounding (**bought** more principal shares) compared to the \$232,564 in principal shares an investor in the S&P 500 would have had to **sell** (negative compounding) in order to meet their annual income needs.



**Annual Income Needs Taken from Dividends vs. Annual Income Needs Taken from Total Return**

Year	Dividend Portfolio			S&P 500		
	Dividend Income Received	5% Projected Income (based on market value at start of year)	Excess Cash for Reinvestment	Dividend Income Received	5% Projected Income (based on market value at start of year)	Amount Needed to Raise from Principal
2000	56,264	50,000	6,264	11,129	50,000	(38,871)
2001	70,561	55,757	14,804	10,301	42,949	(32,648)
2002	61,385	51,570	9,815	10,070	35,701	(25,631)
2003	56,247	36,639	16,608	10,376	26,029	(15,653)
2004	64,597	48,615	15,982	11,315	32,189	(20,875)
2005	72,140	53,640	18,499	12,590	34,078	(21,488)
2006	73,962	53,091	20,870	13,688	34,046	(20,358)
2007	78,576	62,783	15,793	14,874	37,117	(22,843)
2008	67,566	60,163	7,403	14,796	37,901	(23,105)
2009	42,137	35,536	6,601	10,894	21,986	(11,093)
<b>Total</b>	<b>643,434</b>	<b>510,795</b>	<b>132,639</b>	<b>120,033</b>	<b>352,596</b>	<b>(232,564)</b>

**SUMMARY**

Traditional safe withdrawal rate approaches to retirement income are based on past performance and its application to today’s markets can only be tested in hindsight. High-yield stocks that pay and grow dividends can help protect investors from selling shares during down markets and can help maintain a higher level of current income.

**Disclosure and Definitions**

These materials are solely informational. Legal, accounting and tax restrictions, transaction costs and changes to any assumptions may significantly affect the economics of any transaction. The information and analyses contained herein are not intended as tax, legal or investment advice and may not be suitable for your specific circumstances; accordingly, you should consult your own tax, legal, investment or other advisors, at both the outset of any transaction and on an ongoing basis, to determine such suitability. Any investment returns, past, hypothetical or otherwise, are not indicative of future performance.

Investment Decisions. Do not use this report as the sole basis for investment decisions. Do not select an allocation, investment discipline or investment manager based on performance alone. Consider, in addition to performance results, other relevant information about each investment manager, as well as matters such as your investment objectives, risk tolerance and investment time horizon. Dividend yield is one component of performance and should not be the only consideration for investment.

Gross Performance. The hypothetical past performance in this report is gross performance and does not reflect the deduction of investment management fees and other expenses that would apply if you invest with this manager. The fees and expenses incurred in managing any investment advisory account would reduce your returns. Statistics in this report are calculated using gross performance.

The hypothetical past performance in this report is for illustration purposes only. You would not necessarily have obtained these performance results if you had held this strategy for the periods indicated. Actual performance results of accounts vary due to factors such as the timing of contributions and withdrawals, client restrictions, rebalancing schedules, fees, and costs. The pro-forma Dividend Portfolio returns were based on an actual client’s performance before the deduction of fees (return from dividend and return from principal). The balance of all dividends (after 5% annual withdrawals) were reinvested. The 5% annual income distribution was determined based on the market value at the end of the previous year. This chart is for illustration purposes only to demonstrate the impact of withdrawing income from total return during down markets.

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value weighted index (stock price times number of shares outstanding), with each stock’s weight in the Index proportionate to its market value. Historical data for this chart is taken from the work of Robert Shiller. This data set consists of monthly stock price, dividends, and earnings data and the consumer price index (to allow conversion to real values), all starting January 1871. The price, dividend, and earnings series are from the same sources as described in Chapter 26 of his book (Market Volatility [Cambridge, MA: MIT Press, 1989]). Monthly dividend and earnings data are computed from the S&P four-quarter tools for the quarter since 1926, with linear interpolation to monthly figures. Dividend and earnings data before 1926 are from Cowles and associates (Common Stock Indexes, 2nd ed. [Bloomington, Ind.: Principia Press, 1939]), interpolated from annual data.

An index is unmanaged and is not available for direct investment.

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