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Dear Clients and Friends:

The world of personal finance is filled with “rules of thumb.” You’ve heard people say you should only buy a new car if you plan to drive it for at least ten years. Since rules like that are based on general principles, common sense tells us when to ignore them.

One of the best known rules is “the percentage of your portfolio invested for income should equal your age.” Or maybe you’ve heard it in this form: “Subtract your age from 100, and that’s the percentage of your portfolio you should invest for growth.”

This means if you’re age 70, you would have 70% of your portfolio invested for income, and only 30% for growth. In today’s world, can that be right? For many of us, age 70 is when we’re just getting started. We may have another twenty years or more still ahead, when we’ll need money to maintain our lifestyle.

If your time horizon is over seven years, your biggest enemy is inflation. That’s why the so-called “traditional portfolio” is allocated 60% for growth, and 40% for income. The strong growth component protects you against the declining buying power of the dollar.

That 60/40 ratio likely won’t change even as life expectancy approaches zero. By that time, it’s usually obvious there’s going to be a lot of money left over, and our focus is on maintaining the value of the future inheritance for the heirs.

This proves rules of thumb are no substitute for sound analysis. It’s a good thing, because that’s what keeps me in business.

Regards,

Charles M. Shackelford