

# Portfolio Success Rates: Where to Draw the Line

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*"It's okay to die broke, but you don't want to live broke."*

—Anonymous

The idea of a *portfolio success rate* has served as a useful metric since we first wrote about it in 1998. It measures "the percentage of all past payout periods supported by a portfolio despite annual withdrawals" (Cooley, Hubbard, and Walz 1998). If a portfolio outlives the client despite his or her withdrawal of money from it at some rate, then it is counted as a success. However, if the client outlives the portfolio, it is counted as a failure. The principal advantage of the portfolio success rate methodology is the ability of the reader to scan a range of portfolio success rates relative to withdrawal rates, portfolio asset allocations, and years of payout for planning purposes.

## Executive Summary

- Portfolio success rate analysis provides the information needed to plan withdrawals from a retirement portfolio. Because financial markets and other matters of life change unexpectedly, those plans are likely to change.
- This updated analysis reports portfolio success rates net of monthly withdrawals through a range of payout periods. The data we rely on are total returns to large-company common stocks and high-grade corporate bonds as well as Consumer Price Index values and inflation rates from January 1926 through December 2009.
- We conclude that if 75 percent success is where to draw the line on portfolio success rates, a client can plan to withdraw a fixed amount of 7 percent of the initial value of portfolios composed of at least 50 percent large-company common stocks.
- The sample data suggest that clients who plan to make annual inflation adjustments to withdrawals should plan lower initial withdrawal rates in the 4 percent to 5 percent range, again from portfolios of 50 percent or more large-company common stocks, in order to accommodate future increases in withdrawals.
- Changes in withdrawal rates or amounts can be made in response to unexpected changes in financial market conditions using the basic tables we provide.

Because no methodology can specify an optimal withdrawal rate or portfolio allocation for all clients generally, it is important for advisers to present the risk-return trade-offs in the withdrawal rate decision in a manner that facilitates retirement investment planning.

Withdrawal rates that worked well in the past presumably will work well in the future. The problem is, what is meant by "worked well in the past"? What level

of portfolio success rate is required for planning purposes? Should we require 100 percent success from past results for a withdrawal rate prior to using the rate in a financial plan? Or can we use a withdrawal rate that was less than 100 percent successful in the past?

Requiring a high portfolio success rate necessarily requires a low withdrawal rate. In contrast, if a low portfolio success rate is acceptable, then a high withdrawal