The Abnormal Is the Norm

By Editor Test *Tue, Oct 13, 2009*

Does anyone really coast smoothly into retirement? Not guys like my friend Mark, the brilliant engineer. He married at 40, was laid off at 55, and now, at 62, is scrambling to put two kids through elite private colleges. The abnormal is the new norm.

On an imaginary wealth spectrum, with the low end of the scale starting at HTM (hand-to-mouth) and the high end topping out at WFBW (well-fixed but worried), my friend Mark might fall into the 78th percentile.

A former engineer, Mark is now 62. He manages his own investments (bonds and dividend-paying stocks) and considers that to be his full-time occupation. I offer his story as just one example of the absurdist financial situations that some highly educated and successful Boomers now find themselves in.

From one perspective, Mark has won life's lottery. He attended one of the nation's best universities. He worked at a large and prestigious telecom company. He has two stellar children enrolled in elite private colleges, a supportive and capable spouse, a white clapboard Dutch Colonial and a modest defined benefit pension.

But Mark is stressed. He married late, so his kids entered expensive schools soon after his employer shrugged him off. With no group medical plan or COBRA, he pays $22,000 a year for health insurance. To offset the premiums, he plans to claim Social Security now, rather than wait for higher payments.

If you're an advisor, what would you tell Mark? I'd bet that any financial advice based on averages, probabilities or formulas will be next to useless for Boomers like him. None of them is average. They are more likely to have been bitten by a Black Swan than to have been rescued by the AFLAC duck.

Mark and his family will undoubtedly survive—on the strength of their own wits and the help of some inherited wealth. But he's one former Republican who hopes that the Obama health care plan includes a public option.

* * *

Like millions of other people, I've been a monkey-in-the-middle over the past three years or so, watching the market go back and forth over my head. But, by following the simple instincts I acquired during my years at Vanguard, I seem to have prevented the past year from becoming the apocalyptic calamity so often alluded to in the media.

In the middle of 2006, when I left Vanguard, I stopped putting new money into my Vanguard 401(k), which had a middle-of-the-road equity/bond allocation of 65:35. In my subsequent employer's 401(k), I allocated all of my new contributions to a PIMCO intermediate bond fund. Stocks were just too expensive.

From there, I watched my Vanguard portfolio rise slowly, peak in October 2007 and go sideways until September 2008, when the Burmese tiger pit opened under our feet. I did nothing until year-end, when I rebalanced the Vanguard portfolio toward equities. Then I went back to doing nothing until recently, when I reduced my investment in two stock funds that had gained 30% since March.

Thanks to my initial inertia, a tiny bit of market timing, and (mostly) to the "quantitative easing" that fostered the mid-year rally, my portfolio balance looks acceptable to me. It hasn't returned to its peak and, yes, I've forever lost the benefit of a couple of prime accumulation years. But, hey, it's higher than my net investment. Speaking as an ordinary Boomer investor, the situation—the 401(k) situation, at least—doesn't feel so dire.

Actually, I must confess an investment secret. I measure the incline of the rise in the Dow and when it reaches a certain pitch, I sell. My trigger-angle and the time scale of the chart are proprietary information. But I can say that by the time the Dow goes perpendicular, I'm long gone.