

You successfully completed a  
Monte Carlo analysis of your  
retirement plan

- so what's next?

A follow up to our October AAll Chapter meeting:  
“Strategies for a Retiring in a Down Market – Repairing  
the Damage”, by Christine S. Fahlund, Senior Financial  
Planner and Vice President, T. Rowe Price Company

You learned that with a 95% probability that you will not run out of funds.

And you are feeling pretty good.....

While a 95% average might give you an “A”, a 95% PROBABILITY needs further understanding.

Consider this:

This is your Captain speaking – “Welcome to AAll Air, I just ran a Monte Carlo simulation on our upcoming takeoff and I found out we have a 95% probability of a SUCCESSFUL takeoff.”

**My advice – get off the plane!**

- A 95% probability of success represents a 1 in 20 chance of failure
- A 99% probability of success represents a 1 in 100 chance of failure
- A 99.9% probability of success represents a 1 in 1,000 chance of failure
- A 99.99% probability of success represents a 1 in 10,000 chance of failure

What level of success or failure are you willing to accept in your retirement planning? **95% success confidence is most likely not satisfactory**

## My thoughts on Monte Carlo simulations:

- Monte Carlo simulations are a good tool to use to help you determine what you might need to retire, but I'd shoot for a 99% probability of success and not settle for 95%.
- Once you have retired they are probably not very useful.
- I once saw a bumper sticker that said : S\_\_t Happens!
- As I think back over the past ten years in the stock markets, it has hit the fan three times!
  - In Sept 01 the 9/11 attacks saw the DJIA drop 29.7% from a high on 1/10/00
  - In Sept 02 the tech bubble saw the DJIA drop 29.1% from a high on 3/1/02
  - In March 09 the credit bubble saw the DJIA drop 53.0% from a high on 10/08/07
- So far this decade we have had a 3 in 10 or 30% probability of a significant (29% or greater) market downturn to occur every year. Most Monte Carlo simulations out there don't use this kind of variability of returns. Most (if not all) use the past 50 years of steady growth.

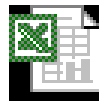
# So what is one to do?

I'd like to share with you a relatively simple tool, created using Microsoft Excel, that I found useful in tracking retirement funding, expenses and investment returns.

## Disclosures:

I am not a Financial Advisor, Accountant or have any significant financial training. I am a diversified, passive, conservative investor.

The data shown in the attached Excel workbook are completely fictitious and are shown for illustration of what the spreadsheet can do and how you might use it.



Retirement  
Tracker