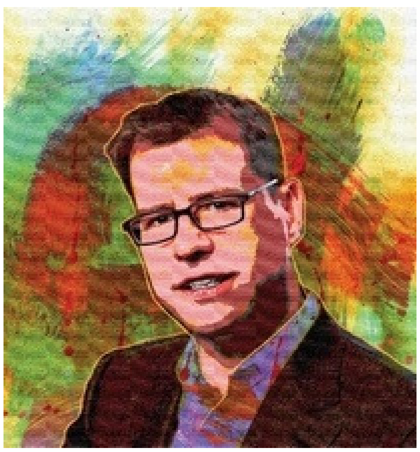
InvestmentNews
The Leading Information Source for Financial Advisers

15 Transformational Advisers: Jonathan Guyton

The Cornerstone Wealth principal popularized the idea of dynamic income withdrawals in retirement

By Darla Mercado | *June 12, 2013 - 12:18 pm EST*



When academics think about the concept of dynamic income withdrawals in retirement, they generally think of one person who popularized the idea: Jonathan Guyton.

Mr. Guyton, 52, is a principal at Cornerstone Wealth Advisors Inc., and though he's not an academic, he holds a special place among the literati of financial planning.

“The biggest contribution he's made is showing how practitioners can employ a dynamic-withdrawal strategy that takes into account the sequence of returns experienced by an investor in retirement,” said Michael Finke, a professor at Texas Tech University.

“[Mr. Guyton] was the first to make the point that a dynamic strategy is relatively easy to implement,” he added. “It's intuitively appealing to financial planning clients, and it did a good job of improving retirement income sustainability.”

Essentially, a withdrawal rate that is in the neighborhood of 5.5% when times are flush and that can be slimmed when markets are unkind is better than a fixed withdrawal rate — a concept Mr. Guyton covered in two papers, “Decision Rules and Portfolio Management for Retirees: Is the 'Safe' Initial Withdrawal Rate Too Safe?” (2004) and “Decision Rules and Maximum Initial Withdrawal Rates” (2006).

Real-life experience formed the foundation of the adviser's research work.

“First and foremost, I'm a practitioner and a financial planner; my bread and butter is working with clients,” Mr. Guyton said. “This started 10 years ago when I noticed that the answers coming up in cutting-edge research didn't take into account what I was seeing in the behavior of my retired clients.”

What he found was that clients were making small adjustments to their spending habits when the market became stressful, rather than sticking to the popular 4.5% rule and keeping their spending the same.

Hence the concept of guardrails: What if clients were able to adjust their spending by 10% on a pretax basis when times were less than optimal?

“If you're willing to have that flexibility — that plus or minus 10% on a pretax basis — then the safe withdrawal rate was a full percentage point higher,” Mr. Guyton said. “That's how we get 5.5% as your withdrawal rate.”

Pulling this off in real life also has worked well with clients, particularly as they held on for the ride during the 2008 downturn. In the trenches, some advisers have balked at the idea of telling their clients — even during the worst of times — that they need to cut back on their spending.

The adjustment was natural for Mr. Guyton's clients, however.

“When we had these reductions, we had one of two reactions for every client in 2008,” Mr. Guyton said. “It was either, 'Thank you. I thought we needed to do that,' or, 'Shouldn't we reduce even more?' If you see that decline [in the market], you are already thinking of pulling in the reins.”

The cut in spending tends to come out of clients' discretionary expenses. Considering that they are living off a combination of Social Security, portfolio withdrawals and pension income, the reduction isn't terribly dramatic, Mr. Guyton said.

Further, taking lower withdrawals isn't necessarily a bad thing. Less income coming out during hard times results in lower taxes on the withdrawals. Poor stock market performance also means that clients can benefit from capital losses instead of gains, which will also result in a lower tax bill. Another way to make do with less income is to refinance a mortgage.

In order to take the edge off of spending cuts in down times, Mr. Guyton recommends that clients keep a small discretionary fund for spending beyond their safe withdrawal rates.

“People aren't babes in the woods when they've retired,” he said. “Anyone with a degree of financial acumen has learned that they need to make adjustments from time to time. There are lots of midcourse adjustments before you land.”