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Then and Now – Bill's story

In 2008, during the throes of the Global Financial Crisis (GFC), I was contacted by Bill (not his real name) – a client aged in his 60s, drawing a minimum $60,000 per annum in pension payments from his Account Based Pension (ABP). Having just experienced a 20% paper-based loss on his entire 'balanced' portfolio, which was down to $3 million, he was afraid that he would 'go broke'.

A retired tradie (and by his own admission extremely frugal) Bill was not actually spending his current level of income. Fortunately during the GFC, as has been implemented now, the Government had just reduced the minimum ABP drawdown by 50%.

This change allowed Bill to reduce his tax-free pension income to $30,000 pa (while receiving fully franked dividends of approximately $50,000 pa from his private company) and pay $25,000 pa back into super as Personal Concessional contributions.

As a freehold homeowner with adult children, Bill was able to live comfortably – and in fact – grow his wealth.

Twelve years on from the GFC, Bill (like all investors) has again seen a paper-based fall from $6.1 million in the value of his retirement portfolio, to just $5.6 million (a balance which is still significantly more, however, than what it was in the midst of the GFC).

Not only did Bill's portfolio increase from $3 million to $6.1 million over the period between stock market troughs, he has enjoyed annual tax-free income of $85,000 (based on the minimum rate of 5% applied to his current age). He now finds himself in what I call the 'magic pudding' zone of generating more than enough to live on, from an increasing asset base – achieved not just through capital growth, but also through the compounding effect of dividend and interest income.

During the GFC Bill could have chosen to draw a much higher level of income from his ABP. Given his balance back then, he could have easily drawn an income of $150,000 pa (a 5% return on his invested funds), but Bill's attitude has always been that he did not wish to draw more than he could spend. He has also been enthusiastic about reinvesting the excess, a decision which has effectively supercharged his retirement savings.

With his $5.6 million in retirement savings balance today, Bill could comfortably choose to draw an annual income of $280,000, but he is not interested in taking that much cash.

What does interest (and perhaps, delight) him is the growth in his retirement savings pool from invested funds of $1.5 million when he became a client 20 years ago (despite the GFC and the market volatility of the current COVID--19 challenge) and that the income it provides is much more than he could ever spend.

He is also well aware of some portfolio construction factors which make riding the investment highs and lows a lot less stressful.

Built into Bill's investment strategy is a cash buffer which ensures that his income requirements are covered for at least 2 years. He understands that the foregone returns in growth on this cash holding of $170,000 is the insurance premium that he pays to ride out the tough times, without any need to sell down valuable assets in a volatile market.

As you may have realised, Bill is not a punter. The majority of his portfolio is invested in index funds, providing diversification within each asset class, between asset classes, at a low cost. Bill has been known to query investment and administration fees periodically, so this approach offers consistency and security for Bill in terms of fees and diversification.

Based on the principle of "getting rich slowly – and staying rich" (by sticking with a cost conscious yet robust investment strategy) Bill is living comfortably – and quietly building a significant estate.

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