Frank Vasquez Podcast Script

Intro

Frank Vasquez is a mostly retired lawyer with over 30 years experience in investing for his own accounts. He holds degrees in Economics and Engineering from the California Institute of Technology and a law degree from Georgetown University. He is extremely active in the Financial Independence community, answering questions of all types in forums and Facebook groups. He has appeared as a guest on the Choose FI, What's Up Next and Security Analysis podcasts, and run workshops at the EconoMe Conference. His involvement in FI-topics and issues predates the FI Community as it is known today.

Frank and I first met at FinCon2019 in Washington, D.C. My wife and I had drinks with him and found his wit and wisdom quite entertaining. His laugh is an unmistakable "fingerprint" and can be heard far afield. He is the founder and host of Risk Parity Radio, a laboratory or dive bar devoted to asset allocations for the DIY investor and drawdown portfolios. One of Frank's guiding meta principles that you will hear on his show is:

"A foolish consistency is the hobgoblin of little minds, adored by little statesmen and philosophers and divines"

-Ralph Waldo Emerson

Another is:

"Absorb what is useful, discard what is useless and add what is specifically your own"

-Bruce Lee

Most importantly, Frank loves waffles and so do I!

Now Frank can say he has been a guest on The Catching Up to FI Podcast! Welcome to the show Frank!

I understand some of your podcast listeners have likened themselves to people who are fans of the Grateful Dead. Why is that?

Drawdown

- Why is it not talked about much in the FI Community?
- [We are going to talk about Ants and Grasshoppers here (from Aesop's Fable) and the modern formulation from Zimbardo's Psychological Time Preferences – Present Hedonistic vs. Future Oriented. Yes, you guys are Grasshoppers who learned the ways of the Ant. Some of us were born Ant-brained and need to learn to hop a little more.]
- Why is decumulation harder than accumulation?
- [Short answer is accumulation has an obvious purpose but the purpose of decumulation can differ from person to person. Some people (Ants) actually prefer to never decumulate.]
- How do we know when we have reached the tipping point between accumulation and decumulation?
- Is it really as simple as the 3,3.25,3.33, or 4% Rule? Early v on time v late retirees
- [We are going to broaden out here and apply 1 Corinthians 13:11 here, as the progression of understanding goes from Financial Baby (Steps) to Financial Child (Experiments) to Financial Adult (Formulas) to Financial Elder (Principles).]

- Income/Expense Audit

  Annual Expenses (Including Taxes)
  - Pensions/ Social Security Income
  - Business/Rental Income

- Residual Payouts
- <u>Employment/1099</u>

= More or Less Than 0?

Who really needs a withdrawal strategy and who doesn't? What about people who do not plan to spend more than about 3% of accumulated assets?

Why does it seem like everyone in FI-land is doing something different? Are they or aren't they?

- Withdrawal Strategy Critical Components

  1. Asset Mix
     a. Rebalancing Rules
     b. Reallocation Rules
  2. Base Withdrawal Rate
     a. Percentage
     b. Dollar Amount
     c. Range
  3. Withdrawal Rate Adjustment Rules
     a. External (Market) or Internal (Personal)
     b. <u>Fixed or Dynamic</u>
  4. >>>Safe Withdrawal Rate

- A word about Sequence of Returns Risk
  - What is it?
  - Why do we care about it?
  - What basic strategies can we employ to mitigate it?

- Five Basic Types of Drawdown Strategies
  1. Insuring Strategy (Annuity)

2. Certainty Strategy (Endless Bond Ladder – Alan Roth's (and Bill Bernstein's 30 Year TIPS)
3. Static Strategy (Fixed, CPI (Bengen))
4. Dynamic Strategy (Market Based) (Fixed with R4R??, Range is typical, Market Based CB??)
5. Variable Strategy (Personal Expense Based) (Fixed with R4R??, Range, Internal Adjustment)
6. Secure Income Retirement Portfolio (Becky & Mark) [Are we talking about Whitney Pie-cakes here? Minimum Dignity Floors? Let's Go!]

- Management Techniques, Window Dressing, and Mental Accounting
    - Mutual Funds vs. ETF's vs. ?? (Investment Forms)
    - Specific Withdrawal Mechanisms (Monthly, Quarterly, Annually)
    - Asset Labeling (Buckets, Pies, ??)
    - Bond Ladders vs Bond Funds
    - "Income Investing" vs. Total Returns
    - Short Term Asset Choices (Savings vs. CD's vs. I Bonds vs. Funds, etc.)

- Rules of Thumb
    - 40-70% Equities (Pfau, others)
    - At least 50% Value Tilt (Merriman, Swedroe, academics)
    - Use Treasury Bonds (Merriman, Garrett, others)
    - 10% or less in Short Term Bucket (many)
    - 10-25% in Alternatives (which ones?) (Asness/AQR, the OG FIRE portfolios from the lore of Early Retirement Extreme, Swedroe, others)

- Improving SWR w/ Variable Adjustment (these from Morningstar Report December 2022)
    1. Forego Infl. Adj. when market down +0.6% SWR
    2. Retirement Spending Smile (CPI – 1%) +0.5% SWR
    3. RMD Strategy +0.6% SWR
    4. Guardrails (incr. or decr. portfolio size) +1.5% SWR
    5. Haircut after bad year (10%) +0.2% SWR

- A Word on Risk Parity Style Portfolios/Risk Parity Radio
- Focused on Applying Three Principles: 1-Simplicity (Ferri, Bogle & Merriman), 2-Macro-Allocation (Common Sense Investing Chs 18-19); 3-Holy Grail (Dalio, Markowitz, "Perfect Portfolio" book)
    - Golden Butterfly
    - Golden Ratio
    - Example
        - Asset A S&P 500 27.5%
        - Asset B SCV 27.5%
        - Asset C LT Treasuries 25%
        - Asset D Gold 15%
        - Asset E Cash/T-Bill 5%

Close

Thanks, Frank, for being with us today on Catching Up to FI.

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