Opinion **Skin in the Game**

Mistiming markets may ravage your retirement

Retirees must be patient and try to invest when markets are weak

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Such a joy to meet so many of you at the FT Weekend Festival last Saturday. After a heretical column after Warren Buffett announced his retirement in May, I feared being lynched on stage. Thankfully, even his most devoted fans are as cuddly as the man himself.

There were plenty of hard questions, though, both during my presentation as well as outside afterwards (where real concerns tend to be aired). If I were to summarise them for the education of readers who weren't there, I'd say they fell into two buckets.

First, literally hundreds of people came up to me and screamed: “Where is that bloody valuation spreadsheet you promised to email us months ago?” Fair cop. I had to apologise all day, explaining the problem over and over again.

It is this. Despite 200bn transistors on the latest superchips, there seems to be no way to reply to thousands of emails in one go. As much as I love you, I’m not penning a reply and adding an attachment to every request. Gmail’s AI assistant is useless, as are the software add-ins that all require the email addresses in Excel.

Our IT desk is stumped too. If anyone has a clever idea, please let me know. I’m happy to have my inbox flooded again to sort this out. Sorry for the wait. At least equity markets have been on a tear these past few months, so you haven’t lost money.

The second bucket of questions I received was more serious in nature. Of concern to many attendees I spoke with — self-selective to a degree, of course — was impending retirement. Lots of cash was the common theme. When should they invest it?

It’s a hugely important question, because the standard rules of investing don’t always apply. Why not, I hear you ask? The reason post-retirement planning is different is that you are drawing down money at the same time as investing it.

That means your entry point into markets is crucial. Usually, this column and others preach that investing for the long run is the way to go. Forget the gyrations in prices. In drawdown, however, the short term is everything.

You have probably heard the term “dollar cost averaging” before. This refers to the practice of dripping money into a market, hopefully taking advantage of sell-offs along the way to improve your average “in price”.

Well, imagine the reverse. You’re no longer working and you rely on your savings pot to provide the money you need each year for a debauched week at Pikes in Ibiza (times have changed, Grandma). In this scenario, it is better to withdraw funds when your portfolio value is high because it leaves more behind generating a return.

Getting this wrong — taking cash when markets are down — is sometimes known as “dollar cost ravaging”. Unfortunately, few people truly understand how ruinous it can be to a happy retirement.

Take the past 20 years and imagine you started with a million dollars in a balanced portfolio. Let’s say, to keep things simple, you have a 60 per cent allocation to US stocks and 40 per cent in 10-year Treasuries.

Next, assume that you need $65,000 a year to live on, withdrawn at the end of each year and rising by 3 per cent a year to help keep pace with inflation. I have modelled this from 2005 to 2024 using total returns for the S&P 500 (that is, including dividends) and a generic return for bonds.

After two decades of withdrawing funds and partying your arse off, your portfolio has decreased in size to $506,000. And that is despite an average annual return of 8 per cent and only three negative years.

But what if, hypothetically, these annual returns had occurred in a different order? Let’s say the reverse. In other words, you started with $1mn in 2024 and worked backwards — still withdrawing the same $65,000 each year.

Your annual average return would be exactly the same at 8 per cent, of course. But this time at the end of year 20 your portfolio is worth $1mn — roughly double the value in the first scenario. Double!

How does that happen? As I hinted before, it all has to do with those vitally important early years. In the first instance, the opening annual returns for the portfolio were: 4 per cent, 10 per cent, 7 per cent, minus 14 per cent and 11 per cent.

In the second — that is, the years from 2024 to 2020 — the returns were: 14 per cent, 17 per cent, minus 18 per cent, 15 per cent and 15 per cent. That’s double the average return over the period versus the first example.

And it’s that extra headroom early on that allows for the withdrawals to come out while still having plenty of assets left to grow and compound. That 4 per cent in year one was the real killer for scenario one. For scenario two it came at the end and didn’t matter.

To illustrate this, if the first year of 4 per cent in 2005 had just been 8 per cent, say, and nothing else had changed, suddenly the $506,000 becomes $675,000. That's a frankly terrifying difference and shows how crucial one's entry point is.

And yet I always write that market timing is a mug's game. So what can people do to mitigate the risks of dollar cost ravaging? Be patient and hope to invest when markets are weak. Withdraw less if necessary. Save more to begin with.

Capital guarantee or downside-protection products can help too. But otherwise there are no clever answers. I could be flippant and say don't buy at the top, but you'd lynch me next year for sure.

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Stuart Kirk's holdings, September 12 2025

	Assets under management (£)	Weighting	Total returns YTD
Vanguard FTSE 100 ETF	177,073	30%	
iShares MSCI EM Asia ETF	115,192	19%	
Vanguard FTSE Japan ETF	269,551	45%	
Vanguard FTSE 250 ETF	35,901	6%	
Total	597,717		16.4%
S&P 500 (GBP)			3.6%
Morningstar GBP Allocation 60-80% Equity			6.5%

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