Is the 'Buy-And-Hold' Strategy Still Alive and Well?

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It's a rule that investors have stood by forever. But if you're near retirement, it might not be right for you now. And the "4% rule"? Well, you may want to rethink that one, too!

If you Google "buy-and-hold investing," you'll easily find dozens of articles that say the strategy is tried and true.

And you'll find almost as many that say it's dated and overrated.

Which is accurate? A lot depends on the individual investor.

Simply put, buy and hold is an old-school passive investment strategy that emphasizes long-term growth over short-term thinking or market timing. An investor who employs a buy-and-hold strategy actively selects stocks and mutual funds, but once that's done, isn't concerned with short-term price movements and technical indicators.

AN INVESTOR'S AGE PLAYS A ROLE WITH BUY AND HOLD

The strategy generally makes sense for a younger investor who is accumulating assets for retirement but doesn't plan on tapping into them any time soon. Younger investors usually have years, or even decades, to recover from negative swings in the equity markets.

For example, during the 2008 market crash, when the S&P 500 lost 51% in less than a year and a half, many investors grew scared and sold their holdings at a significant loss. Those who lost the most were the ones who got out of the market near the bottom and failed to participate in the big rebound that followed. Hanging in there paid off for those with a longer-term focus.

But for the older investor who is at or near retirement, this strategy may not work so well. If you were fully invested in the bear market of 2008 and already taking withdrawals, you may have had to take a 40% reduction in income to preserve your assets long enough to not outlive your money.

Buy and hold also may be a bad idea if you don't have a lot of money to invest, as big pullbacks in equities can all but wipe you out — especially if you end up needing those funds while the market is down. That's why after the 2000-2002 dot-com ("dot-bomb") bubble, many market commentators, including author and Fox Business anchor Lou Dobbs, said, "You shouldn't invest money in the stock market that you can't afford to lose. Period."

YOU MAY WANT TO RETHINK THE '4% RULE' TOO

Old rules of thumb are hard to let go of in any situation — and the financial industry is no exception. Another popular strategy dating back to the '90s, designed to "ensure" that your money would last at least 25 years in retirement, is the "4% rule," which says a 4% annual

withdrawal rate from a typical portfolio should be a "statistically safe" amount, although not guaranteed to last a lifetime.

Recently, experts from a variety of sources have said the 4% rule is no longer realistic, mostly because of lower interest rates, longer life expectancies and recent markets showing much larger than normal corrections and recovery periods of five years or more. Some are now saying the percentage should be 3% or less. In 2013, the folks at Morningstar published research that found retirees who want "a 90% probability of achieving retirement income over a 30-year time horizon and a 40% equity portfolio" should withdraw just 2.8%.

Based on those numbers, if you had $1 million in assets, you would be safe to take out $28,000 per year. Most people likely would say that falls far short of what they'll need in retirement.

TAKING ANOTHER DIRECTION INSTEAD

So, what else is there if you don't want to run out of money and you need to use savings and investments to supplement your other guaranteed-income sources?

An increasingly popular strategy is to use a fixed-index annuity with a guaranteed lifetime income rider to create another dependable income stream to go along with your Social Security benefits and pension income.

These annuities do not directly participate in the market, but earn interest credited to the principal — capped at a certain amount — when the market goes up. Your principal is kept safe. You participate only in the market upside (up to the cap, but if the market rises above that, you wouldn't share in those higher gains). You don't lose principal when the markets pull back.

Because this is an insurance contract with guarantees and protections provided by the insurance carrier, it can be a good way to keep a portion of your assets safe. By adding an income rider, the carrier is able to guarantee your income for as long as you live and could pay out at a rate as high as 5% to 6% or more, depending on your contract terms and your age. There are almost always fees associated with riders offering guarantees, so it is important to understand how the fees work, including how they are calculated, if they can be changed during the contract period, and how they may impact the growth and death benefits of the contract. It is worthwhile to educate yourself on the costs and benefits to make sure they make sense within your retirement income plan.

If you haven't heard about this type of annuity from your broker or adviser, it's probably because it is not a security, it's an insurance product, and doesn't fit under the "Wall Street umbrella" or typify the normal brokerage-house model offering. More often, you will find these guaranteed-income products through independent financial advisers who also have an insurance license. Financial advisers are required to work as fiduciaries and have a legal obligation to put their clients' interests first.

Bottom line: Don't depend on old rules of thumb to get you through retirement. Keep an open mind and check into all the options available to you.

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