Refusing to act my age   Colm Fagan   19 August 2018

A November baby, I have always envied friends who could celebrate landmark birthdays in the sun. Then, in early 2016, I had a brainwave. I calculated that I would be exactly two-thirds of a century old on 25th July 2016, right slap bang in the middle of summer. Here at last was the opportunity to celebrate a landmark date in the garden with friends, sharing a few glasses of beer or wine over a summer barbecue. I gave lots of subtle and not-so-subtle hints to various members of the family, but all to no avail. On the appointed day, I found myself, on my own in the garden, raising an imaginary toast with imaginary friends on the imaginary occasion.

Some financial planners and pension consultants share my obsession with measuring progress towards centenarian status. They have a golden rule that we should invest our age in bonds. By their reckoning, at some point during my imaginary barbecue on 25 July 2016 (at 3 PM to be precise, or so my mother told me), I should have crossed the threshold of having exactly two-thirds of my retirement savings in bonds. The proportion in bonds should now be close to 69%. Instead, it is precisely zero. (I make an exception for the tuppence-halfpenny that went into the post office on my confirmation, that I still haven't managed to track down.)

My reason for going against conventional wisdom is simply that an investment strategy that included bonds would not keep me and my other half in the manner to which we're accustomed. My retirement plan is constructed on the basis that I will earn close to 6% per annum on my savings for the rest of my days. I believe that I can earn that, or more, from equities.

Irish government bonds currently yield less than 1% a year. If I were to invest half my retirement savings in bonds, considerably less than the 68% recommended by some pension consultants for my current age, I would have to earn 11% a year on my other investments to earn the target 6% on the total portfolio. That's impossible. Something would have to give.

The problem is compounded by some consultants' practice of quoting past returns on bonds to bolster their argument that, as we get older, we should commit a significant proportion of our savings to this asset class. Yes, bonds have delivered strong returns over the last ten or twenty years but the reason for those good returns is precisely why I think we should now avoid them like the plague. Ten years ago, investors could demand a yield of more than 3% on bonds. Their present-day successors are happy with less than one-third of that, which means that anyone holding a bond originally priced to earn 3% to maturity can now pocket a significant capital gain on top of their income yield. This boosts the historic return to considerably more than 3%. The opposite could be true ten years from now. If new investors at that time are demanding more than 1%, current investors will earn considerably less than 1% a year on their investment and may even suffer a capital loss.

My confidence that I will earn 6% or more from equities is based partly on history - they have delivered significantly more than this on average over the last 100 years - and partly on hard-headed analysis of likely future returns, based on projections for future growth in profits and dividends. I haven't been disappointed over the last twenty years of managing my own pension fund. I am confident that I won't be disappointed over the next twenty years - if I last that long.

This is where the high priests of financial planning chant in unison: "But what about sequence of return risk?" This incantation frightens off most of my fellow senior citizens from sticking with equities. It refers to the risk that, while equities may deliver 6% on average, you could be unlucky and have a sequence of bad results in the early years, when the fund is at its highest, with the good returns coming later, when there is less money in the pot.

I have several answers to this. One is that good past returns have enabled me to create a cushion that will help soften the blow of any short-term turbulence. A second is that a significant portion of my "income" comes from dividends, which are generally unaffected by temporary market downturns. This reduces the need to redeem investments, possibly at the wrong time. Thirdly, I always keep a small cash balance in the fund to allow for such eventualities and fourthly, if the worst comes to the worst, we can always economise, as we had to do on occasion during my time in business.

Now, if you'll excuse me, I must get back to planning my move to Australia in time to celebrate my three-quarters of a century with a summer barbecue.