

THE BIRCH LANE PERSPECTIVE

Preserving and Growing Wealth

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“Our goals can only be reached through a vehicle of a plan, in which we must fervently believe, and upon which we must vigorously act. There is no other route to success.”

– Pablo Picasso

The Beauty of a Conservative Retirement Income Plan

One of the most stressful aspects of approaching retirement isn't the golf or travel: it's the quiet dread of watching your life's work disappear if markets turn against you at the worst possible time. You've spent decades building wealth. The last thing you want is to spend your final chapter worrying whether it will last.

Retirement income needs to cover not only your expenses today, but also 30 or more years of inflation, the possibility of long-term care, and liquidity for catastrophic medical issues, life's emergencies, or helping loved ones.

Because of anxiety about replacing their income, many people work longer than they'd like or wait too long to sell their business, letting go only when they can no longer manage it effectively and its value begins to decline.

However, with the right plan, many people are better off than they realize. Rather than withdrawing a percentage of assets and relying purely on market returns (which can backfire if you retire right before an extended market slump), we find it far more effective to build a plan from the ground up.

A solid retirement income plan incorporates liquid reserves, fixed income, income with growth potential, and long-term capital appreciation. Consider the following steps:

1. Understand your recurring expenses, financial goals, risk tolerance, and health concerns.
2. Estimate the amount of conservative, liquid assets needed to weather market downturns, cover emergencies, and provide for long-term care or healthcare not covered by Medicare.
3. Determine the gap between your current expenses and fixed income sources, such as Social Security and pensions. This gap represents how much income you need to retire comfortably without tapping principal.

4. Once you know how much income you need, determine an appropriate mix between less volatile fixed income sources and income sources with the potential to grow and offset inflation, such as dividends and rental income.
5. Invest any excess funds in growth assets to supplement returns and build wealth over time.
6. Finally, consider the location of each asset class to maximize tax efficiency.

One of the risks of simplistic rules like the 4% rule (withdrawing 4% of your starting balance as “income”) is that you are tapping principal and therefore remain highly sensitive to market returns. The last thing you want is a bad sequence of market returns right after you retire.

For example, if you had retired in 1999 and started a 4% withdrawal plan, you would have significantly depleted your wealth over the next decade due to two major downturns: the dot-com bust and the Great Financial Crisis. During each of these crises, stocks dropped about 50% from their peaks, resulting in an overall flat market return over those 10 years.

The approach described above reduces your reliance on market returns while still allowing you to benefit from appreciation potential.

Here’s an example in action:

Cindy and Bob are in their early 60s. They’ve built impressive careers and an \$8 million portfolio, yet the thought of retiring keeps them up at night. “What if we run out of money? Should we grind until 70 just to be safe?” They’re not alone: many successful professionals delay the life they’ve earned because it feels safer to keep working than the risk of the unknown.

The couple spends about \$20,000 per month. Their children have graduated college and are working, they own a paid-off house worth \$1 million, and they hold \$4 million in retirement accounts and \$4 million in taxable accounts. They expect to receive \$3,500 per month each from Social Security at full retirement age (67). They have no pensions. Cindy’s mother spent four years in a memory care facility before passing away at a cost of nearly \$500,000, so the couple wants to prepare for that possibility (a private nursing home room currently costs around \$130,000 per year).

Starting with Social Security: 85% of the combined \$7,000 monthly benefit (\$84,000 annually) will be taxable at an average federal rate of around 12% in retirement, leaving approximately \$74,000 after tax. With annual expenses of \$240,000, this leaves a \$166,000 gap that must be covered by investment income.

Here’s one possible allocation that maintains strong liquidity reserves, generates sufficient income, offers growth potential, and remains tax-efficient:

Asset Class	Amount	Yield	Location	Income
Short-term bonds and money market	\$0.8M	3.50%	Taxable	\$28,000
High grade municipal bonds	\$3.2M	3.50%	Taxable	\$112,000
Dividend-growth stocks	\$2.0M	3.00%	IRAs	\$60,000
Growth-oriented stocks	\$2.0M	1.00%	IRAs	\$20,000
Total	\$8.0M	2.75%		\$220,000

After modest taxes, the \$220,000 in pre-tax income produces approximately \$207,000 after tax, more than enough to cover the \$166,000 gap while leaving a healthy cushion for healthcare surprises, long-term care, family gifts, and market downturns.

The result? Cindy and Bob can sleep soundly knowing their lifestyle, long-term care buffer, and ability to help their children are secure, regardless of what the stock market does next. They can retire now with confidence and never look back.

All without touching principal.

Of course, there are many additional considerations depending on family structure, special needs, estate planning, concentration risk, and more. But the core principle remains powerful: it's hard to run out of money when you never have to touch your principal.

Perhaps more importantly, it's hard to feel anything but grateful when you realize your children and grandchildren will inherit not just money, but the example of a life well-lived, on your terms.

The beauty of this plan isn't just that it's conservative. It's that it finally lets you stop working when you're ready, not when you're forced to. If you're tired of wondering "what if," let's build yours.

This case study is for illustrative purposes only. Individual cases will vary. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Prior to making any investment decision, you should consult with your financial advisor about your individual situation.

Next Steps

[Schedule a consultation](#) today to explore opportunities that align with your goals, liquidity needs, income requirements, and risk tolerance.

Last Month's Winners and Losers

Winners	Losers
Value	Risk
Profitability	Growth
Capital efficiency	Silver
Momentum	Crypto
Oil	Chinese stocks
Utilities	Tech

Last month saw continued movement to stocks with strong fundamentals: profitability, reasonable valuation, and capital efficiency. Risk and potential growth took a back seat. From our perspective, this is a welcome respite from a more hype-driven market.

Stocks

	S&P 500	Dow Jones U.S. Select Dividend	Russell 2000	Bloomberg US Long Treasury
1mo Return	-0.8%	3.9%	0.8%	4.2%
YTD Return	0.7%	10.8%	6.2%	3.7%
10yr Return	15.5%	11.7%	11.3%	-0.4%
20yr Return	10.9%	9.0%	8.1%	3.5%
30yr Return	10.2%	10.7%	8.7%	5.0%

Source: FactSet as of 3/2/2026. We use the S&P 500 index as an illustration of the performance of large cap stocks, the Dow Jones U.S. Select Dividend index as an illustration of the performance of high dividend stocks, the Russell 2000 index as an illustration of the performance of small cap stocks, and the Bloomberg US Long Treasury index to illustrate the performance of treasury bonds with maturities greater than 10 years out.

Large cap tech stocks, which have an outsized allocation in the S&P 500, dragged the market down last month, after lifting it up significantly in the previous two years. Year-to-date, "boring" areas such as dividend-paying stocks have been leading the market.

Despite the recent weakness in large cap stocks, they are still expensive vs. the rest of the market. After recently going through the largest 500 stocks individually, we estimate only about 10-15% of them are potentially undervalued while most of them are still overvalued vs. history.

That said, there are still opportunities we find attractive even within the largest companies and even more when you go into dividend-paying stocks, mid-cap stocks, and small cap stocks.

	Large Cap Stocks	Dividend Stocks	Small Cap Stocks
Dividend Yield	1.1%	2.9%	1.4%
Earnings Yield	4.9%	5.7%	6.3%
Earnings Growth	11.3%	8.8%	13.9%
Return on Equity	16.2%	12.4%	10.4%
% Losing Money	6.2%	7.8%	37.5%

Source: FactSet as of 3/2/2026. Dividend Yield is an estimate based on the weighted average of all companies in the category (by market cap). Earnings Yield, Earnings Growth, and Return on Equity are estimates based on the median profitable company. The % Losing Money statistic represents the percent of stocks with negative earnings in the preceding 12-month period. Large Cap stocks are defined here as the stocks in the S&P 500, according to FactSet. Dividend Stocks are defined here as the stocks within the S&P 500 that pay an above-median dividend yield, according to FactSet. Small Cap stocks are defined here as U.S. stocks ranked 1,001 to 3,000 in market capitalization, according to FactSet.

Artwork



"The Dream of the Architect" by Thomas Cole (1820). Source: [WikiArt](#).

Income Investing

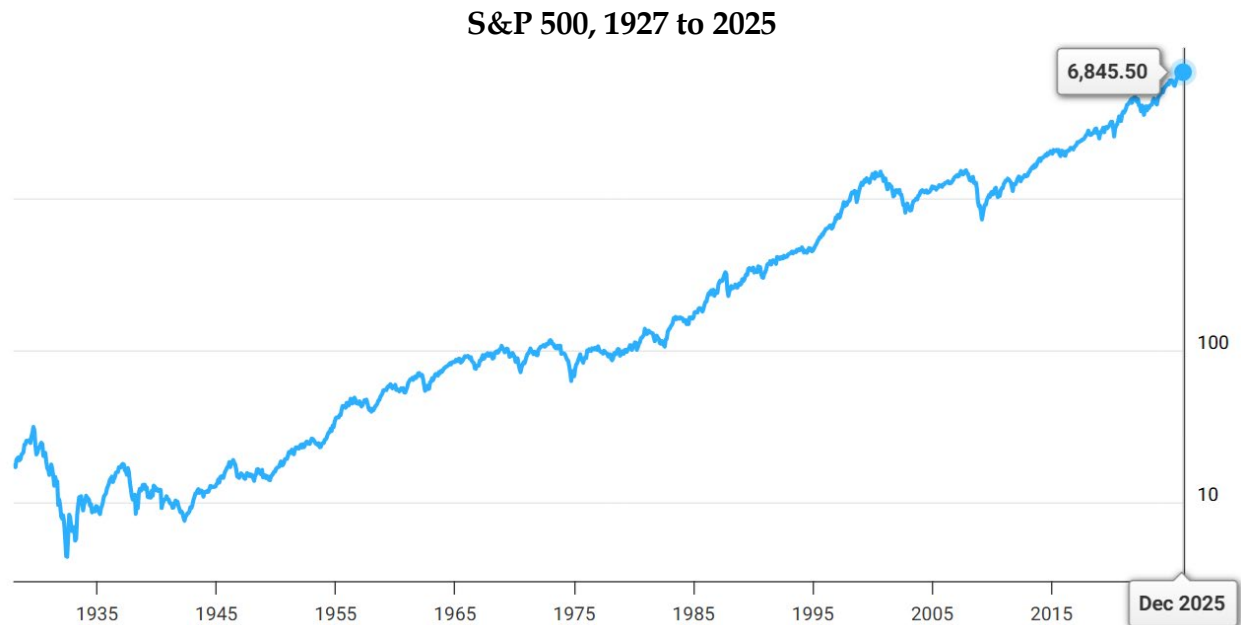
Interest Rates	
1yr Treasuries	3.5%
10yr Treasuries	4.0%
10yr TIPS	1.7%
Muni Bonds (10yr AA)	2.9%
Corp Bonds (10yr A)	4.6%
30yr Fixed Rate Mortgages	6.1%

Dividend Yields	
Common Stocks	1.1%
– Top 25%	4.0%
– Next 25%	2.4%
Preferred Stocks	6.3%
Real Estate (REITs)	3.9%
Limited Partnerships	7.0%

Source: Interest rates from Raymond James' Weekly Interest Rate Monitor as of 3/2/2026 and The Wall Street Journal as of 3/2/2026. Source for the Dividend Yields is from FactSet as of 3/2/2026. Common Stocks uses the estimated weighted average dividend yield for the S&P 500. The top 25% yield is the median yield of the top quartile of dividend-paying stocks out of the largest 1,000 stocks. The next 25% yield is the median of the second quartile. Preferred Stocks is the median dividend yield of the 100 largest traded preferred stocks (by dollar volume, per FactSet). REIT and Utilities dividend yields are the median of those sector stocks included in the 1,000 largest common stocks. Limited Partnerships dividend yields are the median of U.S. exchange-traded limited partnerships.

Long-term rates fell a bit over the last month. Although not as attractive as a year or two ago, we believe short-term bonds best balance risk and yield at this point. Well-chosen municipal bonds can also be attractive for investors in a high tax bracket. We also believe dividend-paying stocks are an attractive component of the allocation for many income-oriented investors.

The Long View



Source: MacroTrends.net

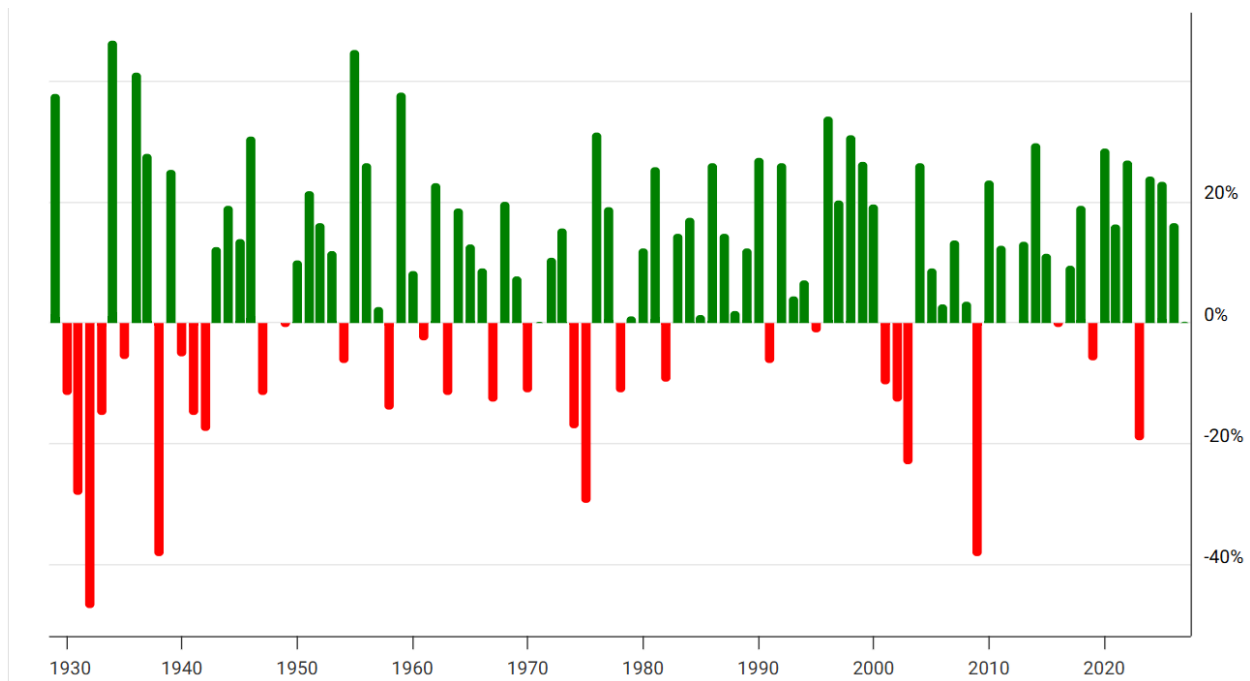
For the last 20, 30, and 100 years, stocks have averaged around an 8-10% annual return, driven by dividend yield, reinvestment of earnings, and earnings growth. Long-term bonds have yielded about 5% on average over the last century while inflation has been about 3%.

Throughout this period, there have been major upheavals, such as the Great Depression, World War II, the Korean War, the Vietnam War, dropping the gold standard, 1970s high inflation, 1987's Black Monday Crash, the Dot.com bust, the 9/11 terror attacks, the Global Financial Crisis, and the Covid Crash, among others.

These events led to severe market downturns about once every decade, with a median price decline of 33% and a median time to recover back to the previous high of 3.5 years. If we were to include dividends, the recovery to previous highs is actually a little faster. *

Meanwhile, a 3% inflation rate results in a 59% decline in the value of a dollar over 30 years. Meaning that people who retire at 60 years old on a fixed income face a high risk of a lower quality of life as they get further into retirement. *

The Price of Market Returns: Significant Volatility



S&P 500 Yearly Returns, 1927 to 2025. Source: MacroTrends.net

* Source: Morningstar Direct via cfainstitute.org, FactSet. Past performance is not necessarily indicative of future performance. Depreciation of the dollar: $\$1 / (1 + 3\%)^{30} = \0.41 real value 30 years later.

Market Outlook

Now I'll put on my "Nostradamus Hat" and make some predictions, for whatever they're worth:

- Inflation will average 2-5% over the next 10 years.
- Interest rates will fall in the 3-6% range for 10yr Treasuries over the next several years, in line with inflation and historical experience.
- The economy will grow 2-3% in real terms over the next several years.
- Stocks in general will average an 8-10% return over the next 10+ years. There is likely to be at least one big decline every decade or so.

From the standpoint of where you and your family will be in 30 years, none of this matters. What matters is finding good quality investments that are likely to grow over the decades. For this reason, I largely ignore my own general market forecast and invest whenever I find a business that I am confident in and that trades at an attractive valuation.

Sincerely,
Randy Watsek

P.S. If you know anyone who might benefit from the information in this letter, please pass it along.

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The Birch Lane Group advises clients collectively holding over \$300 million in assets, as of 12/31/25. The team consists of:

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Treasury Inflation-Protected Securities (TIPS) provide protection against inflation by adjusting their principal amount annually based on the Consumer Price Index (CPI) and then paying interest on that new amount. The principal amount is readjusted every year based on the prior year's CPI, meaning it can go down as well as up. There are special risks associated with investing with bonds such as interest rate risk, market risk, call risk, prepayment risk, credit risk, reinvestment risk, and unique tax consequences. To learn more about these risks and the suitability of these bonds for you, please contact our office. The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee that it is accurate or complete, it is not a statement of all available data necessary for making an investment decision, and it does not constitute a recommendation. 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