

Systematic Withdrawal Plan



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Many clients are familiar with the idea of Dollar Cost Averaging where investors periodically purchase securities. Similarly this concept can be flipped around into a Systematic Withdrawal Plan where investors periodically liquidate securities.

Let's look at an example of someone who might consider a Systematic Withdrawal Plan out of the market.

The first example is a retired individual who is living off their investments. For our example, let's assume a client is spending \$60,000 a year (\$5,000/month). This client might want to consider a consistent, monthly liquidation. By selling every month, the investor would receive an average price over the course of the year. By accepting the "average" price, the client takes the emotion out of the decision.

The second example is a corporate executive who recently received stock in his/her company. Perhaps the company "went public" in an IPO. Often these executives will have a very large percentage of their net worth tied up in their company stock and may want to diversify. The challenge becomes picking the price and the number of shares to sell (a market timing problem). Clients who wish to reduce their exposure might consider a systematic withdrawal plan to get out of the market. For corporate executives, this might be done using a 10(b)5-1 plan. Instead of trying to pick the number of shares, time and price, for each sale, the executive can use a 10(b)5-1 plan to set up a structured, regular plan of liquidation. These plans can be as simple as "sell 100 shares every day at the market at noon" to more formal spreadsheets with sophisticated prices and variable share amounts. Again, the idea is to use a structured plan to reduce the emotion of the decision. UBS offers 10(b)5-1 services to its clients, and can work with your provider as well.

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