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Many of us grew up with the investment mantra ‘never touch your principal’.

Back when government bonds paid 6%, 8% or even 10% interest that could make all kinds of sense.

But what to do when most savings accounts and CDs don’t even offer 1%?

Let me introduce the concept of ‘total return’ investing.

Think of your portfolio as an apple orchard where the dividends and interest make up the apples, and the principal makes up all the trunks and branches.

You’ll harvest the apples each year, for sure. That is, you’ll collect the dividends and interest payments.

Next, however, you’ll also prune the trees. That is, sell some of your stocks or bonds. The remainder of your stocks could grow back and make up for what you took.

That’s how total investing works. You collect the income and trim a little of the principal at opportune times.

A mental trick to use is to treat a dollar of interest or dividend the same as a dollar of principal. A dollar is a dollar is a dollar. (Let’s ignore possible capital gains taxes and transaction expenses for sake of argument.)

From your portfolio’s total value you can for example aim to draw a percentage, say four percent, while your total portfolio, through future growth and income, may sustain such withdrawal rate for decades.

Let’s say your portfolio earns two percent income through dividends and interest. Next, assume your stocks appreciate eight percent. You’d sell two percent worth of the principal for a total withdrawal of four percent.

Remember, if your stock investments lose value it can be helpful to have a buffer of more stable investments from which to draw during such down periods in stock prices.

All this may make sense logically but you may still find it hard to sell of your principal. It just feels more invasive and dangerous to your financial health than simply collecting dividends.

If so, remind yourself that apple trees can handle a little pruning from time to time.

Good luck.

Jorgen Vik, CFP®
CERTIFIED FINANCIAL PLANNER™
Partner
SKV Group, LLC

1405 Rolkin Ct., Suite 202
Charlottesville, VA 22911
toll free 844.391.3610
tel 434.328.8040
fax 434.234.3789
www.skvgrp.net

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1405 Rolkin Ct., Suite 202
Charlottesville, VA 22911
toll free 844.391.3610
tel 434.328.8040
fax 434.234.3789
www.skvgrp.net