

investments," Xenos said. "Your 8 percent return assumption is very conservative and, compared to historical numbers, low."

For example, a balanced portfolio consisting of 25 percent U.S. large-cap stocks, 25 percent U.S. small-cap stocks, 10 percent international stocks and 40 percent corporate bonds would have produced an annualized return of 13.98 percent over the past 25 years, Xenos said.

And a portfolio invested in U.S. Treasury bills and government bonds would have delivered the 8 percent return.

"It is safe to say that the past 25 years have had more than their share of volatile times," Xenos said. By investing in solid stock funds, and by putting away thousands of dollars each year, this reader should be able to achieve, if not exceed, his goal of retiring with at least \$1.6 million in 20 years, she said.

"It is definitely reasonable to use historical averages in your financial plan," Xenos said. "However, the main issue is having the risk tolerance to stay the course. The averages are just that, averages, and do not represent your year-over-year performance."

On any given year you may enjoy big gains or suffer significant losses, such as have occurred in the past year and a half. Staying the course is particularly important in unsettled times.

"The standard answer is that during a catastrophic event [such as the terrorist attacks in New York and Washington] long-term investors should remain calm and ride out the storm," said Marc Singer, also a partner with the Singer Xenos firm.

At the same time, "we suggest always structuring a portfolio as if there might be a financial crisis tomorrow," Singer said. "If and when the

crisis occurs, you may still experience a downturn, but it will be significantly buffered, allowing you the luxury of remaining calmer."

Therefore the standard advice is to be properly diversified and to design a portfolio consistent with your risk tolerance and goals.

"The past 15 years have shown extraordinary growth in the financial markets, but what is the likelihood that will be sustained in the future?" asked Steven Norwitz, vice president of **T. Rowe Price**, a mutual fund firm in Baltimore.

Over the past 15 to 20 years, stocks have provided an average annualized return of 16 percent; bonds, 8.6 percent; and cash or Treasury bills, 5.65 percent. The investment climate has been so favorable, particularly for stocks, that the average return for the past 50 years has been pushed to nearly 13 percent, or about 2 percentage points above the historical performance.

But T. Rowe Price's long-term average return estimate is a far more modest 9 percent for stocks, 6.5 percent for bonds and 4.75 percent for short-term fixed income securities.

"This would obviously produce dramatically different results for investors, requiring significant adjustments in expectations and planning," Norwitz said. So now that we have all these points of view to consider, what do we do? Clearly, nobody *knows* what investment returns will be in the future. All we can do is look at the past for perspective.

The past shows that stocks are superior long-term investments, but can fluctuate wildly over the short term. It also shows that returns can differ significantly over the course of a few years, or even decades.

Based on that perspective, a diversified portfolio and long-term approach continue to make sense. Even if returns come down to the low end of historical averages, investors would still come out well with such a disciplined approach.