

SEQUENCE OF RETURNS.... DOES IT REALLY MATTER?

Many people are asking not only “when will I retire?”, but “how much will I need?” Determining how much money is required each year to maintain your standard of living is one of the most critical variables in your retirement planning.

Markets will rise and will fall. When saving for the long term, this becomes less important, because your portfolio has a chance to recover.

But when you start withdrawing, market ups and downs can have a critical impact, particularly if you experience a downturn in the early years.

A tale of two investors:

Steve and Mary both invested \$100,000 into two different portfolios and at the end of 15 years they both ended up with the same average long-term results.

Accumulation phase

Steve

Year	Annual return	Year-end balance
1	16%	116,000
2	10%	127,600
3	8%	137,808
4	12%	154,345
5	6%	163,606
6	5%	171,786
7	9%	187,247
8	5%	196,609
9	5%	206,439
10	5%	216,761
11	-10%	195,085
12	-8%	179,478
13	-10%	161,531
14	-10%	145,378
15	-12%	127,932

2% average annual return

Mary

Year	Annual return	Year-end balance
1	-12%	88,000
2	-10%	79,200
3	-8%	72,864
4	-10%	65,578
5	-10%	59,020
6	5%	61,971
7	5%	65,069
8	5%	68,323
9	9%	74,472
10	5%	78,195
11	6%	82,887
12	12%	92,834
13	8%	100,260
14	10%	110,286
15	16%	127,932

2% average annual return

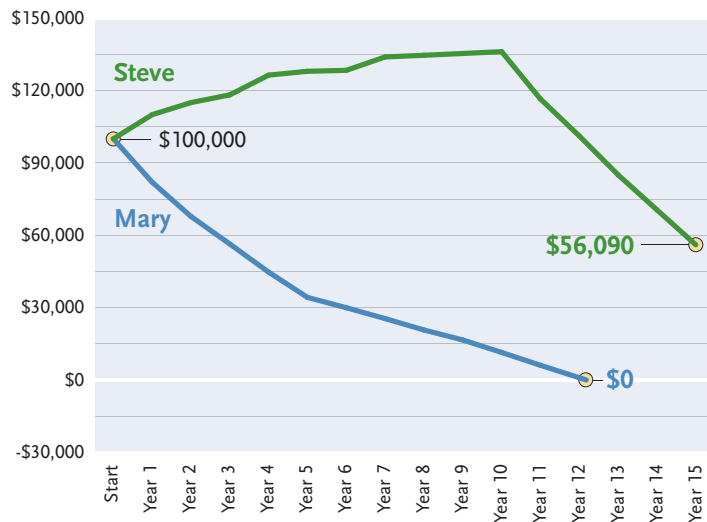
How does this affect your withdrawals in retirement?

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In 15 years at the end of the withdrawal phase the portfolios' values looked very different. After withdrawing \$6,000 a year, Steve took out a total of \$90,000, and still had \$56,090 remaining in his portfolio to meet his income needs.

Mary, on the other hand ran out of money in 12 years without ever receiving the full \$100,000 she invested*.

* based on the same hypothetical annual 2% returns they received in their accumulation phase



Withdrawal phase

Steve

Year	Annual return	Withdrawal	Year-end balance
1	16%	\$6,000	110,000
2	10%	\$6,000	115,000
3	8%	\$6,000	118,200
4	12%	\$6,000	126,384
5	6%	\$6,000	127,967
6	5%	\$6,000	128,365
7	9%	\$6,000	133,918
8	5%	\$6,000	134,614
9	5%	\$6,000	135,345
10	5%	\$6,000	136,112
11	-10%	\$6,000	116,501
12	-8%	\$6,000	101,181
13	-10%	\$6,000	85,063
14	-10%	\$6,000	70,556
15	-12%	\$6,000	56,090

2% average annual return
\$90,000 total withdrawal

Mary

Year	Annual return	Withdrawal	Year-end balance
1	-12%	\$6,000	82,000
2	-10%	\$6,000	67,800
3	-8%	\$6,000	56,376
4	-10%	\$6,000	44,738
5	-10%	\$6,000	34,265
6	5%	\$6,000	29,978
7	5%	\$6,000	25,477
8	5%	\$6,000	20,751
9	9%	\$6,000	16,618
10	5%	\$6,000	11,449
11	6%	\$6,000	6,136
12	12%	\$6,000	872
13	8%	-	0
14	10%	-	0
15	16%	-	0

2% average annual return
\$72,000 total withdrawal

A financial advisor can help you develop and manage your retirement income plan, and provide a line of defence during times of market turbulence.

The results shown are for illustrative purposes only and are not intended to reflect actual or expected returns. Investors should consult with their financial advisor on investment strategies. AGF and the Sound Choices logo are used under license from AGF Management Limited.