# The Sequence of Returns Can Impact Cash Flow

Markets rise and fall. When investing for the long term, short-term returns are less important because your portfolio has a chance to recover. But, when you start withdrawing, experiencing a downturn in the early years can have a critical impact.

## SCENARIO 1: Accumulation Phase

- Each invested $100,000 into two different portfolios
- No withdrawals
- At the end of 15 years, have the same amount of money

| | Investor A | | Investor B | |
|---|---|---|---|---|
| Year | Annual Return | Year-end Balance | Annual Return | Year-end Balance |
| 1 | 20% | $120,000 | -7% | $ 93,000 |
| 2 | 12% | $134,400 | -11% | $ 82,770 |
| 3 | 14% | $153,216 | -12% | $ 72,838 |
| 4 | 17% | $179,263 | -8% | $ 67,011 |
| 5 | 10% | $197,189 | -5% | $ 63,660 |
| 6 | 8% | $212,964 | 6% | $ 67,480 |
| 7 | 5% | $223,612 | 5% | $ 70,854 |
| 8 | 6% | $237,029 | 6% | $ 75,105 |
| 9 | 5% | $248,881 | 5% | $ 78,860 |
| 10 | 6% | $263,813 | 8% | $ 85,169 |
| 11 | -5% | $250,623 | 10% | $ 93,686 |
| 12 | -8% | $230,573 | 17% | $109,612 |
| 13 | -12% | $202,904 | 14% | $124,958 |
| 14 | -11% | $180,585 | 12% | $139,953 |
| 15 | **-7%** | **$167,944** | **20%** | **$167,944** |
| | **4.53% Average Annual Return** | | **4.53% Average Annual Return** | |

## SCENARIO 2: Withdrawal Phase

- Same portfolios as before
- $7,000 annual withdrawal at the end of the year
- Investor B runs out of money in year 11 – never recovered from the early negative returns

| | Investor A | | | Investor B | | |
|---|---|---|---|---|---|---|
| Annual Return | Withdrawal | Year-end Balance | Annual Return | Withdrawal | Year-end Balance | Year |
| 20% | $7,000 | $113,000 | -7% | $7,000 | $86,000 | 1 |
| 12% | $7,000 | $119,560 | -11% | $7,000 | $69,540 | 2 |
| 14% | $7,000 | $129,298 | -12% | $7,000 | $54,195 | 3 |
| 17% | $7,000 | $144,279 | -8% | $7,000 | $42,860 | 4 |
| 10% | $7,000 | $151,707 | -5% | $7,000 | $33,717 | 5 |
| 8% | $7,000 | $156,844 | 6% | $7,000 | $28,740 | 6 |
| 5% | $7,000 | $157,686 | 5% | $7,000 | $23,177 | 7 |
| 6% | $7,000 | $160,147 | 6% | $7,000 | $17,567 | 8 |
| 5% | $7,000 | $161,154 | 5% | $7,000 | $11,446 | 9 |
| 6% | $7,000 | $163,824 | 8% | $7,000 | $ 5,361 | 10 |
| -5% | $7,000 | $148,632 | 10% | $7,000 | $ 0 | 11 |
| -8% | $7,000 | $129,742 | 17% | – | $ 0 | 12 |
| -12% | $7,000 | $107,173 | 14% | – | $ 0 | 13 |
| -11% | $7,000 | $ 88,384 | 12% | – | $ 0 | 14 |
| -7% | $7,000 | **$ 75,197** | 20% | – | $ 0 | 15 |
| **$105,000 Total Withdrawal** | | | **$75,897 Total Withdrawal** | | | |

Source: AGF Investments. **Performance returns presented are hypothetical and for illustrative purposes only. It does not represent actual performance nor does it guarantee future performance.** Assumptions were made in the calculation of these returns including $100,000 invested at the beginning of year 1 in hypothetical investments with the stated rates of return. For Scenario 2, at the end of each year, $7,000 is withdrawn from the portfolio. Any taxes due, trading costs and other fees associated with the portfolios are not included and trading prices and frequency implicit in the hypothetical performance may differ from what may have actually been realized at the time given prevailing market conditions.

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