

Sequence of returns.... Does it really matter?

AGF SOUND CHOICES

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.

A tale of two investors:

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	

How does this affect your withdrawals in retirement?

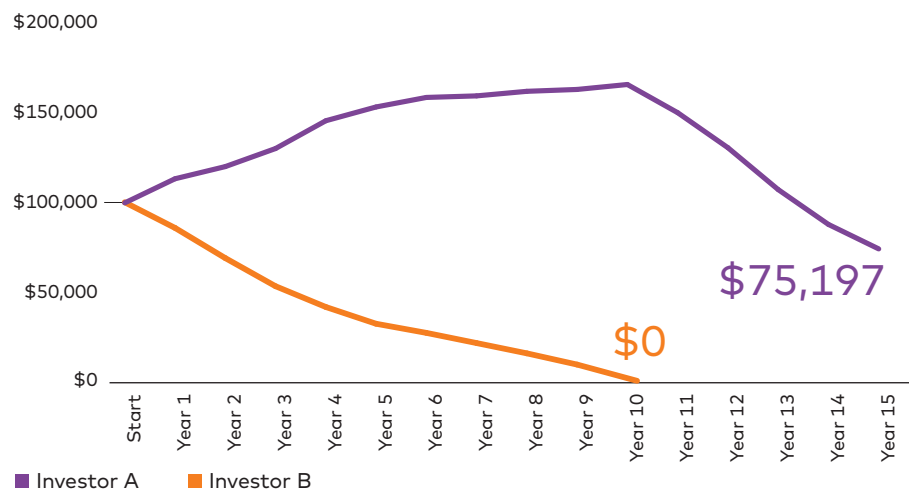
Source: AGF Investments Inc.

The tables above are both for illustrative purposes only. All of the rates and values referenced above are hypothetical and do not reflect actual investment or past performance, nor do they guarantee future performance.

In the withdrawal phase the portfolios' values looked very different.

**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

Year	Annual return	Withdrawal	Year-end balance
1	20%	\$7,000	\$113,000
2	12%	\$7,000	\$119,560
3	14%	\$7,000	\$129,298
4	17%	\$7,000	\$144,279
5	10%	\$7,000	\$151,707
6	8%	\$7,000	\$156,844
7	5%	\$7,000	\$157,686
8	6%	\$7,000	\$160,147
9	5%	\$7,000	\$161,154
10	6%	\$7,000	\$163,824
11	-5%	\$7,000	\$148,632
12	-8%	\$7,000	\$129,742
13	-12%	\$7,000	\$107,173
14	-11%	\$7,000	\$88,384
15	-7%	\$7,000	\$75,197

\$105,000 total withdrawal

Investor B

Year	Annual return	Withdrawal	Year-end balance
1	-7%	\$7,000	\$86,000
2	-11%	\$7,000	\$69,540
3	-12%	\$7,000	\$54,195
4	-8%	\$7,000	\$42,860
5	-5%	\$7,000	\$33,717
6	6%	\$7,000	\$28,740
7	5%	\$7,000	\$23,177
8	6%	\$7,000	\$17,567
9	5%	\$7,000	\$11,446
10	8%	\$7,000	\$5,361
11	10%	\$5,897	\$0
12	17%	-	\$0
13	14%	-	\$0
14	12%	-	\$0
15	20%	-	\$0

\$75,897 total withdrawal

Source: AGF Investments Inc.

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

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