

Market risk – accumulation



Importance of Sequence of Returns

Accumulation

Portfolio 1			Portfolio 2	
Year	Annual Return	Year-End Value	Annual Return	Year-End Value
1	-8.42%	\$457,900	1.32%	\$506,600
2	3.98%	\$476,124	10.06%	\$557,564
3	14.30%	\$544,210	7.61%	\$599,995
4	18.95%	\$647,338	30.40%	\$782,393
5	-14.78%	\$551,661	-3.11%	\$758,061
6	-26.45%	\$405,747	31.53%	\$997,077
7	37.30%	\$557,091	16.82%	\$1,164,785
8	23.70%	\$689,121	5.22%	\$1,225,587
9	-7.26%	\$639,091	18.55%	\$1,452,934
10	6.57%	\$681,079	32.03%	\$1,918,308
11	18.60%	\$807,760	6.11%	\$2,035,517
12	32.13%	\$1,067,293	22.37%	\$2,490,862
13	-4.91%	\$1,014,889	21.11%	\$3,016,683
14	21.11%	\$1,229,132	-4.91%	\$2,868,564
15	22.37%	\$1,504,089	32.13%	\$3,790,233
16	6.11%	\$1,595,989	18.60%	\$4,495,217
17	32.03%	\$2,107,184	6.57%	\$4,790,552
18	18.55%	\$2,498,067	-7.26%	\$4,442,758
19	5.22%	\$2,628,466	23.70%	\$5,495,692
20	16.82%	\$3,070,574	37.30%	\$7,545,585
21	31.53%	\$4,038,726	-26.45%	\$5,549,778
22	-3.11%	\$3,913,122	-14.78%	\$4,729,521
23	30.40%	\$5,102,711	18.95%	\$5,625,765
24	7.61%	\$5,491,027	14.30%	\$6,430,249
25	10.06%	\$6,043,424	3.98%	\$6,686,173
26	1.32%	\$6,123,197	-8.42%	\$6,123,197

Assumptions:

- Initial Investment: \$500,000
- Annual Income: None
- **Portfolio 1:** S&P 500¹ calendar year returns from 1969-1994
- **Portfolio 2:** Reverses the order of S&P 500 returns

For this analysis, we chose the years 1969-1994 because there were 4 negative years in the first ten. This type of performance best illustrates how a negative sequence of returns early in retirement affects the value of the portfolio.

¹ The Standard & Poor's 500 Composite Index is an unmanaged index of 500 common stocks generally considered representative of the U.S. stock market. Indexes do not take into account the fees and expenses associated with investing, and individuals cannot invest directly in any index. Past performance cannot guarantee future results.

This hypothetical example is for illustrative purposes.

Market risk – distribution



Importance of Sequence of Returns

Distribution

Portfolio 1			Portfolio 2	
Year	Annual Return	Year-End Value	Annual Return	Year-End Value
1	-8.42%	\$427,900	1.32%	\$476,600
2	3.98%	\$414,030	10.06%	\$493,646
3	14.30%	\$441,410	7.61%	\$499,385
4	18.95%	\$492,275	30.40%	\$618,417
5	-14.78%	\$385,752	-3.11%	\$585,419
6	-26.45%	\$248,942	31.53%	\$708,917
7	37.30%	\$305,976	16.82%	\$792,335
8	23.70%	\$341,596	5.22%	\$796,799
9	-7.26%	\$278,793	18.55%	\$906,602
10	6.57%	\$257,966	32.03%	\$1,157,844
11	18.60%	\$265,631	6.11%	\$1,188,270
12	32.13%	\$309,451	22.37%	\$1,412,559
13	-4.91%	\$251,484	21.11%	\$1,667,978
14	21.11%	\$206,516	-4.91%	\$1,542,024
15	22.37%	\$273,416	32.13%	\$1,992,099
16	6.11%	\$243,383	18.60%	\$2,315,890
17	32.03%	\$273,197	6.57%	\$2,419,903
18	18.55%	\$274,290	-7.26%	\$2,194,633
19	5.22%	\$237,535	23.70%	\$2,663,688
20	16.82%	\$224,883	37.30%	\$3,604,638
21	31.53%	\$241,605	-26.45%	\$2,597,028
22	-3.11%	\$178,282	-14.78%	\$2,157,378
23	30.40%	\$174,997	18.95%	\$2,508,718
24	7.61%	\$129,107	14.30%	\$2,808,257
25	10.06%	\$81,111	3.98%	\$2,859,042
26	1.32%	\$19,369	-8.42%	\$2,555,498

Assumptions:

- Initial Investment: \$500,000
- \$30,000 first year withdrawal with 3% increases annually thereafter
- **Portfolio 1** – S&P 500¹ calendar year returns from 1969-1994
- **Portfolio 2** – Reverses the order of S&P 500 returns

For this analysis, we chose the years 1969-1994 because there were 4 negative years in the first ten. This type of performance best illustrates how a negative sequence of returns early in retirement affects the value of the portfolio.

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