



# THE IMPACT OF THE SEQUENCE OF RETURNS

The span of time that can impact your retirement income stream the most is the period just prior to and immediately following retirement, and this effect is called the sequence of returns. The sequence of positive and negative returns can be critical when you begin taking withdrawals.

To demonstrate this, let's look at two hypothetical portfolios. Each portfolio begins with an initial \$200,000 investment amount and a 20-year period (1989–2008) that represented various market conditions of the S&P 500® index, with an average rate of return of 10.36%. The difference is that Investor A experiences positive market returns in all but one year in the first half of the 20-year period, while Investor B has a market decline immediately after retiring and in three of the next eight years.

## Hypothetical example for illustrative purposes.

Investor A—Early Gain Positive Initial Returns Can Provide More Income					
Year	Rate of Return	Balance after Returns	Withdrawal % of Initial Investment	Amount Withdrawn	End-of-Year Balance
1	31.69%	\$263,380	5.00%	\$10,000	\$253,380
2	-3.10%	\$245,525	5.15%	\$10,300	\$235,225
3	30.47%	\$306,898	5.30%	\$10,609	\$296,289
4	7.62%	\$318,867	5.46%	\$10,927	\$307,939
5	10.08%	\$338,980	5.63%	\$11,255	\$327,725
6	1.32%	\$332,050	5.80%	\$11,593	\$320,458
7	37.58%	\$440,886	5.97%	\$11,941	\$428,945
8	22.96%	\$527,431	6.15%	\$12,299	\$515,132
9	33.36%	\$686,980	6.33%	\$12,668	\$674,313
10	28.58%	\$867,031	6.52%	\$13,048	\$853,984
11	21.04%	\$1,033,662	6.72%	\$13,439	\$1,020,223
12	-9.10%	\$927,382	6.92%	\$13,842	\$913,540
13	-11.89%	\$804,920	7.13%	\$14,258	\$790,663
14	-22.10%	\$615,926	7.34%	\$14,685	\$601,241
15	28.68%	\$773,677	7.56%	\$15,126	\$758,551
16	10.88%	\$841,081	7.79%	\$15,580	\$825,501
17	4.91%	\$866,033	8.02%	\$16,047	\$849,986
18	15.79%	\$984,199	8.26%	\$16,528	\$967,671
19	5.49%	\$1,020,796	8.51%	\$17,024	\$1,003,772
20	-37.00%	\$632,376	8.77%	\$17,535	\$614,841
<b>Totals</b>				<b>\$268,704 + \$614,841</b>	
10.36% Average Rate of Return		Total Amount Withdrawn		+	Ending Balance = <b>\$883,545</b>

Investor B—Early Loss It Can Be Difficult to Recover from Early Losses					
Year	Rate of Return	Balance after Returns	Withdrawal % of Initial Investment	Amount Withdrawn	End-of-Year Balance
1	-37.00%	\$126,000	5.00%	\$10,000	\$116,000
2	5.49%	\$122,368	5.15%	\$10,300	\$112,068
3	15.79%	\$129,764	5.30%	\$10,609	\$119,155
4	4.91%	\$125,006	5.46%	\$10,927	\$114,078
5	10.88%	\$126,490	5.63%	\$11,255	\$115,235
6	28.68%	\$148,284	5.80%	\$11,593	\$136,691
7	-22.10%	\$106,483	5.97%	\$11,941	\$94,542
8	-11.89%	\$83,301	6.15%	\$12,299	\$71,002
9	-9.10%	\$64,541	6.33%	\$12,668	\$51,873
10	21.04%	\$62,788	6.52%	\$13,048	\$49,740
11	28.58%	\$63,956	6.72%	\$13,439	\$50,516
12	33.36%	\$67,369	6.92%	\$13,842	\$53,526
13	22.96%	\$65,816	7.13%	\$14,258	\$51,558
14	37.58%	\$70,934	7.34%	\$14,685	\$56,249
15	1.32%	\$56,991	7.56%	\$15,126	\$41,865
16	10.08%	\$46,085	7.79%	\$15,580	\$30,505
17	7.62%	\$32,830	8.02%	\$16,047	\$16,783
18	30.47%	\$21,897	8.26%	\$16,528	\$5,368
19	-3.10%	\$5,202	2.60%	\$ 5,202	\$0
20	31.69%		0.00%		\$0
<b>Totals</b>				<b>\$239,346 + \$0</b>	
10.36% Average Rate of Return		Total Amount Withdrawn		+	Ending Balance = <b>\$239,346</b>

Source: Standard & Poor's. S&P 500® index 1989–2008. The results shown are intended to demonstrate the impact of the effect of market performance on retirement assets, assuming 5% annual withdrawals of \$10,000 (increasing at 3% annually for inflation). Results are for illustrative purposes only and do not represent any particular investment or the deduction of any fees and charges. If fees and charges had been included, investment results would have been lower. Past performance does not guarantee future results.

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