



# 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Year	Rate of Return	Balance after Returns	Withdrawal % of Initial Investment	Amount Withdrawn	End-of-Year Balance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		<b>Total Amount Withdrawn + Ending Balance = \$883,545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Year	Rate of Return	Balance after Returns	Withdrawal % of Initial Investment	Amount Withdrawn	End-of-Year Balance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%	\$126,492	5.63%	\$11,255	\$115,237
6	28.68%	\$148,292	5.80%	\$11,593	\$136,700
7	-22.10%	\$106,488	5.97%	\$11,941	\$94,548
8	-11.89%	\$83,310	6.15%	\$12,299	\$71,011
9	-9.10%	\$64,549	6.33%	\$12,668	\$51,882
10	21.04%	\$62,798	6.52%	\$13,048	\$49,751
11	28.58%	\$63,969	6.72%	\$13,439	\$50,529
12	33.36%	\$67,388	6.92%	\$13,842	\$53,545
13	22.96%	\$65,839	7.13%	\$14,258	\$51,582
14	37.58%	\$70,965	7.34%	\$14,685	\$56,280
15	1.32%	\$57,023	7.56%	\$15,126	\$41,897
16	10.08%	\$46,120	7.79%	\$15,580	\$30,540
17	7.62%	\$32,867	8.02%	\$16,047	\$16,820
18	30.47%	\$21,944	8.26%	\$16,528	\$5,416
19	-3.10%	\$5,248	8.51%	\$5,248	\$0
20	31.69%				\$0
<b>Totals</b>			<b>\$239,392 + \$0</b>		
10.36% Average Rate of Return		<b>Total Amount Withdrawn + Ending Balance = \$239,392</b>			

Source: Pacific Life, 2018. S&P 500® is a registered trademark of Standard & Poor's Financial Services LLC. Indexes are unmanaged, cannot be invested in directly, hold no cash, and incur no expenses.

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Consider how the sequence of returns can impact your portfolio's value when planning for retirement income.  
Talk with your financial advisor today.  
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