RAYMOND JAMES

Understanding sequence of returns

Though not a factor for long-term savers, sequence of returns can have a significant impact on your portfolio as you withdraw funds.

As you save for your financial goals, the up-and-down rhythm of the markets is understood to be a natural part of investing. Once you enter the distribution phase, however, the sequence of market returns can have a dramatic effect on your balance. Having multiple income streams could be a useful strategy for preserving your assets.

These charts show two portfolios that start with $500,000. Portfolio 1 reflects performance based on actual returns for the S&P 500 index from 1969 through 1994. The hypothetical Portfolio 2 reflects performance for those same S&P 500 returns, but in reverse order. For example, a loss of -8.42% in the S&P 500 during Year 1 for Portfolio 1 occurs in Year 26 for Portfolio 2. Both portfolios have average annual returns of 11.30%, but that's where the similarity ends.

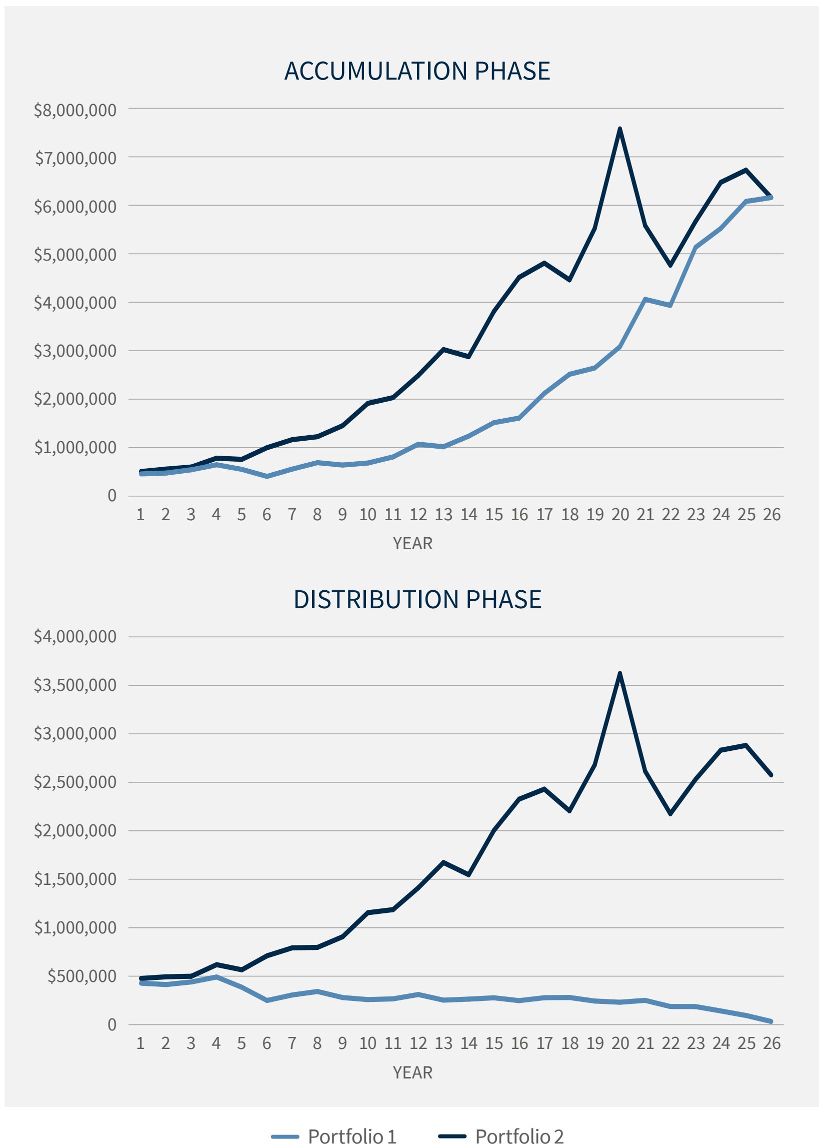
In the Accumulation Phase, both portfolios have the same balance in Year 26 – sequence of returns is not a factor for long-term investors. In the Distribution Phase, however, the portfolios have dramatically different balances in Year 26.

Notably, Portfolio 1 incurs a loss of -26.31% in Year 6, and essentially never recovers. Portfolio 2 does not incur that -26.31% loss until Year 21. While the Portfolio 2 balance drops sharply that year, it is much higher overall than Portfolio 1.

Sequence of returns can make a significant difference when you're withdrawing funds.

Source: Morningstar

Actual and projected figures are shown in the chart on the reverse side.



YEAR-BY-YEAR PERFORMANCE

	PORTFOLIO 1				PORTFOLIO 2			
Year	Return	Withdrawal	Balance After Withdrawal	Balance with No Withdrawal	Return	Withdrawal	Balance After Withdrawal	Balance with No Withdrawal
1	-8.40%	$30,000	$427,982	$457,982	1.32%	$30,000	$476,602	$506,602
2	3.89%	$30,900	$413,749	$475,817	10.08%	$30,900	$493,738	$557,661
3	14.22%	$31,827	$440,774	$543,498	7.62%	$31,827	$499,530	$600,151
4	18.96%	$32,782	$491,555	$646,535	30.47%	$32,782	$618,934	$782,992
5	-14.67%	$33,765	$385,690	$551,704	-3.10%	$33,765	$565,956	$758,686
6	-26.31%	$34,778	$249,441	$406,557	31.69%	$34,778	$710,508	$999,085
7	37.14%	$35,822	$306,265	$557,556	16.61%	$35,822	$792,690	$1,165,017
8	23.81%	$36,896	$342,288	$690,306	5.18%	$36,896	$796,849	$1,225,357
9	-7.19%	$38,003	$279,685	$640,696	18.62%	$38,003	$907,189	$1,453,472
10	6.52%	$39,143	$258,782	$682,478	31.64%	$39,143	$1,155,112	$1,913,401
11	18.45%	$40,317	$266,205	$808,383	6.22%	$40,317	$1,186,637	$2,032,406
12	32.45%	$41,527	$311,050	$1,070,670	22.46%	$41,527	$1,411,612	$2,488,854
13	-4.88%	$42,773	$253,097	$1,018,418	21.50%	$42,773	$1,672,378	$3,024,033
14	21.50%	$44,056	$263,465	$1,237,409	-4.88%	$44,056	$1,546,706	$2,876,452
15	22.46%	$45,378	$277,258	$1,515,313	32.45%	$45,378	$2,003,172	$3,809,744
16	6.22%	$46,739	$247,763	$1,609,559	18.45%	$46,739	$2,325,979	$4,512,568
17	31.64%	$48,141	$278,022	$2,118,879	6.52%	$48,141	$2,429,526	$4,806,855
18	18.62%	$49,585	$280,194	$2,513,334	-7.19%	$49,585	$2,205,337	$4,461,399
19	5.18%	$51,073	$243,633	$2,643,507	23.81%	$51,073	$2,679,338	$5,523,624
20	16.61%	$52,605	$231,492	$3,082,550	37.14%	$52,605	$3,621,864	$7,575,150
21	31.69%	$54,183	$250,659	$4,059,294	-26.31%	$54,183	$2,614,812	$5,582,219
22	-3.10%	$55,809	$187,069	$3,933,284	-14.67%	$55,809	$2,175,473	$4,763,441
23	30.47%	$57,483	$186,578	$5,131,591	18.96%	$57,483	$2,530,416	$5,666,495
24	7.62%	$59,208	$141,587	$5,522,583	14.22%	$59,208	$2,831,139	$6,472,507
25	10.08%	$60,984	$94,873	$6,079,189	3.89%	$60,984	$2,880,406	$6,724,562
26	1.32%	$62,813	**$33,312**	$6,159,462	-8.40%	$62,813	**$2,575,538**	$6,159,462

SEQUENCE MATTERS

Over different periods of time or with different withdrawal rates, the sequence of returns has a variable effect – there may be a dramatic difference, or very little. As the illustration makes clear, despite having identical average annual returns, results in these periods are not symmetric.

Clients in any phase are vulnerable to the market's random gyrations, but investors in the distribution phase are even more sensitive to unfortunate timing. You may retire at a favorable time in the market or during a highly unfavorable time. While there is no way to control the sequence of returns, we can turn our focus to strategies that mitigate risk.

Having multiple income streams, or the ability to adjust your withdrawal rate during market declines, can help safeguard against sequence of returns risk by keeping your investments intact so you don't miss out when the market rebounds.

RAYMOND JAMES®

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