

# SEQUENCE OF RETURNS

## The importance of when your ups and downs occur

It's not just how much your investments go up or down, it's also when the ups and downs occur.

### What is sequence of returns risk?

Sequence of returns is the order of your investment returns. It can become a risk when you reach retirement and begin making withdrawals. If you received strong returns during your early working years, you may not have any problems. But poor returns and withdrawals early in retirement can do lasting damage to your portfolio.

To illustrate how sequence of returns risk works, let's look at a hypothetical example involving two couples who are just entering retirement. We'll reverse the rate of return sequence for each couple's investment, and illustrate the impact.

### Example: How sequence of returns affects two different couples

Both couples begin with a portfolio balance of \$500,000 and over 30 years make 5 percent annual withdrawals (\$25,000, plus annual increases to account for inflation). Both couples expect the same average annual net return of 6 percent.

#### Poor returns early, strong returns later

However, Jim and Mary experience poor early returns and strong returns later on, which results in a depleted investment portfolio by year 13, at their mutual age of 78.

#### Strong returns early, poor returns later

On the other hand, Bob and Jane experience positive returns in the early years, and negative returns later, still leaving them with a comfortable portfolio at their mutual age of 78.



Jim & Mary

Sequence of returns: Poor, then strong

Hypothetical net return	Withdrawal	Balance
		\$ 500,000
-27.1%	\$ 25,000	\$ 346,275
-16.5%	\$ 25,750	\$ 267,638
-1.9%	\$ 26,523	\$ 236,535
3.1%	\$ 27,318	\$ 215,702
10.9%	\$ 28,138	\$ 208,009
-9.4%	\$ 28,982	\$ 162,199
7.4%	\$ 29,851	\$ 142,141
8.1%	\$ 30,747	\$ 120,417
15.4%	\$ 31,669	\$ 102,415
9.4%	\$ 32,619	\$ 76,356
6.2%	\$ 33,598	\$ 45,410
12.4%	\$ 34,606	\$ 12,143
2.8%	\$ 12,143	\$ -
11.4%	\$ -	\$ -
9.0%	\$ -	\$ -
24.3%	\$ -	\$ -
-11.0%	\$ -	\$ -
22.4%	\$ -	\$ -
9.6%	\$ -	\$ -
7.6%	\$ -	\$ -
9.2%	\$ -	\$ -
-6.1%	\$ -	\$ -
18.1%	\$ -	\$ -
-3.7%	\$ -	\$ -
22.5%	\$ -	\$ -
17.6%	\$ -	\$ -
8.9%	\$ -	\$ -
4.3%	\$ -	\$ -
10.1%	\$ -	\$ -
26.7%	\$ -	\$ -



Bob & Jane

Sequence of returns: Strong, then poor

Age	Hypothetical net return	Withdrawal	Balance
65			\$ 500,000
66	26.7%	\$ 25,000	\$ 601,825
67	10.1%	\$ 25,750	\$ 634,259
68	4.3%	\$ 26,523	\$ 633,869
69	8.9%	\$ 27,318	\$ 660,534
70	17.6%	\$ 28,138	\$ 743,697
71	22.5%	\$ 28,982	\$ 875,527
72	-3.7%	\$ 29,851	\$ 814,385
73	18.1%	\$ 30,747	\$ 925,477
74	-6.1%	\$ 31,669	\$ 839,286
75	9.2%	\$ 32,619	\$ 880,880
76	7.6%	\$ 33,598	\$ 911,675
77	9.6%	\$ 34,606	\$ 961,268
78	22.4%	\$ 35,644	\$ 1,132,964
79	-11.0%	\$ 36,713	\$ 975,663
80	24.3%	\$ 37,815	\$ 1,165,745
81	9.0%	\$ 38,949	\$ 1,228,207
82	11.4%	\$ 40,118	\$ 1,323,532
83	2.8%	\$ 41,321	\$ 1,318,113
84	12.4%	\$ 42,561	\$ 1,433,720
85	6.2%	\$ 43,838	\$ 1,476,055
86	9.4%	\$ 45,153	\$ 1,565,407
87	15.4%	\$ 46,507	\$ 1,752,811
88	8.1%	\$ 47,903	\$ 1,843,006
89	7.4%	\$ 49,340	\$ 1,926,397
90	-9.4%	\$ 50,820	\$ 1,699,273
91	10.9%	\$ 52,344	\$ 1,826,444
92	3.1%	\$ 53,915	\$ 1,827,478
93	-1.9%	\$ 55,532	\$ 1,738,278
94	-16.5%	\$ 57,198	\$ 1,403,702
95	-27.1%	\$ 58,914	\$ 980,350

\* Source: Securian Financial, Sequence of Returns 5-2022