Wayne Wilson Financial

WHY TIMING IS EVERYTHING

Don't let sequence of returns risk drain your savings

Your are working hard to accumulate assets and ensure you have enough to last throughout retirement – no matter how long you live. Yet uncertainties like market volatility could wash away even the best laid plans if you're not careful.

Consider the impact of sequence of returns for starters. In the following examples, we have two retirees with an initial $200,000 invested over a 20-year period in the S&P 500® index with an average rate of return of 10.36%. The difference is that Client A experiences market declines in the last half of a 20-year period, and Client B experiences a market decline immediately after retiring and in three of the next eight years.

During the accumulation phase, the timing of the returns has no impact on the total gain.

CLIENT A – EARLY GAIN ACCUMULATION PHASE

Year	Rate of Return	Withdrawal	Balance After Returns
1	31.69%	$0	$263,380
2	–3.10%	$0	$255,215
3	30.47%	$0	$332,979
4	7.62%	$0	$358,352
5	10.08%	$0	$394,474
6	1.32%	$0	$399,681
7	37.58%	$0	$549,882
8	22.96%	$0	$676,134
9	33.36%	$0	$901,693
10	28.58%	$0	$1,159,397
11	21.04%	$0	$1,403,334
12	–9.10%	$0	$1,275,630
13	–11.89%	$0	$1,123,958
14	–22.10%	$0	$875,563
15	28.68%	$0	$1,126,675
16	10.88%	$0	$1,249,257
17	4.91%	$0	$1,310,596
18	15.79%	$0	$1,517,538
19	5.49%	$0	$1,600,851
20	–37.00%	$0	$1,008,536

Average Rate of Return: 10.36%
Total Gain = $1,008,536

CLIENT B – EARLY LOSS ACCUMULATION PHASE

Year	Rate of Return	Withdrawal	Balance After Returns
1	–37.00%	$0	$126,000
2	5.49%	$0	$132,917
3	15.79%	$0	$153,905
4	4.91%	$0	$161,462
5	10.88%	$0	$179.029
6	28.68%	$0	$230,374
7	–22.10%	$0	$179,462
8	–11.89%	$0	$158,124
9	–9.10%	$0	$143,734
10	21.04%	$0	$173,976
11	28.58%	$0	$223,698
12	33.36%	$0	$298,324
13	22.96%	$0	$366,819
14	37.58%	$0	$504,670
15	1.32%	$0	$511,332
16	10.08%	$0	$562,874
17	7.62%	$0	$605,765
18	30.47%	$0	$790,342
19	–3.10%	$0	$765,841
20	31.69%	$0	$1,008,536

Average Rate of Return: 10.36%
Total Gain = $1,008,536

However, during the distribution or INCOME phase, the timing of the returns makes a considerable difference not only on the withdrawals they can take but also on the remaining account balance available to them.

CLIENT A – EARLY GAIN WHILE TAKING INCOME WITHDRAWALS

Year	Rate of Return	Balance after Returns	Withdrawal % of Initial Investment	Amount Withdrawn	End-of-Year Balance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
	TOTALS			$268,704 + $614,841	

Average Rate of Return: 10.36%
Total Income Taken = $883,545

CLIENT B – EARLY LOSS WHILE TAKING INCOME WITHDRAWALS

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
	TOTALS			$239,346 + $0	

Average Rate of Return: 10.36%
Total Income Taken= $239,346

Knowing that we can't predict the future, it's important you understand the potential impacts of ***sequence of returns risk*** and how it could affect your future lifestyle. By repositioning a portion of your nest egg into a market protection strategy, you can help mitigate the risk of a market downturn depleting your retirement income, while still benefiting from upside potential.

Contact our team for help implementing strategies that generate an income flow to last a lifetime.

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). If fees and charges had been included, investment results would have been lower.

S&P 500® index 1989–2008. Past performance does not guarantee future results.