

# Sequence of Returns ... Does it Really Matter?

AGF SOUND CHOICES

## The sequence of returns *can* impact cash flow.

Markets rise and fall. When investing for the long term, short-term returns are less important because your portfolio has a chance to recover. But, when you start withdrawing, experiencing a downturn in the early years can have a critical impact.

### A tale of two investors:

#### SCENARIO 1:

##### Accumulation Phase

- Each invested \$100,000 into two different portfolios
- No withdrawals
- At the end of 15 years, have the same amount of money

Investor A			Investor B	
Year	Annual Return	Year end Balance	Annual Return	Year end Balance
1	20%	\$120,000	-7%	\$93,000
2	12%	\$134,400	-11%	\$82,770
3	14%	\$153,216	-12%	\$72,838
4	17%	\$179,263	-8%	\$67,011
5	10%	\$197,189	-5%	\$63,660
6	8%	\$212,964	6%	\$67,480
7	5%	\$223,612	5%	\$70,854
8	6%	\$237,029	6%	\$75,105
9	5%	\$248,881	5%	\$78,860
10	6%	\$263,813	8%	\$85,169
11	-5%	\$250,623	10%	\$93,686
12	-8%	\$230,573	17%	\$109,612
13	-12%	\$202,904	14%	\$124,958
14	-11%	\$180,585	12%	\$139,953
15	-7%	<b>\$167,944</b>	20%	<b>\$167,944</b>
4.53% Average Annual Return			4.53% Average Annual Return	

## How does this affect your withdrawals in retirement?

Source: AGF Investments Inc.

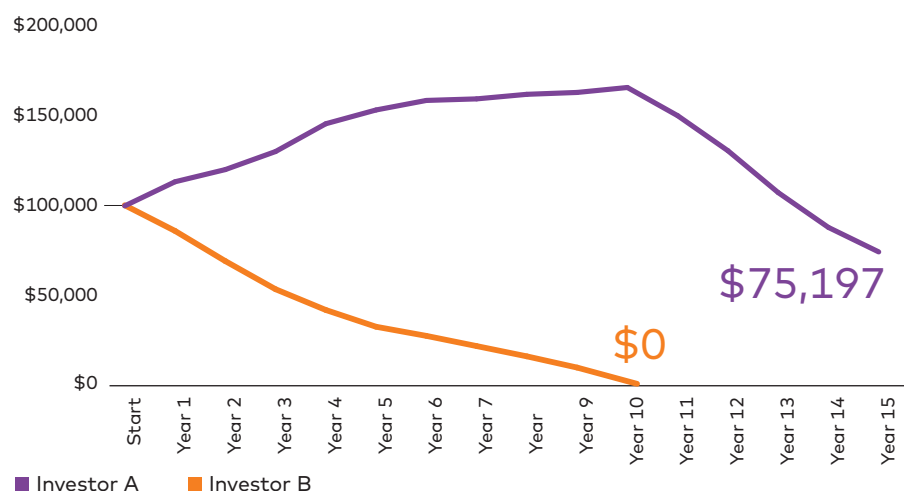
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In the withdrawal phase, the portfolios' values looked very different.

## SCENARIO 2:

## Withdrawal Phase

- Same portfolios as before
- \$7,000 annual withdrawal at the end of the year
- Investor B runs out of money in year 11 – never recovered from the early negative returns



## Investor A

Year	Annual Return	Withdrawal	Year end Balance
1	20%	\$7,000	\$113,000
2	12%	\$7,000	\$119,560
3	14%	\$7,000	\$129,298
4	17%	\$7,000	\$144,279
5	10%	\$7,000	\$151,707
6	8%	\$7,000	\$156,844
7	5%	\$7,000	\$157,686
8	6%	\$7,000	\$160,147
9	5%	\$7,000	\$161,154
10	6%	\$7,000	\$163,824
11	-5%	\$7,000	\$148,632
12	-8%	\$7,000	\$129,742
13	-12%	\$7,000	\$107,173
14	-11%	\$7,000	\$88,384
15	-7%	\$7,000	\$75,197

**\$105,000 Total Withdrawal**

## Investor B

Year	Annual Return	Withdrawal	Year end Balance
1	-7%	\$7,000	\$86,000
2	-11%	\$7,000	\$69,540
3	-12%	\$7,000	\$54,195
4	-8%	\$7,000	\$42,860
5	-5%	\$7,000	\$33,717
6	6%	\$7,000	\$28,740
7	5%	\$7,000	\$23,177
8	6%	\$7,000	\$17,567
9	5%	\$7,000	\$11,446
10	8%	\$7,000	\$5,361
11	10%	\$5,897	\$0
12	17%	-	\$0
13	14%	-	\$0
14	12%	-	\$0
15	20%	-	\$0

**\$75,897 Total Withdrawal**

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**A financial advisor can help you develop and manage your retirement income plan, and provide a line of defence during times of market turbulence.**

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