SEQUENCE OF RETURNS IN HISTORY

When timing can matter most to your portfolio

An article in the Chicago Tribune reported that a portfolio comprised of 70% stocks and 30% bonds would have allowed $100,000 to grow to nearly $300,000 from 1997 to 2014.[1] The article offers these figures as proof that such a portfolio will work in retirement. Unfortunately, it's not that simple when you look at it from an income perspective.

Take that portfolio and factor in a yearly 4% withdrawal with a 3% inflation adjustment. If we started taking income adjusted for inflation in 1997, the portfolio was worth nearly $118,479 in 2013. We were able to get our 4% withdrawal adjusted for inflation and end up with more than we started with. Impressive.

But what if we take that same portfolio and spending pattern and begin withdrawals in 2000? At the end of 2016, the account is worth $57,382. A three-year difference in retirement date costs the investor nearly 52% in less than just 16 years.

Not only did the Tribune cherry-pick its time period, but it ignored the reality that most people add to and subtract from their portfolios. That's a simplification that can be very dangerous!

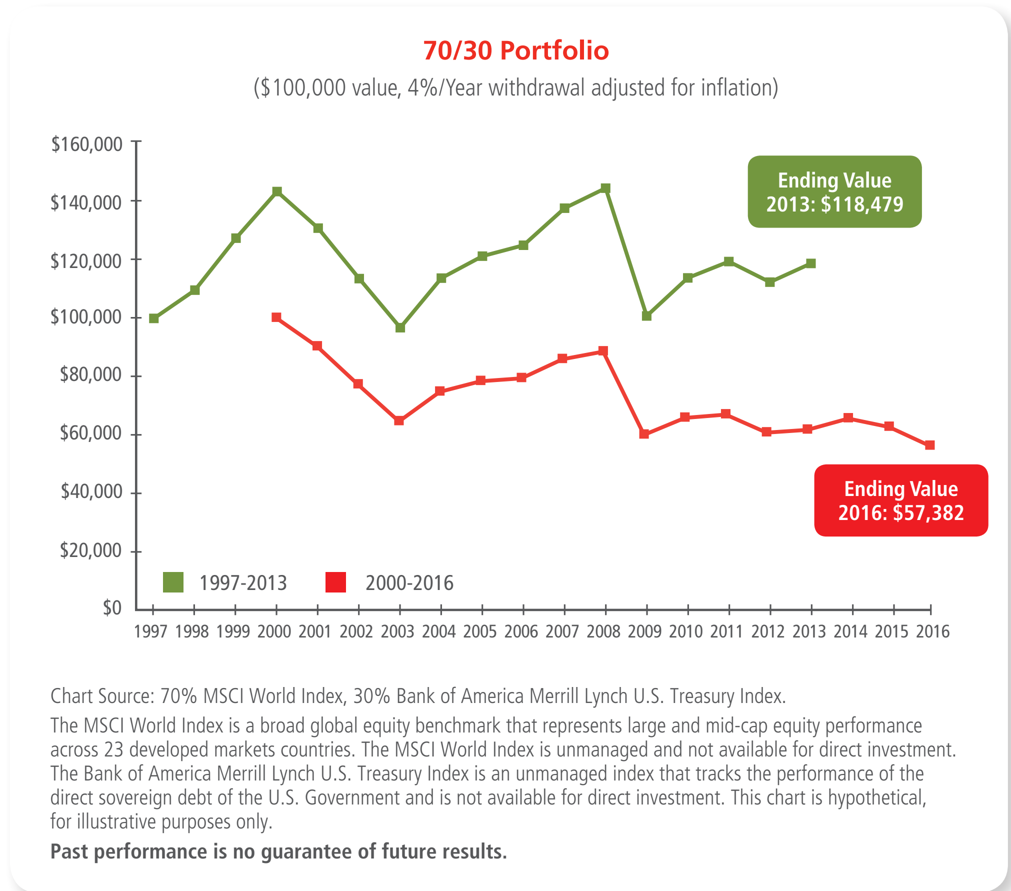

Chart Source: 70% MSCI World Index, 30% Bank of America Merrill Lynch U.S. Treasury Index.

The MSCI World Index is a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed markets countries. The MSCI World Index is unmanaged and not available for direct investment. The Bank of America Merrill Lynch U.S. Treasury Index is an unmanaged index that tracks the performance of the direct sovereign debt of the U.S. Government and is not available for direct investment. This chart is hypothetical, for illustrative purposes only.

Past performance is no guarantee of future results.

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[1] James M. Sanford, Chicago Tribune, "The Strong Case Against Annuities," June 23, 2016.

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