How Sequence of Returns Can Affect Your Retirement Savings – Video Transcript

If you've been diligently investing for retirement and are beginning to envision that glorious event on the horizon, now might be a good time to familiarize yourself with a concept that could have a significant impact on your portfolio. It's called "sequence-of-returns" risk.

Sequence-of-returns risk is the chance of experiencing poor investment returns at the wrong time, such as just before you retire or in the early years of your retirement.

Why does the sequence of returns on earnings matter? Because the *order* in which you earn negative and positive returns can significantly affect how *long* your portfolio lasts.

Let's look at an example.

Over a 10-year period, two $500,000 portfolios earned identical annual returns, but in the exact opposite order.

Investor A's portfolio earned negative returns in the first three years, and positive returns for the remaining seven.

Investor B's portfolio earned positive returns in the first seven years, and negative returns for the last three.

Both investors withdrew $35,000 a year for retirement income. These withdrawals were not adjusted for inflation.

At the end of the decade, Investor A ended up with $337,734.

Investor B had $485,532.

Although both investors achieved the same 6% *average* yearly return over the 10-year time frame, Investor B wound up with nearly $150,000 more. Why?

The results are all due to the order in which the returns were earned – in other words, the *sequence* of those returns.

Fortunately, there are a number of strategies that can help you pursue your retirement income goals while managing sequence-of-returns risk. A financial professional can help you evaluate which strategies might be appropriate for your needs.

There is no guarantee that working with a financial professional will improve investment results.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.