

Sequence of Returns – The Flaw of Averages

When it comes to your retirement assets, there's danger in playing the law of averages.

As if market risk isn't enough of a challenge in retirement planning, *when* you experience gains or losses – your sequence of returns – can have a significant impact on your retirement assets. It can mean the difference between having enough income in retirement or running out of money too soon.

In the example below, four different people invest \$500,000 for 20 years and experience the same *average rate* of return, but very different *sequences of returns*, including one scenario of no growth. No withdrawals are taken throughout their 20-year period.

Rates of return before retirement:

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	18	20	Average	Ending Values	
Market down early	-15	-5	-15	5	25	20	10	15	5	10	15	10	20	0	5	10	5	15	10	15	8%	\$2,115,025	
Market down late	10	25	15	5	10	10	25	15	5	15	10	20	10	5	0	15	5	-15	-5	-15	8%	\$2,115,025	
Steady Growth	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8%	\$2,330,480
No Growth	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0%	\$500,000

These results are hypothetical in nature and do not represent any specific investment. Your actual results will vary. Investing involves market risk including potential loss of principal.

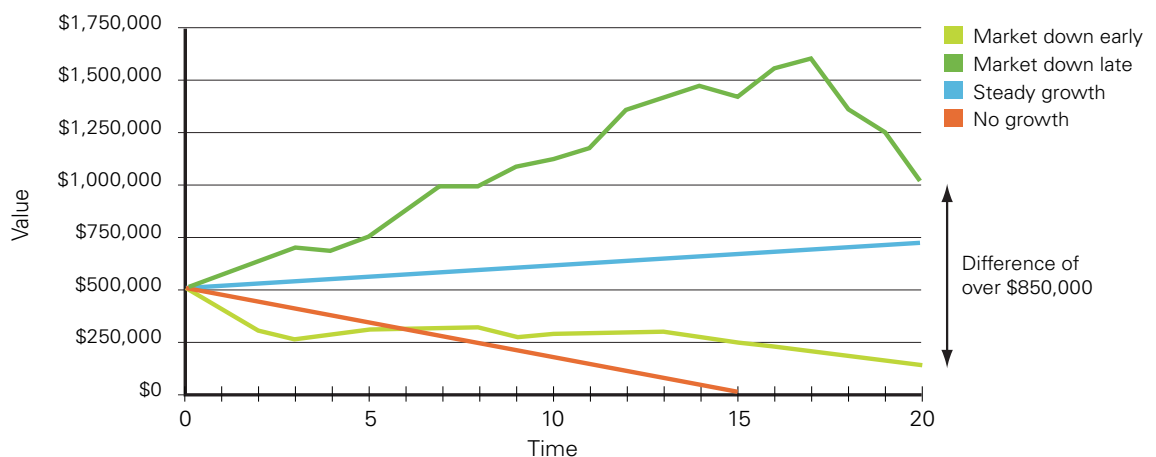
You'll notice that the first three investors each have an average 8% growth – one has market losses early on; one has losses at the end of the 20 years; and one has steady annual returns – while the remaining investor has no growth. The sequence of returns when saving for retirement had little effect at the end of the investment period, but what happens once these investors enter retirement?

Sequence of Returns – The Flaw of Averages (Continued)

Retirement Income – Withdrawals Change the Story

Once an investor retires and begins taking income from their assets, the impact of when the rate of returns is down or up can make a big difference.

The chart below shows how experiencing an early downturn in retirement may mean running out of money sooner. In this example, each of the four investors begin with \$500,000, and make annual withdrawals equal to 5% the first year, with a 3.5% increase in the withdrawal amount each year for inflation.



The above charts are designed to demonstrate the mathematical principle behind market risk and sequence of returns. This illustration is hypothetical and is not intended to serve as a projection of the investment results of any specific investment. Actual experience will vary over time with future fluctuations in the market. Remember, investing involves market risk, including loss of principal and there is no guarantee that investment objectives will be achieved. Source: Nationwide Financial (08/06)

When returns were down late, the loss was less significant because the investment had time to build enough value to offset the loss that came at the end of the 20-year period. But when returns were down early, the investment just wasn't able to recover.

At Karp Capital, we have a strategy that can help protect your income stream, even if the markets go down. Rather than take on the responsibility yourself, call us, and we will design a retirement income proposal for you.

None of the data and company information presented herein constitutes a recommendation by Karp Capital Management or a solicitation of any offer to buy or sell any securities. Information presented is general information that does not take into account your individual circumstances, financial situation, or needs, nor does it present a personalized recommendation to you. Individual stocks or strategies presented may not be suitable for you. Although information has been obtained from and is based upon sources Karp Capital Management believes to be reliable, we do not guarantee its accuracy and the information may be incomplete or condensed. All opinions and estimates constitute Karp Capital Management's judgment as of the date of the report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Past performance is no indication of future results.