

# SEQUENCE of RETURN RISK

Age	Positive Sequence Investor A		Negative Sequence Investor B	
	Annual Return	Year End Value	Annual Return	Year End Value
65		\$ 1,000,000		\$ 1,000,000
66	6%	\$ 1,060,000	-20%	\$ 800,000
67	25%	\$ 1,325,000	-16%	\$ 672,000
68	18%	\$ 1,563,500	-11%	\$ 598,080
69	-9%	\$ 1,422,785	15%	\$ 687,792
70	17%	\$ 1,664,658	22%	\$ 839,106
71	20%	\$ 1,997,590	7%	\$ 897,844
72	17%	\$ 2,337,180	-17%	\$ 745,210
73	8%	\$ 2,524,155	7%	\$ 797,375
74	12%	\$ 2,827,053	12%	\$ 893,060
75	18%	\$ 3,335,923	22%	\$ 1,089,533
76	20%	\$ 4,003,108	12%	\$ 1,220,277
77	-13%	\$ 3,482,704	5%	\$ 1,281,291
78	-12%	\$ 3,064,779	-12%	\$ 1,127,536
79	5%	\$ 3,218,018	-13%	\$ 980,956
80	12%	\$ 3,604,180	20%	\$ 1,177,148
81	22%	\$ 4,397,100	18%	\$ 1,389,034
82	12%	\$ 4,924,752	12%	\$ 1,555,718
83	7%	\$ 5,269,485	8%	\$ 1,680,176
84	-17%	\$ 4,373,672	17%	\$ 1,965,806
85	7%	\$ 4,679,829	20%	\$ 2,358,967
86	22%	\$ 5,709,392	17%	\$ 2,759,991
87	15%	\$ 6,565,801	-9%	\$ 2,511,592
88	-11%	\$ 5,843,563	18%	\$ 2,963,679
89	-16%	\$ 4,908,593	25%	\$ 3,704,598
90	-20%	\$ 3,926,874	6%	\$ 3,926,874
Average Return	6.60%		6.60%	

The risk associated with the order of investment returns over time is known as Sequence of Returns Risk. The danger comes when investors are taking distributions or regular withdrawals from an account while simultaneously experiencing a negative sequence or returns during the early stages of the distribution phase of investing. This risk is primarily associated with retirees that are beginning to live off the income and capital of their investments.

Sequence of Returns Risk can most easily be demonstrated with a simple example comparing two individual's investment portfolios. The only difference is that these individuals will experience investment returns in an inverse order. Let's first assume both individuals have \$1 million when they reach age 65 but neither needs to take any income from their investment accounts and they simply let the money grow over time.

In this example both investors end up with the same portfolio value because they experience the same average annual return and no distributions were taken from either account. The Sequence of Returns was irrelevant in this situation.

Age	Positive Sequence - Investor A			Negative Sequence - Investor B		
	Annual Distribution	Annual Return	Year End Value	Annual Distribution	Annual Return	Year End Value
65			\$ 1,000,000			\$ 1,000,000
66	\$ 50,000	6%	\$ 1,010,000	\$ 50,000	-20%	\$ 750,000
67	\$ 50,000	25%	\$ 1,212,500	\$ 50,000	-16%	\$ 580,000
68	\$ 50,000	18%	\$ 1,380,750	\$ 50,000	-11%	\$ 466,200
69	\$ 50,000	-9%	\$ 1,206,483	\$ 50,000	15%	\$ 486,130
70	\$ 50,000	17%	\$ 1,361,585	\$ 50,000	22%	\$ 543,079
71	\$ 50,000	20%	\$ 1,583,901	\$ 50,000	7%	\$ 531,094
72	\$ 50,000	17%	\$ 1,803,165	\$ 50,000	-17%	\$ 390,808
73	\$ 50,000	8%	\$ 1,897,418	\$ 50,000	7%	\$ 368,165
74	\$ 50,000	12%	\$ 2,075,108	\$ 50,000	12%	\$ 362,344
75	\$ 50,000	18%	\$ 2,398,627	\$ 50,000	22%	\$ 392,060
76	\$ 50,000	20%	\$ 2,828,353	\$ 50,000	12%	\$ 389,107
77	\$ 50,000	-13%	\$ 2,410,667	\$ 50,000	5%	\$ 358,563
78	\$ 50,000	-12%	\$ 2,071,387	\$ 50,000	-12%	\$ 265,535
79	\$ 50,000	5%	\$ 2,124,956	\$ 50,000	-13%	\$ 181,016
80	\$ 50,000	12%	\$ 2,329,951	\$ 50,000	20%	\$ 167,219
81	\$ 50,000	22%	\$ 2,792,540	\$ 50,000	18%	\$ 147,318
82	\$ 50,000	12%	\$ 3,077,645	\$ 50,000	12%	\$ 114,996
83	\$ 50,000	7%	\$ 3,243,080	\$ 50,000	8%	\$ 74,196
84	\$ 50,000	-17%	\$ 2,641,757	\$ 50,000	17%	\$ 36,809
85	\$ 50,000	7%	\$ 2,776,680	\$ -	20%	\$ -
86	\$ 50,000	22%	\$ 3,337,549	\$ -	17%	\$ -
87	\$ 50,000	15%	\$ 3,788,182	\$ -	-9%	\$ -
88	\$ 50,000	-11%	\$ 3,321,482	\$ -	18%	\$ -
89	\$ 50,000	-16%	\$ 2,740,045	\$ -	25%	\$ -
90	\$ 50,000	-20%	\$ 2,142,036	\$ -	6%	\$ -
Average Return	6.60%			6.60%		

Next let's look at the same example; however, this time, we're going to assume that both individuals are going to require an income of \$50,000 a year which will need to be taken from their investment accounts. Both individuals will have the same beginning value of \$1 million and again experience the same returns but in inverse order of each other.

As you can see in the chart, Individual B will run out of money at the age of 83 due to the fact that they experienced a negative sequence of returns at the beginning of their distribution cycle. Meanwhile, Individual A took the same distribution amounts but began in a market environment that recorded several consecutive years of positive returns; resulting in a significantly different outcome.

It is important to consider and manage such risks, especially in retirement. Developing a personalized financial plan that addresses your individual situation by utilizing appropriate investment strategies and product diversification can help mitigate exposure to certain risks and aid you in reaching your financial goals.

**If you would like to schedule a meeting to discuss financial planning please contact 855-340-2514 | [www.alphastarc.com](http://www.alphastarc.com) | [support@alphastarc.com](mailto:support@alphastarc.com)**

Investment Advisory Services offered through AlphaStar Capital Management, LLC, a SEC Registered Investment Adviser. SEC registration does not constitute an endorsement of the firm by the Commission nor does it indicate that the adviser has attained a particular level of skill or ability. The information provided is for illustrative purposes only do not reflect actual investment results and are not guarantees of future results. Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance. The information presented does not constitute financial, legal or tax advice and should be used for informational purposes only. Since individual circumstances vary, you should consult your legal, tax, or financial advisors for specific information.