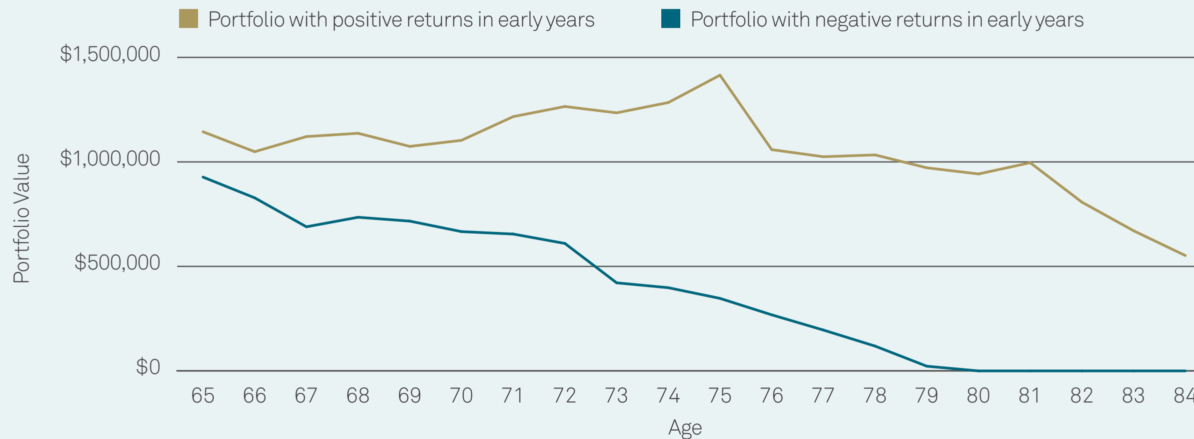
Dollar Cost Ravaging: Sequence of Returns Risk

Spending

The order of returns matters when taking retirement distributions.[1] Two portfolios had the same average annual returns of 6.63%, but the order in which those returns occurred was reversed.



Both hypothetical portfolios began with $1 million and the retiree made annual withdrawals of $65,000 increasing by 3% each year for inflation. Both portfolios had the same average annual returns of 6.63%, but the order in which those returns occurred was reversed. The gold portfolio lasted longer because it had positive returns in the early years and negative returns in the later years. However, the teal portfolio was depleted because it experienced its negative returns early, despite having positive returns later.

Investors should be sensitive to taking withdrawals during volatile markets, especially in the early years of retirement.

[1] **Assumptions:**

Both portfolios are based on a hypothetical portfolio of 60% equity (represented by the S&P 500 total Return Index) and 40% bonds (represesnted by the Barclays U.S. Aggregagte Bond Index) using the actual returns of those indexes from 2000 to 2019. The sequence of weighted portfolio returns for the gold portfolio was 22.38%, -2.65%, 14.44%, 8.26%, 0.97%, 10.46%, 18.63%, 11.29%, 4.40%, 11.65%, 18.25%, -20.10%, 6.08%, 11.21%, 3.92%, 8.26%, 18.85%, -9.16%, -3.76%, -0.81%. The sequence of weighted portfolio returns for the purple portfolio was -0.81%, -3.76% ,-9.16%, 18.85%, 8.26%, 3.92%, 11.21%, 6.08%, -20.10%, 18.25%, 11.65%, 4.40%, 11.29%, 18.63%, 10.46%, 0.97%, 8.26%, 14.44%, -2.65%, 22.38%.

Source: BNY Mellon Investment Management.

The examples presented are for illustrative purposes only and do not represent actual returns of any account. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.. Past performance is no guarantee of future results.

Please see side 2 for definition of index.

Why Should You Care?

Dollar Cost Ravaging[2] is the opposite of Dollar Cost Averaging.

Dollar Cost Averaging works to the investor's benefit during the saving period. Market declines are an opportunity to purchase more shares for a consistent investment dollar amount. During retirement, when assets are being sold, the opposite occurs in market declines, meaning that more shares are sold to achieve a consistent income, and future compounding is hampered.

[2] Convergent Retirement Plan Solutions, LLC.

What's the Good News?

- Investment withdrawals during a rising market work to the investor's benefit — just like Dollar Cost Averaging.
- There are several strategies your advisor can employ to potentially mitigate the negative impact of Dollar Cost Ravaging, also called Sequence of Returns Risk.
- Diversifying your portfolio may reduce some of your market risk, allowing you to plan where to make withdrawals.

Not FDIC-Insured. Not Bank-Guaranteed. May Lose Value.

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Take Action!

Avoid ravaging

Beware of taking withdrawals during a down market. Consider: Delay or reduce distributing your savings from investments that are declining or during prolonged market volatility.

Don't set it and forget it

To make your money last, you may need to reduce the percentage you originally planned to withdraw — perhaps for your entire retirement.

Watch out for the "4% Rule"

Often individuals think they can safely withdraw at least 4% from their investment accounts and have enough money for life. With retirement lasting 20–30 years, it may be risky to stick to an arbitrary distribution amount — even only 4%.

Use insurance wisely

Insurance and guaranteed products may reduce reliance on your investment portfolio and mitigate sequence of returns risk.

It's *Your* 30

Because many investors may spend around 30 years in retirement, now is the time for you and your financial professional to plan for your future. This will be the time when pressures and responsibilities that once filled your days will diminish and you'll have more time to focus on you.*

We believe

To achieve the retirement you desire, first **determine your retirement goals** and then work with your financial advisor to **develop a financial plan.** Discuss the four interconnected financial behaviors — earning, spending, investing and insuring — because they will greatly impact your plan.

*The likelihood of any one individual experiencing a retirement horizon of 30+ years depends on a variety of factors including the age at retirement and health-related issues.

All investments involve risk, including the possible loss of principal.

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Risks

Bonds are subject to interest-rate, credit, liquidity, call and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines. **Equities** are subject to market, market sector, market liquidity, issuer, and investment style risks, to varying degrees. Investing in **foreign denominated and/or domiciled securities** involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries.

The Bloomberg Barclays U.S. Aggregate Bond Index is a widely accepted, unmanaged total return index of corporate, government and government-agency debt instruments, mortgage-backed securities and asset-backed securities with an average maturity of 1 to 10 years. The Bloomberg Barclays Global Aggregate Index is an index comprised of several other Barclays indices that measure fixed income performance of regions around the world. The Standard & Poor's 500 (S&P 500) Composite Stock Price Index is a widely accepted, unmanaged index of U.S. stock market performance.

Investors cannot invest directly in any index.

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