SEQUENCE OF RETURNS

We all know investing has risks. And we all know that we can expect the markets to go up and down, and that over time, our investments will create more value for us than when we started.

Case in point, since 1973, the TSX has seen seven major downturns where it dropped by an average of 32.4%. And each time it dropped, it took an average of 39 months to recover—more than three years! For investors sitting on the sidelines, those were long, nail-biting months. But eventually, the markets did what they do, and rose again.

WHERE'S THE RISK?

Market fluctuation is perfectly normal. But what if you need your money while the markets are down? That's where the term 'sequence of returns' comes into play. The whole idea of saving for retirement is that you'll eventually start withdrawing the money you've worked so hard to earn and save. But if the timing of your retirement coincides with a market downturn, you could be in real trouble.

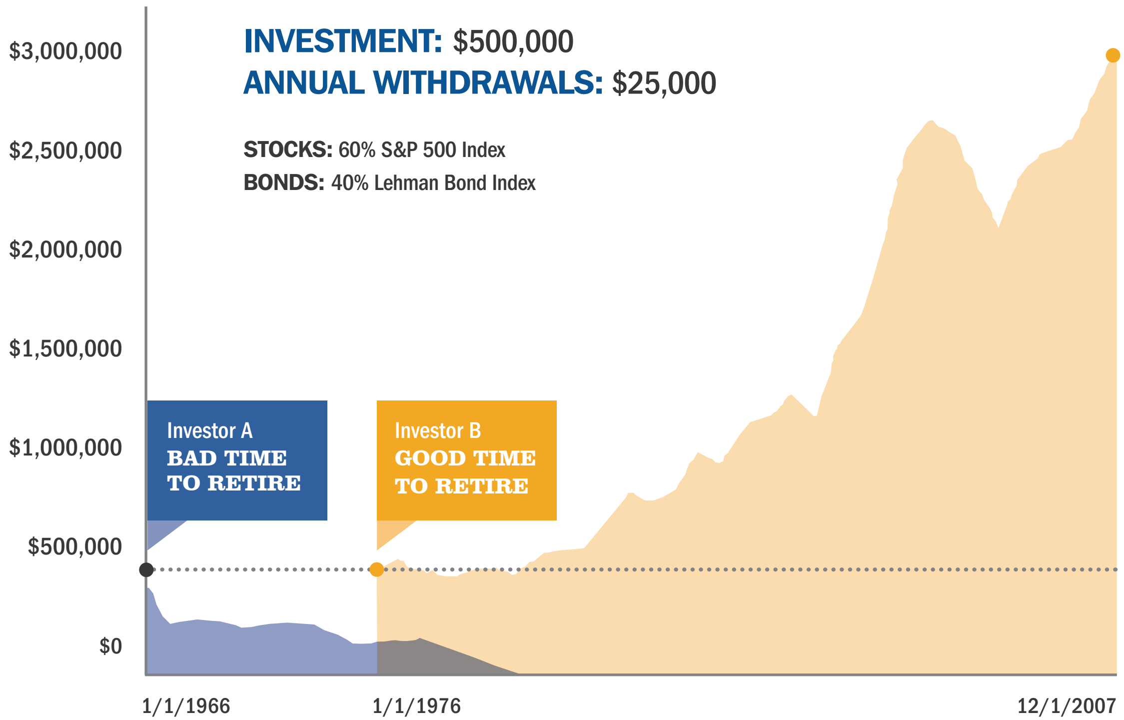
A market downturn at the beginning of your retirement creates a double-edged sword. The overall value of your nest egg drops because the value of the stocks in it drops, while at the same time, you are withdrawing from that reduced nest egg, making it even smaller. So instead of the exponential compound growth associated with constant investing and reinvesting, you have the reverse: decreasing savings that are further reduced each time you make a withdrawal.

In addition, you have the risk of making an emotional mistake—moving your money out of the markets when they are down, and losing any potential for the inevitable return of those funds when the markets rise again. (There are many ways to address the risk of retiring at the beginning of a market downturn. See Solutions & Strategies to learn more about your options.)

BAD TIMING

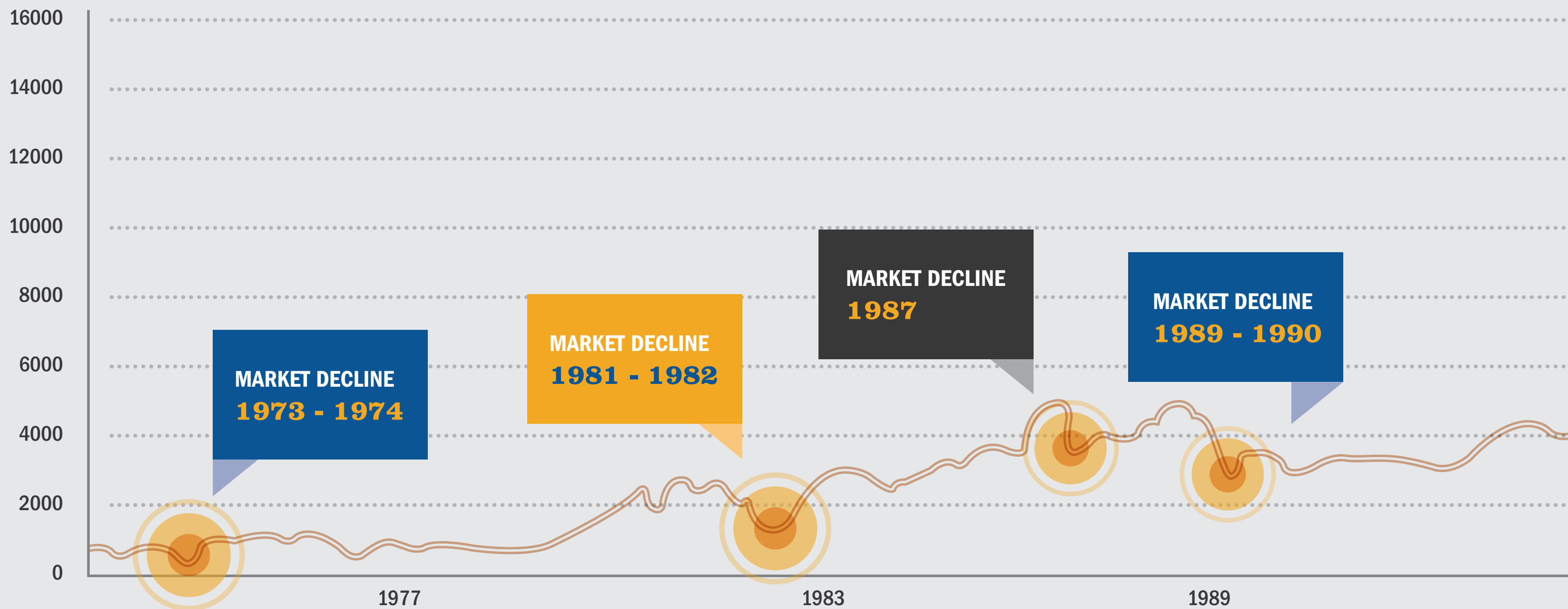
If you are withdrawing an income (such as in retirement) from your investments when the market drops, your money can be depleted very quickly.

In this chart Investor A and B both started with $500,000, and made withdrawals of $25,000 per year. Investor A retired at the beginning of a down market and ran out of money in 13 years. Investor B was fortunate to retire at the beginning of an up market, and after 30 years still had over three million dollars.



The period from 1966 - 2007 illustrates the effects of both good and bad timing on retirement income.

THERE HAVE BEEN SEVEN MAJOR DROPS IN THE TSX SINCE 1973.



OCT 1973 - SEPT 1974

Total decline: 34.9%

Time to recover: 54 months

JUN 1981 - JUN 1982

Total decline: 39%

Time to recover: 22 months

JUL 1987 - NOV 1987

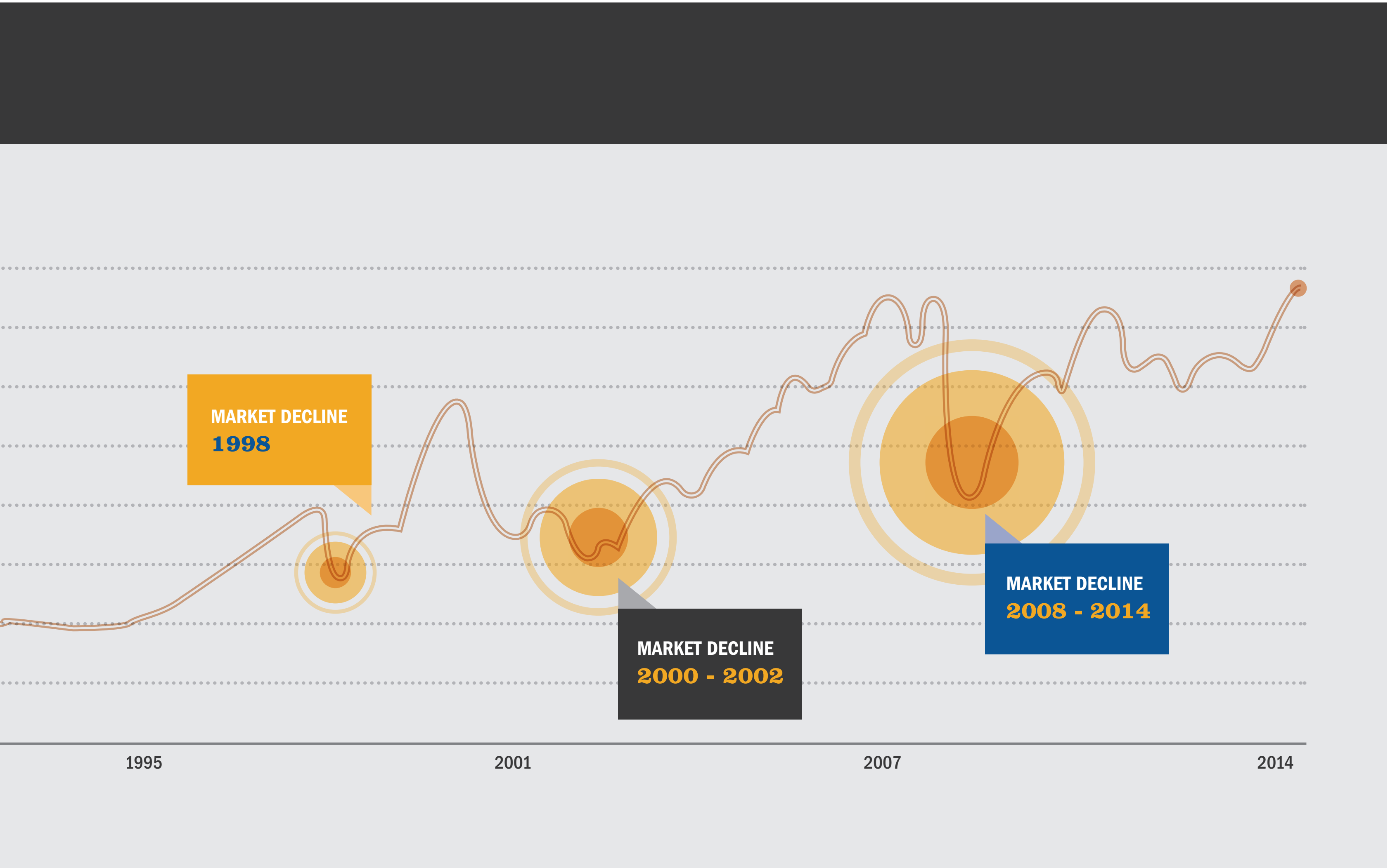
Total decline: 25%

Time to recover: 20 months

DEC 1989 - OCT 1990

Total decline: 20%

Time to recover: 29 months



APR 1998 - AUG 1998

Total decline: 27%

Time to recover: 15 months

AUG 2000 - SEPT 2002

Total decline: 43%

Time to recover: 59 months

MAY 2008 - JUNE 2014

Total decline: 38%

Time to recover: 73 months