MEEDER

MEEDER WEALTH MANAGEMENT

Sequence of Returns Risk

The lifecycle of an investor includes three distinct phases which include accumulation, preservation and distribution.

When investors begin withdrawing assets to support their income needs, they enter the distribution phase and should consider sequence of return risk. This is the risk that an investor will receive lower returns early in the period of distribution. When taking withdrawals from a portfolio, the order or sequence of investment returns can significantly impact the overall value of the portfolio. This is because the portfolio is compounding these investment returns when the account is often at one of its largest values.

Below are examples of three different portfolios with a beginning value of $100,000. Each also had year-end annual withdrawals of $5,000 and had the same 15-year average investment return of 4.24%. In this example, the only difference between Portfolio A & B is the annual investment returns occurred in the exact opposite order. Portfolio C illustrates what the balance would be if the investor achieved the same return each year. While this return scenario is not realistic, it illustrates the impact that the sequence of returns can have on long-term portfolio value. The difference in the final value of each of portfolio is dramatic.

While no strategy can predict or control the order or sequence in which returns occur, sound asset allocation and diversification strategies can help to reduce this risk for investors in the distribution phase. Meeder's investment portfolios attempt to achieve this goal through downside protection and lower volatility.

		Portfolio A		Portfolio B		Portfolio C	
WITHDRAWAL AT YEAR END		ANNUAL RETURN	VALUE: $100,000	ANNUAL RETURN	VALUE: $100,000	ANNUAL RETURN	VALUE: $100,000
$5,000	Year 1	-9.10%	$85,900	13.69%	$108,690	4.24%	$99,240
$5,000	Year 2	-11.89%	$70,686	32.39%	$138,895	4.24%	$98,448
$5,000	Year 3	-22.10%	$50,065	16.00%	$156,118	4.24%	$97,622
$5,000	Year 4	28.68%	$59,423	2.11%	$154,412	4.24%	$96,761
$5,000	Year 5	10.88%	$60,889	15.06%	$172,666	4.24%	$95,864
$5,000	Year 6	4.91%	$58,878	26.46%	$213,354	4.24%	$94,928
$5,000	Year 7	15.79%	$63,175	-37.00%	$129,413	4.24%	$93,953
$5,000	Year 8	5.49%	$61,643	5.49%	$131,518	4.24%	$92,937
$5,000	Year 9	-37.00%	$33,835	15.79%	$147,284	4.24%	$91,878
$5,000	Year 10	26.46%	$37,788	4.91%	$149,516	4.24%	$90,773
$5,000	Year 11	15.06%	$38,479	10.88%	$160,783	4.24%	$89,622
$5,000	Year 12	2.11%	$34,291	28.68%	$201,896	4.24%	$88,422
$5,000	Year 13	16.00%	$34,778	-22.10%	$152,277	4.24%	$87,171
$5,000	Year 14	32.39%	$41,042	-11.89%	$129,171	4.24%	$85,867
$5,000	Year 15	13.69%	**$41,661**	-9.10%	**$112,417**	4.24%	**$84,508**
Average return:		4.24%		4.24%		4.24%	

SOURCE: MEEDER