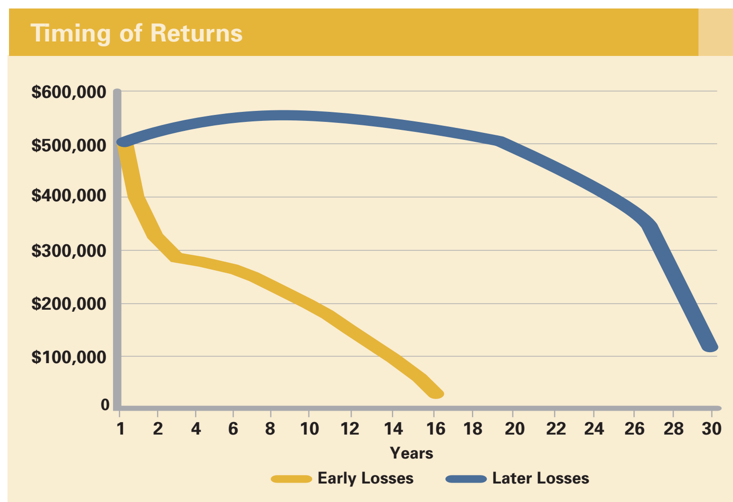
Why is the Timing of Investment Returns Important When Managing Your Assets in Retirement?



This chart shows the results of early losses of -15% in Year 1, -10% in Year 2, and -5% in Year 3 versus losses of -15% in Year 28, -10% in Year 29, and -5% in Year 30. The hypothetical example assumes a $500,000 initial balance and $25,000 annual withdrawals. Withdrawals are adjusted each year by 3% for inflation. This hypothetical investment assumes an annual 6.3% rate of return in each year that the account does not have losses and does not take into account taxes. This example is for illustrative purposes only and does not represent the performance of an actual investment. There is no assurance that similar returns will be achieved. Source: New York Life Investment Management LLC, 2005

The consequences of incurring losses early in retirement are far-reaching and can seriously impair long-term objectives. The chart shows what happens to a portfolio when there are losses in the early years of retirement versus later on. A portfolio that experiences early losses depletes much faster. As you can see, the timing of returns can determine whether your retirement savings last a lifetime.

From 1926 through 2004 the S&P 500[1] has grown at an average of 10.43%

But only twice in 78 years — 9.99% in 1993 and 10.87% in 2004 — did the market grow close to that rate in a particular calendar year! Typically, it's a feast or famine scenario with performance either significantly above or below the average.

Source: Ibbotson Associates, Inc., 2005

Also, keep in mind that one of the easiest and riskiest assumptions to make when managing assets in retirement is relying on linear return projections. This "flaw of averages" can smooth out short-term volatility and create a false sense of predictability. This is problematic as the variability of returns matters, especially for those just entering retirement.

Projecting that a retirement portfolio will generate consistent, positive returns year after year has no basis in fact when compared to historic market performance. Accordingly, retirees need to have reasonable expectations regarding straight-line return projections and market fluctuation.

1. The S&P 500 is an unmanaged index and is widely regarded as the standard for measuring large-cap U.S. stock-market performance.

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You cannot predict the direction the market may be headed next, but you can balance your portfolio to potentially help smooth out the ride by reducing volatility.

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MainStay Large Cap Growth Fund

Class	Symbol
Class A	MLAAX
Class B	MLABX
Class C	MLACX
Class I	MLAIX

MainStay MAP Fund

Class	Symbol
Class A	MAPAX
Class B	MAPBX
Class C	MMPCX
Class I	MUBFX

MainStay Balanced Fund

Class	Symbol
Class A	MBNAX
Class B	MBNBX
Class C	MBACX
Class I	MBAIX

MainStay Small Cap Opportunity Fund

Class	Symbol
Class A	MOPAX
Class B	MOTBX
Class C	MOPCX
Class I	MOPIX

MainStay Mid Cap Opportunity Fund

Class	Symbol
Class A	MMOAX
Class B	MMOBX
Class C	MMOCX
Class I	MMOIX

MainStay Mid Cap Growth Fund

Class	Symbol
Class A	MMCPX
Class B	MMGBX
Class C	MMGCX
Class I	MMGOX

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