

The Real Cost of Volatility



A Mathematical Catch-Up Game

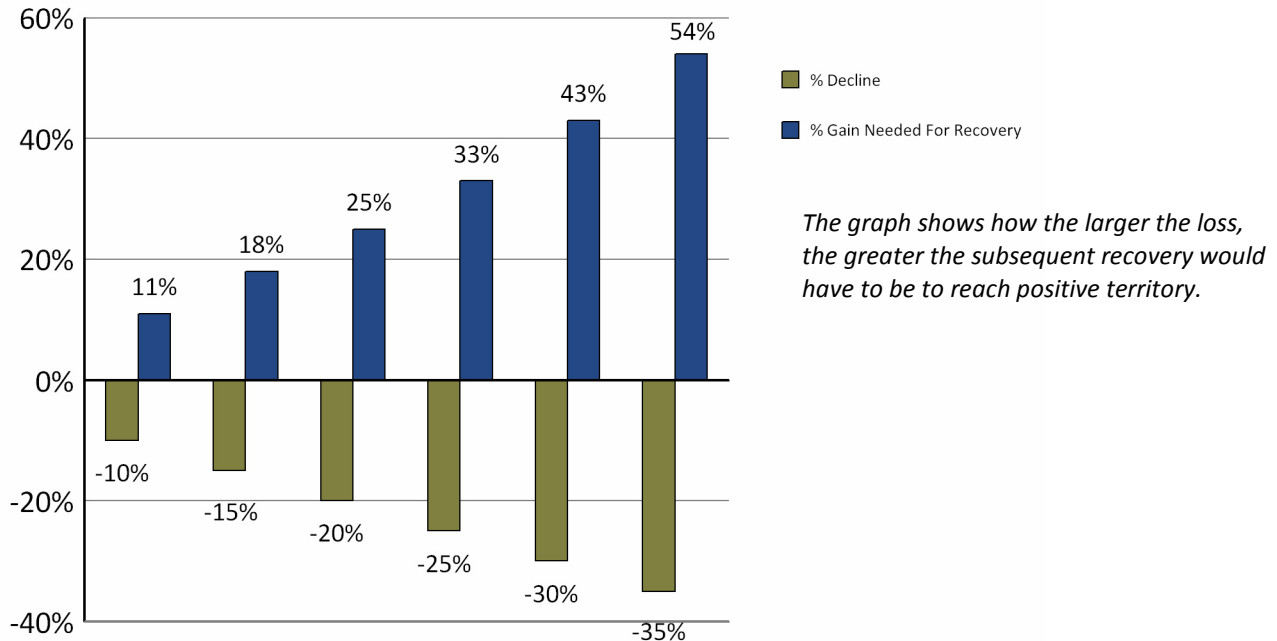
Is it better to accumulate reasonable gains on a yearly basis or have years with exceptional returns combined with years of losses? While occasional large, positive returns may look attractive, ultimately it's consistency that may be the best approach.

Take a look at the Numbers

If you initially invested \$100,000, and the investment went down 15%, the new value of your account would be \$85,000. To fully recover from your loss, based on the new value of your account, you'd need to gain nearly 18% versus the 15% you were down. Look at the numbers.

$$\begin{array}{r}
 \$85,000 \times .18 = \$15,300 \\
 + \$85,000 \\
 \hline
 \$100,300
 \end{array}$$

A Look at declines & recoveries



Or Consider this:

\$100,000 Investment	Year 1	Year 2	Year 3	Total Return
Option A Returns	+30%	+30%	-30%	= \$118,300
Option B Returns	+7.5%	+7.5%	+7.5%	= \$124,230

A consistent approach to investing, which seeks to avoid negative returns, may prove to be more beneficial in the long run than aiming for sporadic short-term gains.

This illustration is for illustrative purposes only. These are hypothetical numbers only and not based upon an actual client account. Past performance does not guarantee future results.

The Real Cost of Volatility - Impact of Withdrawals

A Mathematical Catch-Up Game Part II

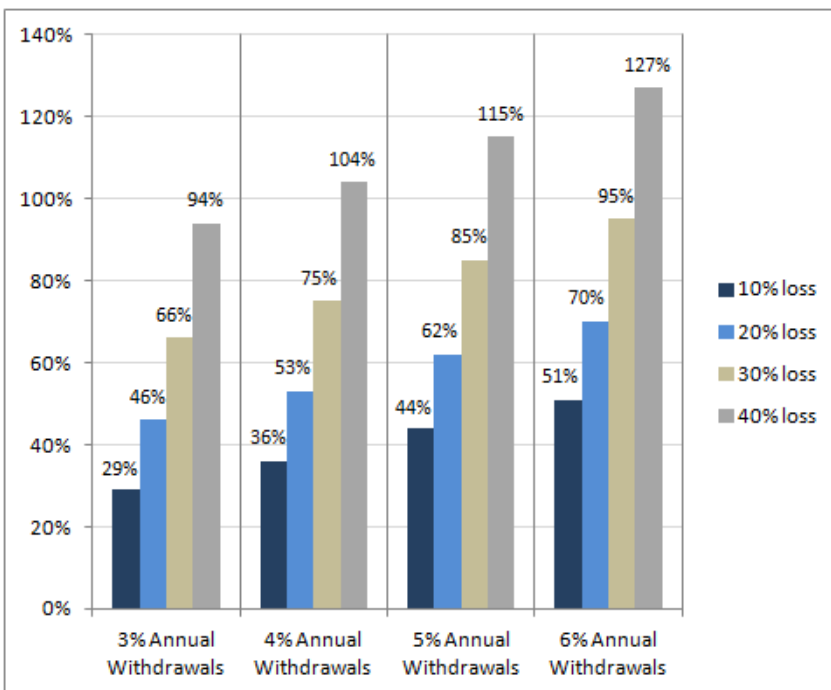
The potential benefits of consistency and seeking to avoid losses instead of exceptional returns can prove a greater impact on a portfolio over time. As previously shown the gain required to recover from a loss under normal circumstances is challenging, but look at how much more difficult it is if your taking distributions.

Take a look at the Numbers

If you initially invested \$100,000, and the investment went down 10%, the new value of your account would be \$90,000. Also imagine you are in retirement and you will be withdrawing \$5,000 annually at year end. To fully recover from your loss and return your account to its original value, based on the new value of your account you will need to gain nearly 18% versus the 10% you were down. In addition, to compensate for the following year withdrawal and maintain your original account balance you will need a 23.6% return. Look at the numbers.

$$\begin{array}{r} \$85,000 \times .236 = \$20,060 \\ + \$85,000 \\ \hline \$105,060 \end{array}$$

Different withdrawal percentages add different challenges. Below you will see the cumulative gain required over 5 years to return the portfolio to original value*.



Hypothetical example provided for illustrative purposes only

*Assumes withdrawal and loss are calculated based on the portfolio's value for each year, does not take in to account the impact of inflation or taxes

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