



Investments

### **Income Risks**

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# Agenda

- Longevity Risk
- 2 Growth Risk
- 3 Stock Market Returns
- 4 Sequence Risk



## Longevity risk





### **Growth risk**



### **Distributions of income: All clients**

Average income of 6.1% does not tell the full price

Research report findings – Investec IMS Living Annuity book Source: Ninety One Asset Management, 2020

# We need to grow wealth

### A 1% increase in return = 0.93% increase in income\*





### Growth assets drive success

### Income >4% p.a. requires higher growth asset exposure

Investec Asset Management proprietary model. Research report findings Source: Ninety One Asset Management, 2020





Unpredictability and volatility associated with market gyrations are perfectly normal.

AND markets have risen by far more than they've fallen: if you sell your shares in a panic as they fall, you might miss out on the recovery as the markets rise again, effectively locking in your losses.

Using data from the JSE Total Returns Index since 1925, we see that the average of the ten worst drawdowns in history was a staggering -39.5%.

The average expected time to recover from all 40 drawdowns since 1925 was 24 months (two years)

### **We need to grow wealth but.** 33.0% 33.0% 33.0% 33.1% 47.5% 33.8% 33.1% 47.5% 47.5% 33.8% 33.1% 47.5% 48.5% 33.8% 33.1% 49.0% 49.0% 49.0% 49.0% 33.8% 33.1% 49.0% 40.0%

50.0% ·	-	33.0%	27	48.3	53.(		16.8%		42.7%	49.7	35.8%	17.2%	0.0%	46.0%	-5.9%	34.0%	29.1%	41.8%	32.7%	38.8%	33.1%	22.1%	13.1%	22.0%	22.6%	9.9%	54.3	12.9%	23.2%	24.4%	56.	40.3%	10.3%		24.6%	28.4%	19.7%	8.6%	-18.9%	26.8%
-50.0% -	-58.00%	-42.66%	-42.65%	-40.44%	-38.96%	-38.62%	-37.89%	-34.80%	-30.43%	-30.33%	-25.75%	-22.75%	-21.72%	-18.97%	-18.23%	-17.99%	-16.25%	-14.02%	-13.98%	-13.69%	-13.19%	-12.60%	-12.56%	-12.26%	-11.78%	-9.73%	-9.30%	-8.70%	-8.48%	-8.46%	-8.41%	-8.35%	-8.33%	-8.31%	-8.17%	-7.91%	-7.88%	-7.59%	-7.50%	-7.26%
-100.0%	May-69 - Oct-71	Apr-74 - Aug-76	Sep-87 - Feb-88	Jun-08 - Feb-09	May-98 - Aug-98	Nov-80 - Jun-82	Feb-48 - Sep-53	Jun-31 - Jul-32	Jun-02 - Apr-03	Feb-60 - Apr-61	H Jul-73 - Nov-73	ی ۱۵۰۰-36 - Apr-39	et May-19 - Mar-20	ation Apr-90 - Jan-91	d Aug-97 - Dec-97	op Jun-92 - Oct-92	Sep-83 - Oct-83	May-40 - Jul-40	Feb-83 - Feb-83	Jan-95 - Jan-95	Jan-00 - May-00	Nov-07 - Jan-08	Sep-18 - Nov-18	Jun-01 - Sep-01	May-84 - Jul-84	20 Aug-55 - Jun-56	More 20 - 20 - 93	super-64 - Jun-64	Apr-65 - Nov-65	May-11 - Sep-11	Dec-84 - Feb-85	Feb-01 - Mar-01	Nov-15 - Jan-16	Nov-78 - Nov-78	Apr-10 - Jun-10	Mar-80 - Mar-80	May-99 - May-99	May-15 - Aug-15	Nov-29 - Jan-31	Sep-00 - Nov-00

Source: Glacier, 2020





### **Some examples**

Date	Market shock	Drawdown	Expected recovery time	Actual recovery time	Required return to recoup losses
2008	Sub-prime (GFC)	-41%	45 months	29 months (1.5 times faster than expected)	67.90%
1987	"Black Monday"	-43%	50 months	19 months (2.6 times faster than expected)	74.35%
1998	Russian Debt Default / Asian financial crisis	-38.96%	44 months	19 months (2.3 time faster than expected)	63.84%



## **Understanding recovery**

### Time taken to Recover from a given Percentage loss

	Number of years to break even at the below rates of return												
Г	If you are down this much	You'll need to gain this to break even	5%	10%	14.2%	20%	25%	30%	33.7%	40%			
Ļ	-10%	11%	2.2	1.1	0.8	0.6	0.5	0.4	0.4	0.3			
	-15%	18%	3.3	1.7	1.2	0.9	0.7	0.6	0.6	0.5			
	-21.7%	27.8%	5.0	2.6	1.8	1.3	1.1	0.9	0.8	0.7			
	-25%	33%	5.9	3.0	2.2	1.6	1.3	1.1	1.0	0.9			
	-30%	43%	7.3	3.7	2.7	2.0	1.6	1.4	1.2	1.1			
	-35%	54%	8.8	4.5	3.2	2.4	1.9	1.6	1.5	1.3			
	-40%	67%	10.5	5.4	3.8	2.8	2.3	1.9	1.8	1.5			
	-45%	82%	12.3	6.3	4.5	3.3	2.7	2.3	2.1	1.8			
	-50%	100%	14.2	7.3	5.2	3.8	3.1	2.6	2.4	2.1			

Time to recover =  $[\log (100) - \log ((100 \times (1 + \text{Loss})))] / \log (1 + \text{Rate of Return}))$ 

Expected **Time in years** Possible



## Why is this important? Sequence Risk



Examples are hypothetical and for illustrative purposes only. They assume two years of 10% declines in the portfolio by 6% increases combined with periodic withdrawals as noted above. Source: Schwab Center for Financial Research



## Why is this important? Sequence Risk

	%	1	2	3	4	5	6	7	8	9	10	CAGR
Shawn		0.23	-2.91	1.79	-5.94	8.31	1.01	20.67	3.56	12.56	24.95	6.00%
Imraan		1.89	17.28	0.23	-11.63	20.76	6.19	2.02	15.23	1.31	10.84	6.00%
Patrick		20.55	-16.32	18.25	0.16	3.25	-1.25	1.66	21.71	17.13	1.48	6.00%
Cindy		13.76	0.00	17.12	4.08	0.73	1.47	6.17	13.81	4.08	0.51	6.00%
Dean		14.94	13.49	12.56	11.12	5.14	5.20	0.82	-8.05	5.14	1.85	6.00%
Johann		-9.34	-3.77	11.38	1.94	6.45	8.57	12.64	12.02	12.87	9.88	6.00%
Francis		2.82	10.29	10.78	2.81	0.00	8.04	10.78	9.23	0.00	6.01	6.00%
Liesl		12.25	0.00	0.00	0.00	4.45	12.25	11.26	0.00	11.62	9.52	6.00%



### Why is this important? Sequence Risk





## Why is this important?







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