



Investments

Income Risks

Adam Bulkin

Head: Manager Research

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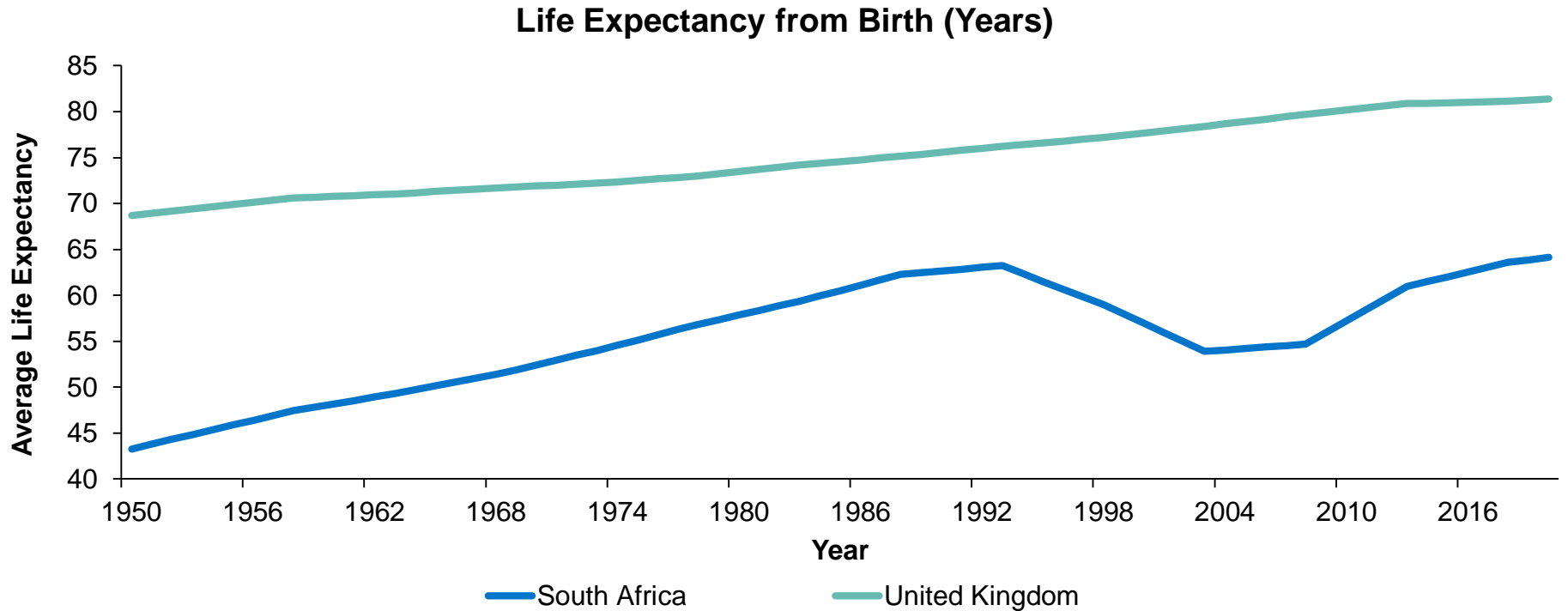
Agenda

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





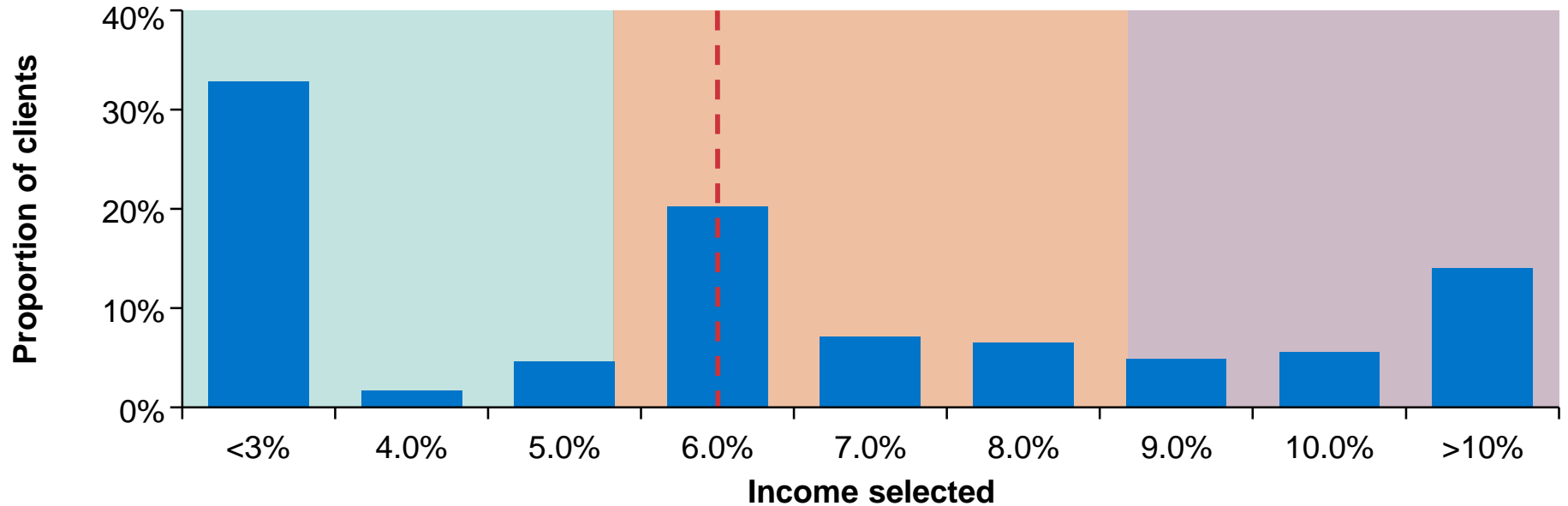
Longevity risk





Growth risk

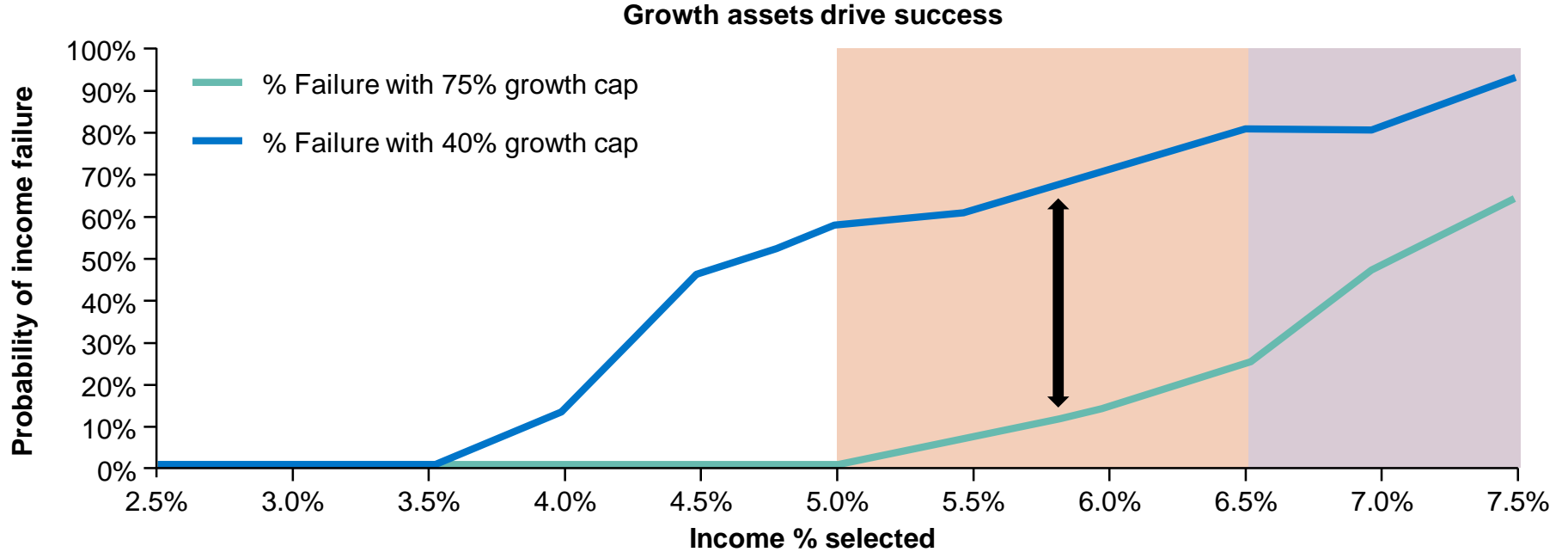
Distributions of income: All clients



Average income of 6.1% does not tell the full price

We need to grow wealth

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



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

But...

A 1% increase in volatility =
0.3% decrease in income*



Unpredictability and volatility associated with market gyrations are perfectly normal.

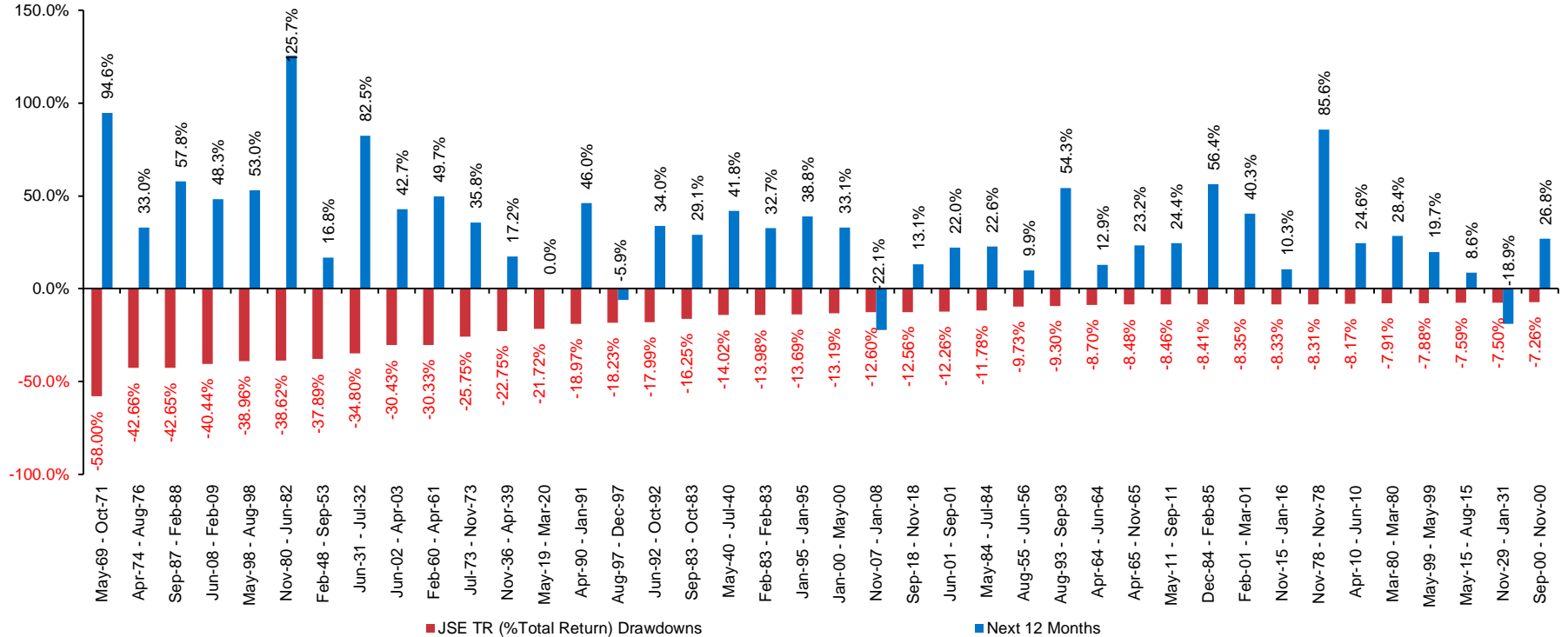
AND markets have risen by far more than they've fallen: if you sell your shares in a panic as they fall, you might miss out on the recovery as the markets rise again, effectively locking in your losses.

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...





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 | | | | | | | | |
|---------------------------|--|--|-----|-------|-----|-----|-----|-------|-----|--|
| 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% | |
| -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 | |

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

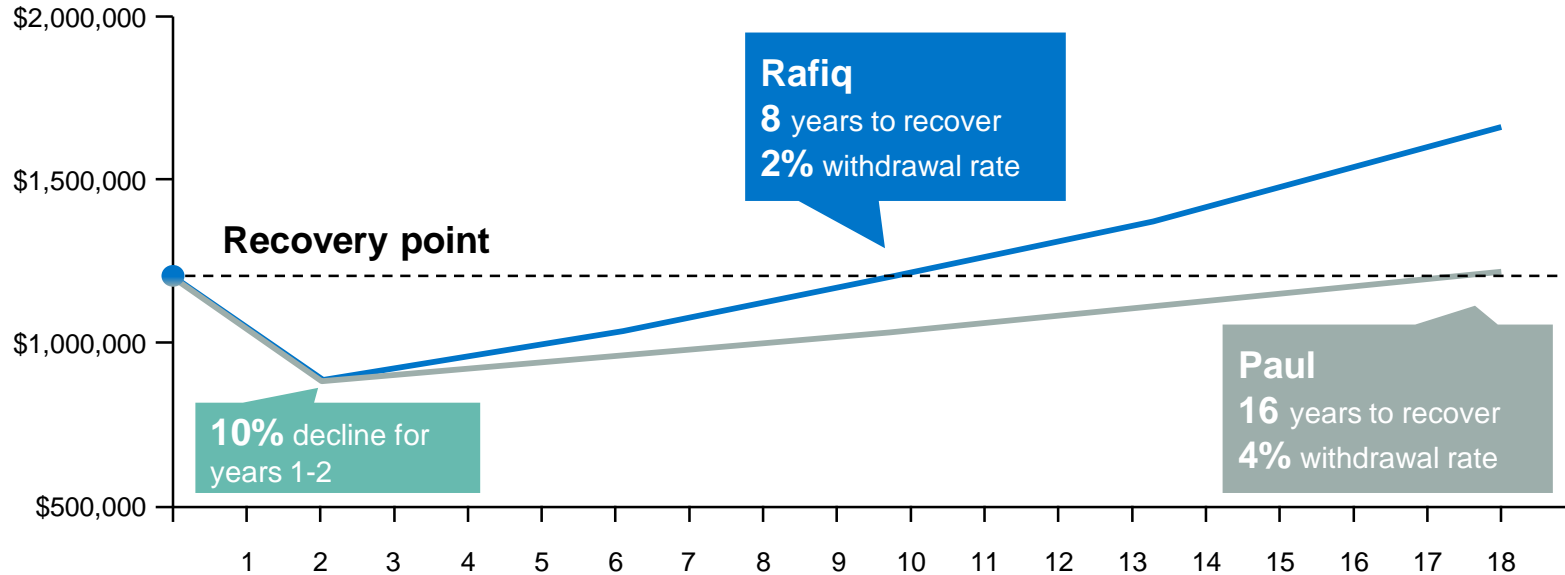
Expected

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

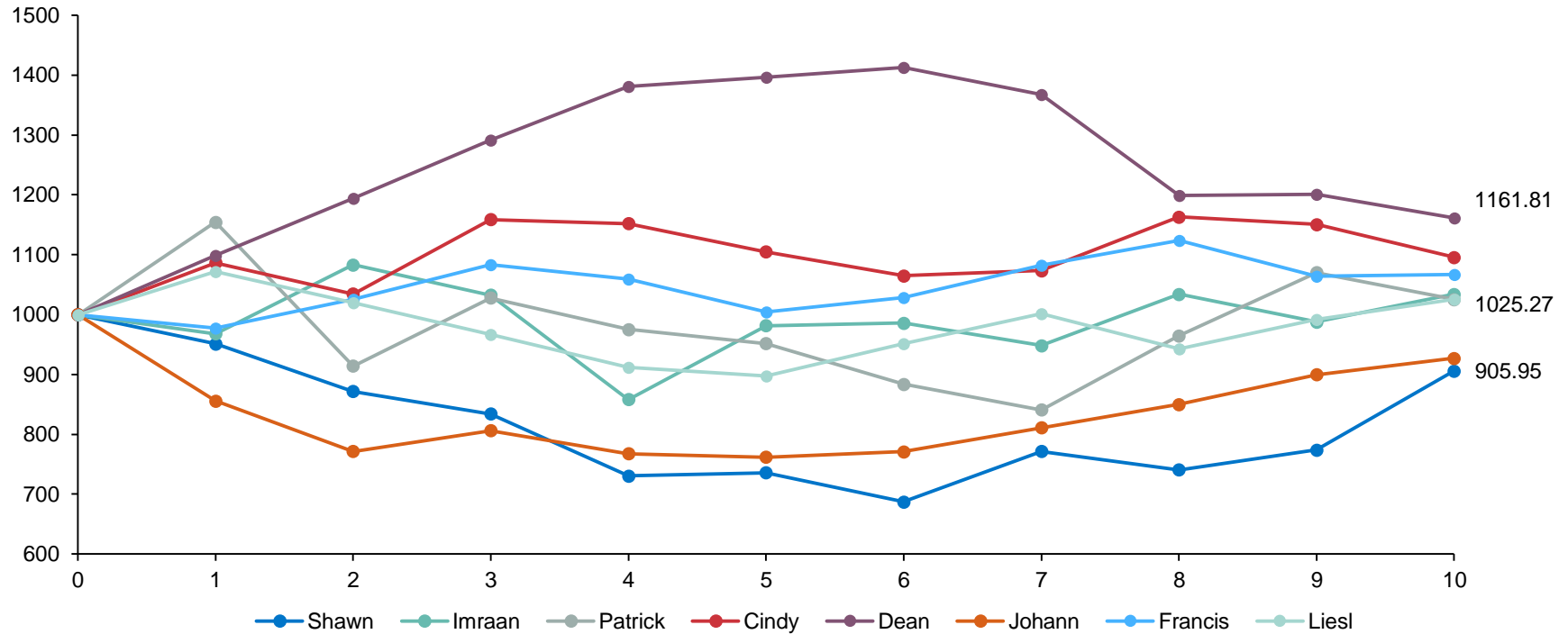


Why is this important? Sequence Risk

| % | 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% |

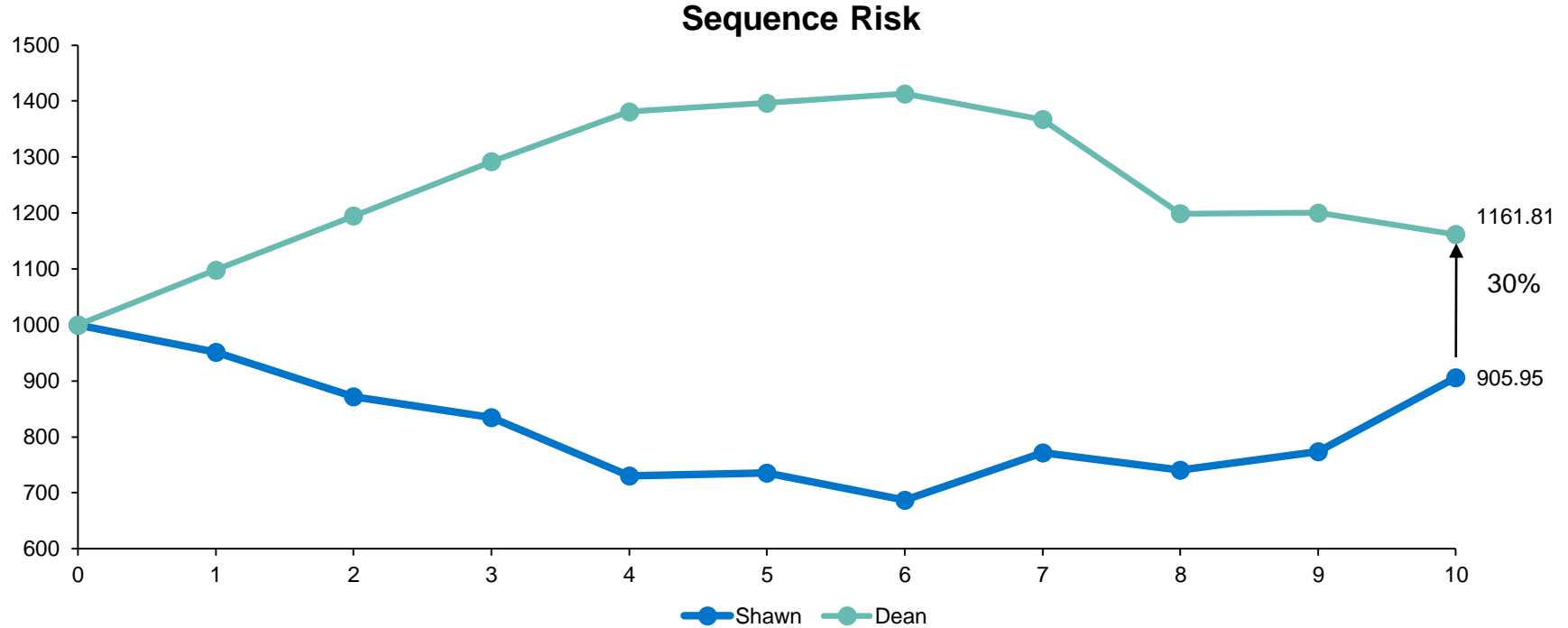


Why is this important? Sequence Risk





Why is this important?



thank you 





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