Staying the Course Amid Uncertainty

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Market Insights

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Life can change quickly. In just a few short months, we've seen the American administration embrace chaos—resetting trade agreements, slashing government agencies, and expressing newfound territorial ambitions. North of the border, we're approaching a critical federal election that, not long ago, seemed destined to be a landslide. Now, it's shaping up to be a neck-and-neck race.

With rising anxiety around markets and politics, how can one stay committed to their investment strategy? We focus on what we can control.

First and foremost, we continue to manage and select portfolios made up of widely diversified, high-quality financial assets. These investments provide the conviction needed to withstand short- to medium-term uncertainty.

Secondly, we take great care to understand your cash flow needs and investment goals. During the wealth-building years, the timing of investment contributions has a relatively minor effect on long-term returns. However, as we begin drawing down on funds, the timing becomes far more critical. Selling investments during a downturn can lock in losses, reduce performance, and impact portfolio longevity. To guard against this, we incorporate an 'income reserve' strategy designed to protect our clients' cash flow needs during market declines.

In this edition, we've included an article that explains sequencing risk and reinforces the importance of thoughtful planning.

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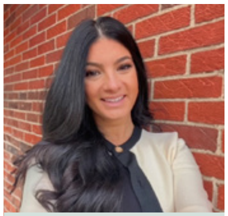

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How the sequence of returns can impact your retirement savings

For investors entering retirement, high portfolio returns are important, but they are only one factor influencing how long their savings will last. Another factor is the order or sequence of returns. There is a simple mathematical reason for this: regular withdrawals progressively diminish a portfolio's dollar value and that dollar value is the base on which future returns compound. When negative returns occur near the outset, the investor is left with a smaller base on which future positive returns can compound.

Over time that base continues to decline with each additional income withdrawal. This could result in retirement savings running out much sooner than if the portfolio experienced positive returns at the start of the withdrawal period.

Will your savings last through retirement?

Let's look at some illustrative scenerios

The best way to illustrate this risk is to look at three different scenarios. Three retirees starting the withdrawal period with identical savings can have entirely different financial outcomes, depending on the sequence of their returns. The following hypothetical example in Figure 1 presents these scenarios over a five-year period.

In Scenario 1, the sequence of returns goes from the most positive returns in the first year to the most negative in the final year. Scenario 2 starts with the most negative returns and moves forward to the most positive. Finally, Scenario 3 earns a constant (average) return in each of the five years.

Fig. 1 | Illustrative **Return** Scenarios

Year	Scenario 1 Early (+) returns	Scenario 2 Early (-) returns	Scenario 3 Constant returns
1	15%	-7%	5%
2	13%	-5%	5%
3	11%	11%	5%
4	-5%	13%	5%
5	-7%	15%	5%
Total return	27%	27%	27%
Average annualized	5%	5%	5%

For illustrative purposes only

Each scenario follows a different path, but all end with a compounded total return of 27% and an average annualized rate of return of 5% over five years.

The outcome if no withdrawals are made

The sequence of returns has no impact on the portfolio's final dollar value when no withdrawals (or additions) are made over the course of the five-year investment. As Figure 2 illustrates, the ending value in all three scenarios is the same, even though each travels a different path to arrive there.

What happens when withdrawals are made?

However, if income is withdrawn from the portfolio during the period, the end result for each scenario could be very different. The portfolio that experiences the negative returns at the beginning is not able to keep up with the portfolio that experiences the positive returns up front. This is because when the positive returns come later they compound on a smaller and declining base. The result is that the ending dollar value is lower than it is with the two other scenarios.

Figure 3 illustrates what happens when $5,000 is withdrawn every month (for a total of $60,000 a year). The longer the time period, the larger this divergence could become.

Figure 4 shows the same five-year sequence of returns repeated six times to create a 30-year period. Even though all three scenarios over this period would have earned an average annualized rate of return of 5%, the dollar value of each portfolio would continue to grow apart. Eventually, the portfolio in Scenario 2 (beginning with negative returns) would run out of money before the others. The portfolio in Scenario 1 (beginning with positive returns), on the other hand, would have ended with a dollar value of $763,747, and would have been able to continue paying income.

Source:

View the Mackenzie Investment Sequencing article by clicking here

Fig. 2 | No withdrawals

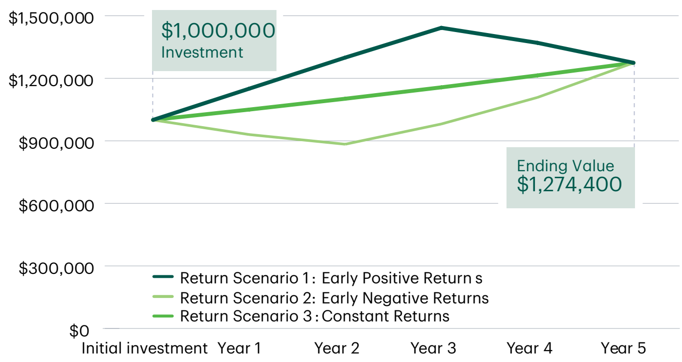


Fig. 3 | Withdrawals

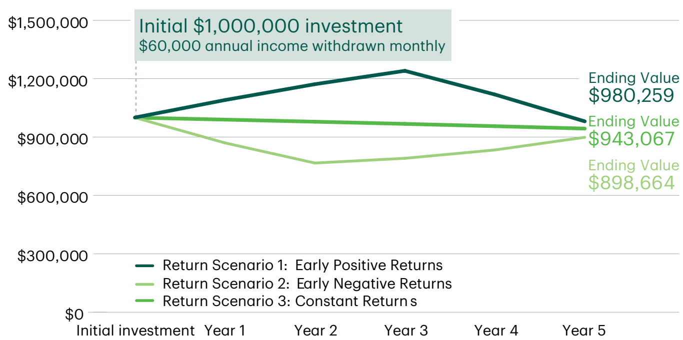
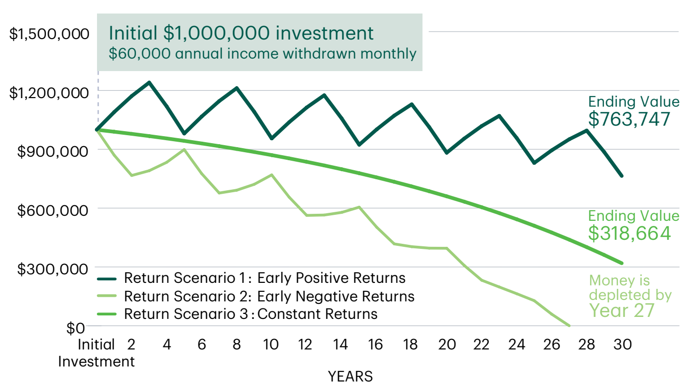


Fig. 4 | Extended period of withdrawals



Sequence of returns in the “real world”

It is very unlikely that two actual portfolios would perform as they did in the before mentioned scenarios, with one experiencing returns that move from high to low, and the other the exact opposite. Sequence-of-returns risk, however, can manifest itself in similar scenarios when a significant negative market event occurs near the beginning of an investment period.

To illustrate, we, at Mackenzie Investments, created a hypothetical example in Figure 5 using actual market data. Investor A entered the market on January 1, 1998. Investor B entered seven months later on August 1, 1998. In mid-August, the Russian financial crisis hit.

Although the investments were made just seven months apart, the outcomes after 20 years differ by nearly $778,990. One portfolio benefited from early positive performance before the Russian financial crisis, while the other did not - highlighting the impact of timing.

Sequence-of-returns risk is further magnified when $5,000 monthly withdrawals are made during the same return series. In Figure 6, performance differs as each portfolio’s compounding base declines with ongoing withdrawals.

Sequence of returns in the “real world”

Controlling the effects of market volatility on a portfolio could be one way to reduce sequence-of-returns risk. Retirees today may wish to consider moving beyond traditional asset classes and strategies to manage volatility while seeking to enhance returns.

An alternative approach could be a solution. Alternative solutions take two main forms: those offering access to asset classes such as commodities, currencies, and real estate, and those using strategies such as shorting and leverage. Both types enhance diversification through assets and strategies with lower correlation to traditional investments - potentially leading to higher returns, reduced volatility, a smoother, less stressful investment experience, and better long-term capital preservation.

Fig. 5 | Sequence of returns risk

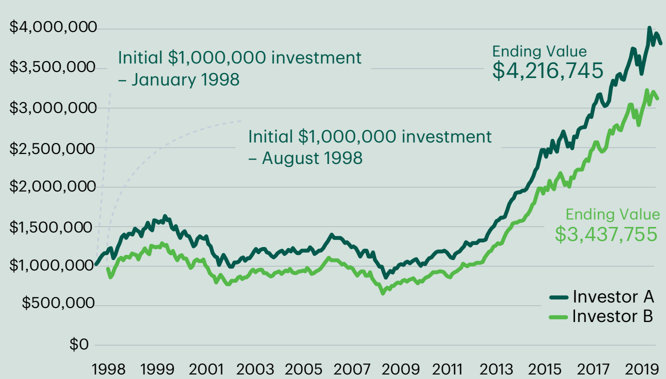
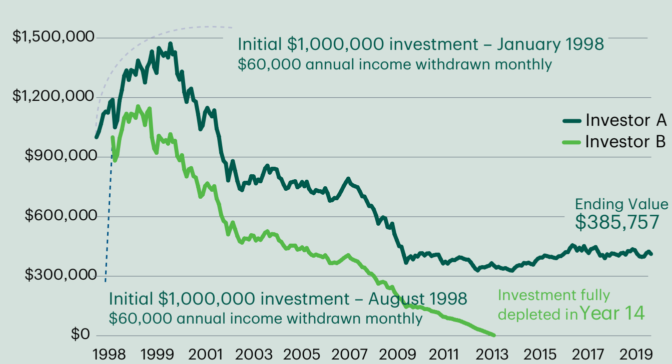


Fig. 6 | Sequence of returns risk with withdrawals



For illustrative purposes only

BDWM IN THE COMMUNITY

Around Town

Team engagement event with our partners at the Detroit Red Wings game, held at Little Caesars Arena. Pictured (left to right): Boraba Sordachanh, PJ Dupuis, Brian Porter, and Shereen Worrell-Isidore.

A Busy Start to 2025: Tax Season, Team Building, and Growing Families

Early in the year we were focused on meeting RSP contribution deadlines and more recently we've been hard at work to complete tax packages for our clients. We did find some time to connect outside with a TD Specialist from TD Wealth Private Trust for some team building.

Also, Congratulations to Brian Porter for earning the Chartered Investment Manager (CIM®) designation. This is a significant accomplishment that demonstrates a strong foundation in investment management.

Lastly, the Brazier Dupuis Wealth Management team is growing! We'd like to extend our sincerest congratulations to Nancy and her partner Anthony who will be welcoming a bundle of joy later this year. We couldn't be happier for them and their family.

Quotes for Volatile Times

"Far more money has been lost by investors preparing for corrections or trying to anticipate corrections than has been lost in corrections themselves."

- Peter Lynch

"In bear markets, stocks return to their rightful owners."

- J.P Morgan

"In the midst of chaos, there is always opportunity."

- Sun Tzu, 'Art of War'

S&P 500 total return over the last...

CIO Office (data via Refinitiv). As of April 4, 2025

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