Newfound
FINANCIAL INNOVATORS

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Drawdowns & Withdrawals

In the scenarios below, the portfolios all have the same average annual return: the difference is ending portfolio value is due to withdrawals, the sequence of returns, and drawdown protection.

Without Withdrawals, the Order of Returns Does Not Matter

Withdrawals = $0 / year

	Investor #1		Investor #2	
Year	Returns	Account	Returns	Account
		$1,000,000		$1,000,000
1	-50%	$500,000	20%	$1,200,000
2	20%	$600,000	20%	$1,440,000
3	20%	$720,000	20%	$1,728,000
4	20%	$864,000	20%	$2,073,600
5	20%	$1,036,800	-50%	$1,036,800
Withdrawals		$0		$0
Average Return	6.0%		6.0%	

With Withdrawals, the Order of Returns Dictates Long-Term Performance

Withdrawals = $40,000 / year

	Investor #1		Investor #2	
Year	Returns	Account	Returns	Account
		$1,000,000		$1,000,000
1	-50%	$460,000	20%	$1,160,000
2	20%	$512,000	20%	$1,352,000
3	20%	$574,400	20%	$1,582,400
4	20%	$649,280	20%	$1,858,880
5	20%	$739,136	-50%	$889,440
Withdrawals		$250,000		$250,000
Average Return	6.0%		6.0%	

Portfolio is in Drawdown

No withdrawals: same ending value

With withdrawals: different ending value

A withdrawal taken when the portfolio is in drawdown forces the realization of losses and can eat into the capital base leading to long-term performance erosion

<u>Reducing drawdowns reduces the impact of withdrawals upon a portfolio</u>

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