FIRST WEALTH
FINANCIAL GROUP LLP
Building Wealth & Relationships

One Market - Three Different Returns

Movement in the market doesn't affect every investor in the same way. Take a look at the chart above which shows the movement of the Dow Jones Industrial Average from 2012 – 2017. Notice how the market moved a lot and went nowhere, simply sideways from December of 2014 to October 2016. The red line shows the market hanging around the 18,000 level during that time with a few drops below 16,000. In that 22-month period, the market moved around but only gained 163 points—for all intents and purposes a, zero percent return.

Did everyone's portfolio have the same basic zero percent return in this sideways market? No, and here's why.

Investing - Putting Money to Work Consistently

Individuals who were working and investing their money consistently were able to purchase shares for less during the market dips. Because the prices of the shares were lower, they were able to acquire more shares with their money. They benefited from these market dips and created a positive return on those shares as the market climbed back up.

Dis-Investing - Withdrawing Funds for Income

Retired individuals or those who needed to consistently draw income from their portfolio ("dis-investing") experienced a negative return during this 22-month period. This happened because the market dips required them to sell shares at a lower price to meet their income needs. And, the number of shares they needed to sell increased because of the lower price per share. Market volatility increases the chances that they'll be taking out money when the portfolio is down, locking in losses.

In A Holding Pattern

Anyone who had money invested in the market during those 22 months, and didn't add or subtract from their portfolio, watched the market move around and go nowhere. Basically, this group experienced a zero percent return for holding tight in a sideways market.

A Comparison

People who are looking forward to their retirement years often believe historical returns will supplement their future withdrawals. The example of the DOW reminds us that past performance is no guarantee of future results. The five-year market movement positively impacted working individuals who were contributing to their 401ks, and negatively impacted those individuals who were unwisely pulling income from their investments. Drawing income unwisely from a portfolio can have dramatically negative results that are difficult to overcome.

Helping You Make Informed Decisions

As you can see, it's not just how the market moves that creates returns, but also what you do with your money as the market moves. First Wealth Financial Group can help you understand how to avoid these inherent risks while still getting you the income you desire.

Let's sit down and have a conversation about your situation. We can answer your questions so you may better understand your options. An informed decision is the best decision. Call us at (563) 242-1885 to schedule an appointment with Breton Williams and learn more.

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