Monte Carlo Analysis of

FUTURE RETIREMENT UNCERTAINTY

FUSION CAPITAL MANAGEMENT

Questions?

886-254-4235
info@fusioncm.com
www.fusioncm.com

IMPORTANT: The information regarding the likelihood of various investment outcomes is hypothetical in nature, does not reflect actual investment results, and is not a guarantee of future results. The simulations are based on a number of assumptions. There can be no assurance that the results shown will be achieved or sustained. The charts present only a range of possible outcomes. Results may vary, and such results may be better or worse than the simulated scenarios. Clients should be aware that the potential for loss (or gain) may be greater than demonstrated in the simulations.

*The following allocations include short-term bonds: 60/40 is 60% stocks, 30% bonds, and 10% short-term bonds; 40/60 is 40% stocks, 40% bonds, and 20% short-term bonds; and 20/80 is 20% stocks, 50% bonds, and 30% short-term bonds.

**The likelihood of having at least $1 remaining in the portfolio at the end of the retirement period.

THE EXPLANATION

Two of the biggest uncertainties in retirement are how the markets will perform and how long you will live. Despite these uncertainties, proper evaluation of the allocation of assets and withdrawal strategy can provide retirees with a confident plan.

The examples below explore how different stock/bond mixes, when paired with the appropriate initial withdrawal amount, can help provide for a comfortable 25-, 30-, and even 35-year retirement.

THE ANALYSIS

More Likely to support — Less Likely

For example, if a retirement lasts 25-years, a stock/bond mix of 60/40 with an initial withdrawal of 5% has a 71% chance of sustaining that retiree.

25 YEAR RETIREMENT

Stock/Bond Mix*

Initial Withdrawal Amount	100/0	80/20	60/40	04/60	20/80
3%	95%	97%	99%	100%	100%
4%	85%	87%	90%	92%	93%
5%	70%	71%	71%	68%	58%
6%	54%	52%	46%	36%	18%
7%	39%	34%	26%	13%	3%
8%	27%	21%	13%	4%	0%

30 YEAR RETIREMENT

Stock/Bond Mix*

Initial Withdrawal Amount	100/0	80/20	60/40	04/60	20/80
3%	90%	93%	96%	97%	98%
4%	77%	79%	80%	80%	74%
5%	60%	60%	56%	46%	28%
6%	44%	40%	32%	19%	5%
7%	31%	25%	16%	6%	0%
8%	20%	14%	7%	1%	0%

35 YEAR RETIREMENT

Stock/Bond Mix*

Initial Withdrawal Amount	100/0	80/20	60/40	04/60	20/80
3%	86%	89%	91%	93%	93%
4%	70%	71%	70%	65%	52%
5%	53%	51%	44%	32%	13%
6%	38%	33%	23%	11%	1%
7%	26%	19%	11%	3%	0%
8%	16%	11%	4%	0%	0%

THE TAKEAWAY

With this information in mind, investors can determine which asset mix and which starting withdrawal amount can help them meet their specific goals.

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Monte Carlo
Monte Carlo Analysis is a complex statistical method that charts the probability of certain financial outcomes at certain times in the future by generating many possible economic scenarios that could affect the performance of your investments. The Monte Carlo simulation uses at most 1000 scenarios to determine the probability of outcomes resulting from the asset allocation choices and underlying assumptions regarding rates of return and volatility of certain asset classes. Some scenarios assume favorable financial market returns, consistent with some of the best periods in investing history. Some scenarios assume unfavorable financial market returns, consistent with some of the worst periods in investing history. Most scenarios will fall somewhere in between. The outcomes presented using the Monte Carlo simulation represent only a few of the many possible outcomes. Since past performance and market conditions may not be repeated in the future, your investment goals may not be fulfilled by following advice that is based on the projections.

Tools such as the Monte Carlo simulation will yield different results with each use and over time depending on the variables inputted and the assumptions underlying the calculation. If this Analysis makes use of a Monte Carlo simulation, the term "Monte Carlo" will be included in the title. Simulation assumptions include the assumed rates of return and standard deviations of the portfolio model associated with each asset. The assumed rates of return are based on the historical rates of returns and standard deviations, for certain periods of time, for the benchmark indexes comprising the asset classes in the model portfolio. Since the market data used to generate these rates of return change over time your results will vary with each use over time.

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