Understanding Sequence Risk: Why Average Returns Aren’t Enough for a Secure Retirement

EAST SETAUKET, NY, UNITED STATES, January 15, 2025 /EINPresswire.com/ -- Eric Weschke, a seasoned financial advisor and founder of [AdvancedFolio Capital Management](), is on a mission to educate investors about one of the most misunderstood concepts in retirement planning: Sequence Risk.

Weschke, a self-proclaimed math enthusiast, acknowledges that while financial concepts like averages and standard deviations are second nature to him, they often leave his clients bewildered. “I see it all the time,” he says. “When I explain the difference between average and sequence rates of return, eyes glaze over. But understanding this difference is critical for anyone planning for retirement.”

Sequence Risk, according to Weschke, refers to the risk of experiencing lower or negative returns early in retirement while withdrawing funds from investments. "The long-term market average might be 8%, but averages don't tell the full story," he explains. "If returns are negative early in retirement, it can create a lasting negative effect, even if the average return is high over time."

This lesson hit home during a recent consultation with Joan, a spirited 75-year-old still working full-time but eager to retire. Joan shared her frustration with her current broker, who had her invested entirely in equities and mutual funds with a strategy focused on long-term averages. "Her broker told her that over the 'long haul,' she could expect an 8% return," Weschke recounts. "But Joan needed a strategy that considered the sequence of returns—not just the average."

Weschke used a simple analogy to illustrate the problem. “If a town receives 36.5 inches of rain in a year, the daily average is 0.1 inches. But that doesn’t mean it rains 0.1 inches every day. Rainfall is unevenly distributed, much like market returns. Planning for retirement based on averages alone is like expecting your lawn to stay green without watering during a summer drought.”

He explained to Joan that while the average return of her portfolio might meet expectations, experiencing poor returns early in retirement could derail her financial security. "Think of retirees in 2001, 2002, or 2008," Weschke says. "Many saw their wealth evaporate, especially if they were drawing on their accounts during those downturns. Timing is everything."

Weschke emphasizes the importance of managing downside risk and preparing for the unexpected. "In times of geopolitical and economic uncertainty, taking on large amounts of risk can be catastrophic, especially if you can't recover from sequential years of low or negative returns."

As Weschke sums it up, “Math and non-math investors alike need to understand that sequence of returns trumps average returns. The lesson is clear: Without accounting for sequence risk, you could end up like Don McLean’s ‘American Pie’ generation—lost in space, with no time to start again.”

AdvancedFolio Capital Management is committed to helping clients build sound retirement strategies that mitigate risk and maximize long-term security. The CEO of Advancedfolio, Eric Weschke, is a second generation finance professional. His mother was one of the first women to work on the floor of the U.S. Stock Exchange in the late 60s. His father ran the engineering department at Suffolk College. Growing up in a very math-oriented family, he had a strong financial education from a young age.

For more information or to schedule a consultation, contact Eric Weschke at AdvancedFolio Capital Management in East Setauket, NY.

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