

Option to increase generational wealth: Mitigate Adverse Sequence of Returns with a REVERSE Mortgage!!

Barry Sacks, PhD, JD illustrates the effect of an adverse sequence of returns with a portfolio that is negative in four of the first nine years. The conventional approach of taking portfolio draws without regard to market returns is compared to a strategy of substituting draws from a HECM in years following a negative growth year. Even with the compounding HECM debt at 5% over 30 years of retirement, the estate enjoys substantial improvement in both cash flow and residual legacy value.

Conventional Thinking: Last Resort Draw from Portfolio until Depleted						New Wisdom: Coordinate w/ Investments Draw from LOC Following Down Market					
Year	Portfolio at Start of Year	Investment Performance	Draw From Portfolio	Draw From Rm Loc	Portfolio at End of Year	Year	Portfolio at Start of Year	Investment Performance	Draw From Portfolio	Draw From Rm Loc	Portfolio at End of Year
1973	\$500,000	-9.3%	27,500		428,652	1973	500,000	-9.3%	27,500		428,652
1974	\$428,652	-15.5%	28,463		338,120	1974	428,652	-15.5%		28,463	362,166
1975	338,120	22.3%	29,459		377,493	1975	362,166	22.3%		29,459	442,932
1976	377,493	17.9%	30,490		409,013	1976	442,932	17.9%	30,490		486,145
1977	409,013	-4.1%	31,557		361,905	1977	486,145	-4.1%	31,557		435,859
1978	361,905	2.2%	32,661		338,552	1978	435,859	2.2%		32,661	445,515
1979	336,552	8.0%	33,805		326,998	1979	445,535	8.0%	33,805		444,710
1980	326,998	15.4%	34,988		337,009	1980	444,710	15.4%	34,988		472,861
1981	337,009	-1.4%	36,212		296,706	1981	472,861	-1.4%	36,212		430,710
1982	296,706	25.2%	37,480		324,655	1982	430,710	25.2%		37,480	539,422
1983	324,655	13.3%	38,791		323,941	1983	539,422	13.3%	38,791		567,314
1984	323,941	8.9%	40,149		308,935	1984	567,314	8.9%	40,149		573,872
1985	308,935	25.2%	41,554		334,734	1985	573,872	25.2%	41,554		666,408
1986	334,734	15.2%	43,009		336,068	1986	666,408	15.2%	43,009		718,156
1987	336,068	3.4%	44,514		301,496	1987	718,156	3.4%	44,514		696,613
1988	301,496	10.3%	46,072		281,809	1988	696,613	10.3%	46,072		717,742
1989	281,809	20.9%	47,685		283,150	1989	717,742	20.9%	47,685		810,367
1990	283,150	1.0%	49,354		236,087	1990	810,367	1.0%	49,354		768,472
1991	236,087	21.4%	51,081		224,524	1991	768,472	21.4%	51,081		870,625
1992	224,524	5.6%	52,869		181,268	1992	870,625	5.6%	52,869		863,551
1993	181,268	7.9%	54,719		136,559	1993	863,551	7.9%	54,719		872,810
1994	136,559	-2.8%	56,634		77,718	1994	872,810	-2.8%	56,634		793,650
1995	77,718	25.7%	58,617		24,007	1995	793,650	25.7%		58,617	997,459
1996	24,007	11.1%	24,007	36,661	0	1996	997,459	11.1%	60,668		1,040,493
1997	0	19.3%	0	62,791	0	1997	1,040,493	19.3%	62,792		1,165,909
1998	0	17.0%	0	64,989	0	1998	1,165,909	17.0%	64,989		1,287,967
1999	0	7.8%	0	67,264	0	1999	1,287,967	7.8%	67,264		1,315,795
2000	0	-0.9%	0	69,618	0	2000	1,315,795	-0.9%	69,618		1,234,712
2001	0	-3.7%	0	72,005	0	2001	1,234,712	-3.7%		72,055	1,189,275
2002	0	-8.6%	0	74,576	0	2002	1,189,275	-8.6%		74,577	1,086,997
End Balances: -\$538,773 \$0						End Balances: -\$692,007 \$1,086,997					
-\$538,773 Net						+\$394,991 Net					
+\$933,764 Differential to Estate											