JB Financial Planning
Securing your financial future.

.........PENALTY FOR LOSSES.........

In a 5 year investment period you have 3 years of consistent growth and 1 year of losses. How much growth must the final year produce in order to maintain that consistent average?

YEAR		GAINS and LOSSES		
1	Gain	+ 5%	+ 10%	+ 15%
2	Gain	+ 5%	+ 10%	+ 15%
3	Gain	+ 5%	+ 10%	+ 15%
4	Loss	- 5%	- 10%	- 15%
5	**Gain required**	**+ 16%**	**+ 34%**	**+ 56%**
Average 5 year Gain		+ 5%	+ 10%	+15%

Putting "losses" in perspective!

"What do we generally do when an investment has dropped in value? That's right, we hang on vowing as soon as it gets back to breakeven we'll sell.

Generally bad investments fall first, decline further and recover slower. What's more, a losing investment has to climb higher just to get back to where it was.

For example, your $10,000 mutual fund, stock or bond drops to $5,000, a decline of 50%. To fully recover the 50% loss and climb back to $10,000, it must increase 100%. If you can earn 8% per year going forward, it will take over 9 years to get back to $10,000."

Tortoise and the Hare investment analogy!

"Let's say you invest $10,000 and make a steady 6% gain every year for 5 years. You will have $13,382 at the end. Your friend does likewise but earns +20%, -10%, +12%, -20%, and +28% during the same years.

Her average earnings were the same 6% over the 5 year period, but at the end she had only $12,386, or 70% of your gain. What's more, her high and volatile returns mean she was taking a lot more risk."