

Risk Matters: The Importance of Keeping Losses Small

For any loss, the return necessary to recover the loss or get back on your growth track is larger than the loss.

Decline in Year 1	Portfolio Value of \$100K after Year 1	Gain Needed to Break Even in Year 2 (Getting Back to \$100K)	Gain Needed to Earn Original Goal: Compounded 6% (Based on a \$100K investment)		
			Year 2: \$112,360	Year 5: \$133,823	Year 10: \$179,085
	Original investment: \$100,000				
-10%	\$90,000	11.1%	24.8%	10.4%	7.9%
-15%	\$85,000	17.6%	32.2%	12.0%	8.6%
-20%	\$80,000	25.0%	40.5%	13.7%	9.4%
-25%	\$75,000	33.3%	49.8%	15.6%	10.2%
-30%	\$70,000	42.9%	60.5%	17.6%	11.0%

If you are in or approaching retirement, the impact for recovery from a 20% loss may be long and difficult to achieve. The new portfolio value of \$80,000 puts significant pressure on the ability to grow and maintain risk parameters.

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