

# INVESTING FOR RETIREMENT III:

## *Understanding and Dealing with Sequence Risk*

Ben Inker, Matt Kadnar, James Montier, and Martin Tarlie | September 29, 2022

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*... bond tents, bucket strategies, raising target equity levels as clients age are all economically sub-optimal strategies that still work for advisors and investors because they push them into making portfolio moves that would otherwise be behaviorally too difficult to commit to.*

- BEN INKER

### OVERVIEW

In this webcast, Ben Inker, James Montier, and Martin Tarlie discuss the genesis of their latest White Paper, "[Investing for Retirement III: Understanding and Dealing with Sequence Risk](#)."

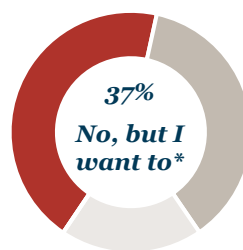
### KEY POINTS

- Sequence of returns risk is a meaningful risk for the vast majority of investment portfolios and there are useful tools that can mitigate its effects.

### ~100 RESPONSES TO INVITATION SURVEY

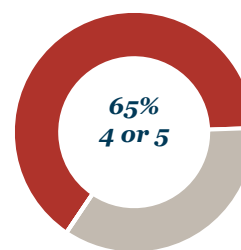
91% response rate—thank you!

Do you incorporate sequence risk when building portfolios?



\*44% replied "Yes"

On a scale of 1-5, how concerned are you about sequence of returns risk?  
(1 is least, 5 is most)



What is your preferred approach to mitigating sequence risk?

Most common results:

- ✓ Bucket strategies
- ✓ Bond ladders
- ✓ Cash reserve
- ✓ Asset allocation

- We believe a multi-period, shortfall optimization framework that considers a client's total investment horizon, financial needs, and circumstances accounts for sequence of return risk better than any standard single-period optimization.
- By dynamically reallocating portfolios based on valuation, portfolio managers can substantially further improve outcomes for their clients.
- The Nebo platform asks the right questions with respect to risk, takes into account investment horizon, and aligns the financial plan with the portfolio (see [www.nebo-gmo.com](http://www.nebo-gmo.com) for more details).



**Ben Inker**

Mr. Inker is co-head of GMO's Asset Allocation team and a member of the GMO Board of Directors. He joined GMO in 1992 following the completion of

his B.A. in Economics from Yale University. In his years at GMO, Mr. Inker has served as an analyst for the Quantitative Equity and Asset Allocation teams, as a portfolio manager of several equity and asset allocation portfolios, as co-head of International Quantitative Equities, and as CIO of Quantitative Developed Equities. He is a CFA charterholder.



**Matt Kadnar**

Mr. Kadnar is a member of GMO's Asset Allocation team. Prior to joining GMO in 2004, he was an investment specialist and consultant relations

manager at Putnam Investments. Previously, he served as in-house counsel for LPL Financial Services and as a senior associate at Melick & Porter, LLP. Mr. Kadnar has a B.S. from Boston College majoring in Finance and Philosophy and a J.D. from St. Louis University School of Law. He is a CFA charterholder.



**James Montier**

Mr. Montier is a member of GMO's Asset Allocation team. Prior to joining GMO in 2009, he was co-head of Global Strategy at Société Générale. Mr. Montier is the author

of several books including "Behavioural Investing: A Practitioner's Guide to Applying Behavioural Finance"; "Value Investing: Tools and Techniques for Intelligent Investment"; and "The Little Book of Behavioural Investing." Mr. Montier is a visiting fellow at the University of Durham and a fellow of the Royal Society of Arts. He holds a B.A. in Economics from Portsmouth University and an M.Sc. in Economics from Warwick University.



**Martin Tarlie**

Dr. Tarlie is a member of GMO's Asset Allocation team and the Nebo product lead. Prior to re-joining GMO in 2018, he was a managing director at QMA.

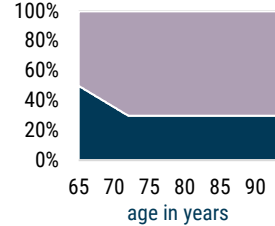
He previously worked on GMO's Global Equity team from 2007 to 2014. Prior to that he worked at Breakwater Trading and at Marlin Capital Corp as a fundamental equity analyst and the director of research. Dr. Tarlie earned his B.S. in Physics from the University of Michigan, his Ph.D. in Theoretical Condensed Matter Physics from the University of Illinois at Urbana-Champaign, and his MBA from the University of Chicago. He was also a Postdoctoral Research Fellow at the James Franck Institute at the University of Chicago and is a CFA charterholder.

THE DERBY

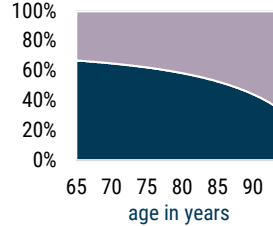
Start with \$1M at age 65, withdraw \$50,000\* every year

THE THREE HORSES

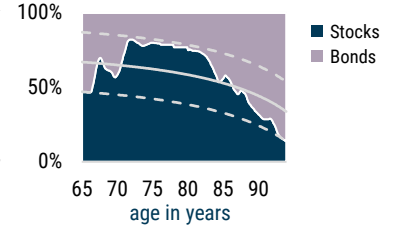
Common Glidepath



Optimal ESF



Valuation Sensitive Optimal ESF



PROBABILITY OF RUIN

Withdrawal Rate	Common Glidepath	Optimal Shortfall	Valuation Sensitive Optimal Shortfall**
<b>HISTORICAL BACKTEST</b>			
3%	0%	0%	0%
4%	7.3%	3.1%	0.8%
5%	51%	25%	19%
<b>MONTE CARLO SIMULATIONS</b>			
3%	0.8%	0.5%	0.2%
4%	7.8%	4.3%	2.8%
5%	28%	18%	14%

**Ask the right question**      **Move your assets**

Source: GMO (charts top); Source: Robert Shiller, GMO (table)

\*Withdraw \$50,000 in real terms, \*\*The stock weights in the Valuation Sensitive Optimal Shortfall results are constrained to lie between 20-percentage-point bands around the Optimal Shortfall stock weights. For the historical backtests, the results for the unconstrained Valuation Sensitive Optimal Shortfall strategy are 0.7% and 18% for the 4% and 5% withdrawal rates, respectively. For the Monte Carlo simulations, the unconstrained results for the 4% and 5% withdrawal rates are 2.7% and 13%, respectively. Historical backtests use Robert Shiller data from 1926-2018. Monte Carlo results are based on 10,000 simulations.

RELATED STRATEGIES

Please click on the links below to access strategies related to this event.

- [Nebo by GMO](#)

RELATED RESEARCH

Please click on the links below to access research related to this event.

- [Investing for Retirement III: Understanding and Dealing with Sequence Risk \(gmo.com\)](#)
- [Investing for Retirement II: Modelling Your Assets \(gmo.com\)](#)
- [Investing for Retirement: The Defined Contribution Challenge \(gmo.com\)](#)
- [Rent Trust \(Build a strategic glidepath\) - Case Study](#)
- [GMO Launches Nebo, an Innovative Asset Management Platform for RIAs - Press Release](#)

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