



Wealthy and Wise[®]

Yield and Growth Assumptions Sequence of Returns Monte Carlo Simulations

Yield and Growth Assumptions

The yields and growth rates in a Wealthy and Wise evaluation should reflect what you and your client believe are reasonable. They can be level as shown in the accompanying Case Study or variable based on schedules you input.

Sequence of Returns

In addition to your specifying annual returns, Wealthy and Wise can generate random yields and growth between high and low percentages, i.e., a more realistic sequence of returns. If you use a Wealthy and Wise random selection of interest rates that lies between two percentages that average a reasonable assumption, we suggest you keep repeating the selection until you get several low yields or growth during the early years of cash flow withdrawals. Once cash flow occurs, it is not enough for returns to average out in the long run if the portfolio could be depleted before the good returns show up. You can access an informative report by Michael Kitces on sequence of returns [here](#).

Monte Carlo Simulations

For those who like to use a Monte Carlo simulation, it is typically not suitable for a Wealthy and Wise evaluation of net worth and wealth to heirs due to the wide variety of assets that can be present, many of which may have no suitable, historical data base. Examples: a home and other real estate including raw land, a business, collectibles, life insurance cash values (particularly composite cash values involving more than one policy).

For example, assume a given client has an equity account that is the only asset that lends itself to a Monte Carlo simulation. Suppose the equity account is 25% of overall net worth. Assume the Monte Carlo simulation produces a 95% chance of success. There is little value in a summary analysis of retirement cash flow, net worth and wealth to heirs in advising a client that there is a 95% chance of success on 25% of the overall values. The simulation's value occurs only when suitable investment allocations for the equity account (in this example) are being analyzed for the client by a qualified representative.

Once an overall Wealthy and Wise plan is designed, then an asset-by-asset Monte Carlo analysis can make sense for those client assets for which a suitable data base exists.

We have been asked by some users to include the capacity for Monte Carlo simulations in Wealthy and Wise. Since this capacity is so easily available from other resources for evaluations of specific investments, coupled with its limited use for our hypothetical evaluations, as well as our pending enhancements and web development, we likely will not include Monte Carlo in a future release for some time, if ever.