SMART INSIGHTS FROM FINANCIAL PROFESSIONALS

How to Protect Your Retirement from a Market Downturn

If the stock market's recent swings have you more than a little nervous, to sleep better at night, here are some do's and don'ts for these volatile times.

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Some of the questions we've been hearing frequently from clients lately revolve around the theme of uncertainty.

Some examples include:

- "How do we adjust our retirement plan in these unpredictable times?"
- "How do we deal with uncertain things like inflation?"
- "Is the overall market going to be like riding a teeter-totter?"

People fear being heavily influenced by events beyond their control. So your emphasis as you develop a financial plan for retirement should be to focus on things you can control while protecting your plan from things you can't.

FIRST, FOCUS ON YOUR RISK

One of the things we can control is the level of risk we have in our savings. That's more important than ever, given the uncertainty we're experiencing now.

When someone is about to retire, they're jumping off into the great unknown. Their paycheck goes away, and they're living off a nest egg that they've built over the years. Thus, it's important to **"stress test" your portfolio** at quarterly or semiannual intervals and assess its ability to withstand a sharp market downturn. Financial advisers can help you do this. The point is to make sure that a worst-case market scenario is not going to sink your boat.

DO'S AND DON'TS IN A VOLATILE MARKET

A stress test may reveal that you need to set up new parameters in your portfolio to reduce your risk in the event of a significant downward market swing. In times of uncertainty, it can be easy to make knee-jerk decisions and forget about the long term. Here are some do's and don'ts when planning or adjusting your retirement plan to deal with a volatile market:

- **Don't take early withdrawals from your 401(k) or IRA.** While this might seem tempting during volatile periods, it's typically not a good idea to take cash out of your 401(k) before age 59½. Doing so subjects you to an early withdrawal penalty of 10% as well as having to pay tax on the additional income that year. **Required minimum distributions** don't begin for most people until they reach age 72. Those in-between years from 59 to 72 are when many people are still working these days and growing their money in these tax-deferred plans. And if you decide to withdraw funds from them after age 59½, remember they will be taxed as ordinary income.

- **Do consider when you will retire and where your income will come from**. Think about the timing of your retirement when deciding on strategies to help survive volatile markets. Changing your investment strategy to prepare for retirement isn't something to leave until the last minute or until after you retire. If you are already retired, it helps to have a plan, so you know where your income will come from for the rest of your retirement. One of the keys is dividing your money for different purposes. For example, if things go south in the market, **have different money buckets** set aside for income during that down time.

- **Do review your asset allocation**. For many people, shifting to lower-risk investments as retirement nears could be a good idea. Keep in mind that if you're investing in a target-date fund in your 401(k), the allocation automatically becomes more conservative as your target retirement date gets closer.

- **Don't make decisions based on emotions.** This can be an easy trap to fall into when your financial future is at risk. You may want to pull all your money from the market when it drops in an attempt to save your investments, but for many, it may be wiser to allow time for the market to recover. Making hasty decisions can be counterproductive in the long run. One benefit of having an adviser is having access to someone who has dealt with market drops before.

Market volatility, low interest rates and the overall uncertainty that comes with planning for retirement can cause concern. But there are ways to prepare your financial plan to respond to future market drops. The key is getting on top of that plan now before things beyond your control get on top of you.