

Independent Investor

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Market Volatility and Your Retirement: Can Timing Alter Your Plans?

Investors saving for long-term goals can usually overlook short-term market volatility in the interest of long-term gain. But for retirees, who increasingly rely on their investments to fund their living costs, market volatility can mean the difference between living comfortably and just scraping by. In fact, retirees are particularly vulnerable to market downturns, especially in the early years of retirement, because of their dependence on portfolio income, their limited investment horizon and their need to make sure their savings last throughout their retirement.

Market Volatility — An Historic Inevitability

Unfortunately, the timing of market losses and gains is something that we cannot control. One thing that history points out with certainty, however, is that over long periods of time the stock market has delivered positive returns on an average basis. But we also know that in the shorter term, stocks fluctuate in response to many factors.

For instance, through the market boom of the 1990s, personal investment portfolios were swelling and the stock market reached an all-time high. Then the bubble burst in the technology/Internet sector, and many investors lost a significant portion of their retirement savings. Similarly, the financial meltdown that has taken hold over the past several months has had a dramatic impact on

the retirement plans of American workers as well as retirees. Those unlucky enough to be on the brink of retirement — or those who have recently retired — will likely be making significant adjustments to their retirement plans.

There have been many other periods of decline throughout history — even though the particular events that triggered them may have been different. And there will no doubt be more periods of market decline in the future. Although market fluctuations are a normal part of investing, they can still pose challenges to investors, especially those entering or already in retirement.

Strategies for Managing Market Volatility in Retirement

The following strategies can't guarantee against losses, but they may be able to ease the ups and downs in the market.

1. **Keep withdrawal assumptions conservative.** When calculating how much of your retirement portfolio you can spend each year, be realistic: The amount you have saved and the expected length of your retirement will dictate the annual withdrawal amount. Using historical market performance as a guide, retirement experts suggest withdrawing no more than 5% of a portfolio's value each year. This approach may help maintain a cushion against future

market declines while supporting a hypothetical payout schedule of 20 years or more.

2. **Maintain a sensible asset allocation.** Divide your portfolio among stocks, bonds and cash investments so that you have adequate exposure to the long-term growth potential that stocks provide, but also have some protection against market setbacks. By spreading your assets across investments that react differently to various market conditions, you help minimize the impact that any single losing investment can have on your overall portfolio performance.

In addition to traditional asset classes, investors at higher income levels or with more investable assets may consider alternative investments as a way to help further diversify a portfolio and manage risk. Keep in mind that alternative investments may not be suitable for all investors and should be considered as an investment for the risk capital portion of an investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

3. **Review and rebalance your portfolio.** Once you have set an asset allocation that works for you, review, and if necessary, adjust it from time to time to ensure that it still reflects your needs. Fluctuations in the market may cause your asset mix to become too heavy in stocks — which could expose your retirement nest egg to damaging, even irreversible, setbacks when you

are on the verge of retirement. Similarly, as you grow older, you may want to "weight" your portfolio more toward bonds, for their ability to produce income.

4. **Work with a financial professional.** The guidance of a financial professional can always be beneficial, but it may be especially so in the years leading up to and entering retirement. It is at this time that investors are at their most vulnerable to specific market events as well as normal market fluctuations. In either case, an advisor can help investors make informed, unemotional decisions consistent with their financial goals.

Stock investing involves risk including the loss of principal. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and changes in price.

This article is not intended to provide specific investment or tax advice for any individual.

Andrew T. Gardener CFP®
Tanglewood Legacy Advisors, LLC
One Riverway, Suite 1550
Houston, TX 77056
(713) 599-4999

agardener@family-cfo.com

www.family-cfo.com

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