

Managing Market Volatility Before Retirement

Be proactive to help maintain financial stability among your investments

As retirement nears, investors must shift from **wealth accumulation to wealth preservation**. Market volatility poses risks, making it essential to implement strategies that protect portfolios while maintaining long-term growth potential.

The Impact of Market Volatility

Market fluctuations are inevitable, but they are particularly concerning for retirees who rely on investments for income. **Sequence-of-returns risk** – the danger of experiencing market downturns early in retirement – can deplete savings faster.

For example, withdrawing from investments that have lost value locks in losses, reducing recovery potential. Developing a risk-mitigation strategy is crucial.

Adjusting Asset Allocation

One way to manage volatility is by adjusting asset allocation. While younger investors may prioritize growth, retirees should balance risk and stability.

A **bucket strategy** can help:

- **Short-term bucket:** Holds cash and short-term bonds to cover **2-3 years of expenses**, providing liquidity during downturns.
- **Intermediate-term bucket:** Includes bonds and dividend-paying stocks for stable income.
- **Long-term bucket:** Contains growth-oriented investments, such as equities, to preserve purchasing power.

Diversification and Withdrawal Strategies

A **well-diversified portfolio** reduces exposure to market downturns. Investors should allocate assets across **stocks, bonds, real estate, and alternative investments** to mitigate risk.

Adopting a **safe withdrawal strategy**, such as the **4% rule** or dynamic withdrawal methods that adjust based on market conditions, helps prevent premature depletion of funds.

Hedging Strategies

- **Annuities:** Provide guaranteed lifetime income, reducing market dependency.
- **Dividend Stocks and Bonds:** Offer steady income regardless of market fluctuations.
- **Tax-Loss Harvesting:** Offsets taxable gains, reducing overall tax liabilities.

The Value of Financial Advice

A financial advisor can customize an investment strategy based on your **risk tolerance, income needs, and market conditions**. Regular portfolio reviews ensure adjustments align with evolving financial goals.

By proactively managing market volatility, retirees can maintain financial stability while ensuring their investments continue to grow for decades to come.