Living Your Retirement Lives

Dealing with market corrections in retirement and planning for the one certainty in life (and it's not taxes)

MARKET TROUBLES BREWING?

After a long stretch of uncertainty throughout 2020, many retirees are smartly worrying that the stock market could be headed for trouble. This year has brought retirees the end of the longest-bull market in history, two market corrections, an official bear market and as of November, what looks like maybe the beginnings of another bull market. And while we can healthily debate whether a bull market has begun or not, the signs are there, especially with the DJIA reaching heights never seen before.

Want proof that maybe the bull replaced the bear? Well, as stock market investors gathered around the virtual Wall Street table to share what they're thankful for over Thanksgiving, they gave thanks for the following performance in the month of November (as of the Friday after Thanksgiving):

- the DJIA crossing 30,000 points for the first time in its history on its way to possibly its best monthly gains in over 30 years;
- The S&P 500, DJIA, and NASDAQ being up double-digits;
- The small-cap Russell 2000 being up 20%; and
- The Energy sector, having been beaten down for so long, being up a staggering 34%.

Stock Market Corrections

Stock market corrections are defined as a loss between 10% and 20% from a peak and they occur about every two years, on average. We have had two so far in 2020, so maybe we're not due. But, according to the Wall Street Journal, the current P/E ratio of the DJIA is about 30x corporate earnings, which is way above the P/E ratio from one year ago and the historical market average of about 19x. In other words, the market appears over-valued and expensive relative to this time last year and historical averages. That, by definition, carries a high degree of risk.

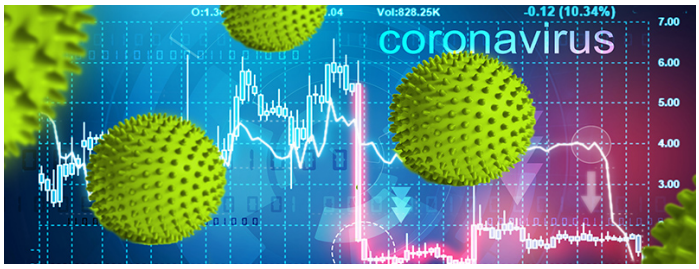
When a market is ready to correct, it will seize on a trigger – and this market has plenty to choose from. Worries include the lingering effects of COVID, an exploding national debt, a divided government, a divided nation, social unrest, high unemployment numbers, and an exceptionally frothy housing market.

Whatever the cause, any market drop is particularly worrisome for retirees, who have less time to make up

for losses. Here are a few tips to help you survive any market turmoil while in retirement.

Don't Panic Sell

One of the important lessons from the recent COVID bear market, the devastating 2008 financial crisis and the dot-com bust from 2000 is that even in the worst of times, recoveries happen within a reasonable period. In fact, since 1945, it has taken an average of just four months to recover from market declines of 10% to 20%. Bear markets (resulting in losses of 20% or more) have taken an average of 25 months to break even. Fight the urge to cut and run, and avoid selling your depreciated stocks, if you can.



Remember to Rebalance

All investors – and especially retirees – should have an investment horizon long enough to weather whatever storm the market can dish out. For a retirement that can last decades, new retirees might still keep 40% to 60% of their assets in stocks because stocks stand up to inflation better than bonds and cash over time.

If you've been regularly monitoring your portfolio, you've already been cutting back on stocks periodically over the past few years. Now is a particularly good time to revisit your investment mix to ensure that it is consistent with your tolerance for risk. During bull markets, people tend to get comfortable with those returns and may let their stock allocation drift higher.

Remember to Diversify

When stock prices are being pummeled, bonds are often pushed higher by investors seeking a safe place to hide. In general, investors should consider owning a mix of domestic and foreign bonds and U.S. and overseas stocks. And within the stock allocation, you should have a variety of market sectors. No single sector should claim 50% of your holdings.

Also remember that the headlines are not about you. Retirees, especially, are likely to have a healthy mix of bonds and cash in their accounts to temper stock market declines. In addition, the market is not a monolith, and some of your stock holdings may buck the downtrend.

Consider Creating a Cash Bucket

Instead of dumping stocks, consider using Social Security, plus the portion of your portfolio that comprises cash and short-term CDs, to meet your short-term expenses. Maybe consider creating three "buckets" of investments: one with cash and short-term CDs, the second with short- and intermediate-term bonds, and the third with stock and bond funds.

Relying on the first bucket will leave the stocks-and-bonds bucket of your portfolio intact. If you've planned for the inevitable downturns (you did, right?), you should have enough in cash and cash-like investments to cover two to three years of living expenses. Eventually, you can use the second two buckets to replenish the first.

Be Flexible with Your Withdrawals

Don't rely blindly on a rule of thumb that bases its assumptions on historical returns rather than current conditions. For instance, the 4% rule – a withdrawal strategy based on back-testing 30-year periods starting in 1926 – says you can safely take 4% of your total portfolio in the first year of retirement and in subsequent years, adjusted for inflation. Now, if stocks are down and with 10-year Treasury bonds yielding

less than 1%, you might be wise to scale back distributions to, say, 3% or less of total assets (plus an inflation adjustment) or to take 4% and skip the inflation adjustment.

Such measures are especially important if you're at the beginning of your retirement. An unrealistic first-year withdrawal during a bear market could cripple your portfolio's potential for long-term growth. The key is to be flexible. If you don't have other income to offset lower withdrawals, consider deferring gifts, trips and other discretionary expenditures until the market stabilizes. Also keep in mind that your spending changes – and typically declines – in retirement. You may find that cutting back is more doable than you think.

Delay Retirement

Sound drastic? Maybe so but delaying retirement can do an amazing amount for improving retirement success. Not only do you have more time to save, including making catch-up contributions to your retirement accounts, but you're also letting the money in your accounts grow, and you have fewer years during which you must rely on savings once you do retire.

Now that you have some ideas on how to weather market downturns during retirement, there is another topic that few people want to talk about – and fewer actually will plan for. But it's as important as planning for your retirement.

MAKING END-OF-LIFE PLANS

Most folks just don't make preparations before dying. Preparing means communicating with relatives and other loved ones – and it's really hard.

Here is a metaphor that might encourage you to plan for when you're no longer here: first responders train for life-threatening situations. They rehearse responses and how to communicate with team members.

Generally, families don't do that. When a crisis strikes, loved ones wing it amidst stress and confusion.

We know serious accidents and life-threatening illnesses can strike. Shouldn't we communicate our wishes to our loved ones, our potential caregivers, before a crisis? Given the certainty that you will die, shouldn't your loved ones know how to respond? Do they know what you want and expect of them?

Start with an up-to-date power of attorney – where you appoint someone else as your legal agent when you can't manage your affairs – for assets and health care and address the many questions.

Let's say you can't make decisions at the end of your life. Do you know:

- Who manages your financial and business affairs?
- Who accesses funds to finance your care?
- Where does the money come from?
- Did you create a plan with a financial advisor?
- Are you realistic about costs?
- Can your designated agent locate all of your accounts? Passwords?
- Who's your alternate if your primary designee cannot act?
- Who makes medical decisions if you can't?
- Does he or she know your wishes regarding the end of your life?
- Does your agent have a copy of your power of attorney for health care and your advanced directive, which spells out your end-of life medical care wishes?
- What about religious considerations?
- Do you want to stay alive using machines, feeding and hydration?

Suppose you go to a rehab facility or care home. Medicare provides limited benefits: What covers the rest of your expenses? Who cares for your spouse or significant other? Suppose you cannot live at home

any longer. What happens to your house or other real estate?

If you're disabled, do you remodel your home? How much does that cost? If you cannot drive, how do you get around? Who provides transportation? Coordinates doctors' appointments? Administers medications?

What funeral arrangements do you want? Where will you be buried? Cremated? Where do you want your ashes scattered? Do you want a traditional funeral or a celebration of life service?

Do you have veterans' benefits? Are you entitled to military honors? Does your caregiver know where your military papers are kept?

This just scratches the surface of inevitable questions. Consider a family meeting, perhaps with your financial advisor facilitating. Clarity about your wishes before a crisis is a gift of love.

Your Financial Advisor

Unpredictability is the one certainty in investing. How do you prepare yourself and your retirement portfolio for it? Well, one major key to successful planning for your 21st Century Retirement lies in following wise strategies.

Your financial advisor understands these strategies and is great source for information about how to handle your money as you manage your retirement. Your financial advisor's role is to prepare for the best – and the worst – of anything. The world is just too unpredictable to do less

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