WHEN MARKET VOLATILITY AFFECTS RETIREMENT

LORI PINKOWSKI | Retirement plans can be derailed by stock market volatility but a five-point strategy can get you back on track

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Retirement should be an exciting time allowing you to focus on the things you love the most. While the first step is to have a plan, what happens when you're retired and the stock market volatility hits your portfolio? It can cause higher levels of stress and emotion that lead to making poor decisions, which may actually leave you in a worse situation.

Market volatility occurs regularly when investing, but how your portfolio is structured and managed makes a difference in how that volatility affects you. Many retirees may not have had as many in-depth discussions as they should have with their financial adviser about how much risk they are willing to take, and what that actually means for their portfolio. Here are five tips to help protect yourself during times of extreme volatility.

CHOOSE THE RIGHT INVESTMENT MANAGEMENT TEAM ■ Look for a qualified team with a proven strategy who will actively manage your investments. A discretionary portfolio manager can take action more quickly for all his or her clients rather than having to call every client individually to make a change in their portfolios. This allows them to raise cash quickly if needed during market downturns.

I believe it's important to have an active approach, to get defensive when a bad market hits, by moving some of your money to sidelines in cash rather than passively holding. After all, you won't be able to make up significant losses in your portfolio if they occur, as you're no longer working in retirement.

DON'T LOOK AT YOUR PORTFOLIO DAILY ■ Monitoring that closely doesn't help you and will only add to increased anxiety over short periods. You don't ask a real estate appraiser to estimate the value of your house daily, so why look at your portfolio daily? Market downturns are a necessary evil when investing; and although they can be painful, as long as your team has a plan on how to deal with the volatility, your portfolio should recover from it quickly. Keep in mind that "quickly" can mean months in financial markets, but if you have a long-term plan, you're not spending the entire portfolio tomorrow and you can be patient. You still want to be vigilant though, as a small drop is easier to recover from.

ENSURE YOUR INCOME WILL REMAIN STEADY ■ Income will continue during unsettling times, but for a short period of time you may be drawing on capital or previous profits, which is normal. After some time you'll have a cushion built into your portfolio from the "good years" that will help you in the years that aren't so great.

DON'T CHANGE THE GOALPOSTS IN THE MIDDLE OF THE GAME ■ Try not to allow your emotions to take over during a market correction and sell at a bad time – which is why it's important to be with an investment team that is actively raising cash as conditions change. You certainly have control over your investments, and if you aren't comfortable with your equity exposure, you may want to be "out of the market." In my opinion, if you don't have a full understanding of the markets, or don't have enough information about the companies you own in your portfolio, then making snap decisions could drastically impact your long-term retirement negatively. For example, selling at the bottom and staying in cash because you may be too fearful to re-enter the market.

UNDERSTAND YOUR OVERALL RISK IN THE PORTFOLIO AND WHAT THIS MEANS TO YOU IN DOLLAR TERMS ■ If you're comfortable holding some equities and you believe that a 10 per cent drop in your portfolio is the most you can handle then calculate what that would look like in dollars. If you have $1 million invested and it declines by $100,000 for a period of time, will that keep you awake at night? If the answer is yes, then you should have more of your money allocated to lower-risk, and lower-return investments. This will substantially reduce your expected long-term returns, but you can factor that into your financial plan. Also refrain from measuring from the peak in performance.

Your financial adviser should maintain higher cash levels when dealing with uncertain markets, but also be ready to take advantage of favourable opportunities as they present themselves. A comprehensive and personalized financial plan can also keep you focused on the goal of a happy and fulfilling retirement despite market conditions.

As they say, after the rain the sun will shine!

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