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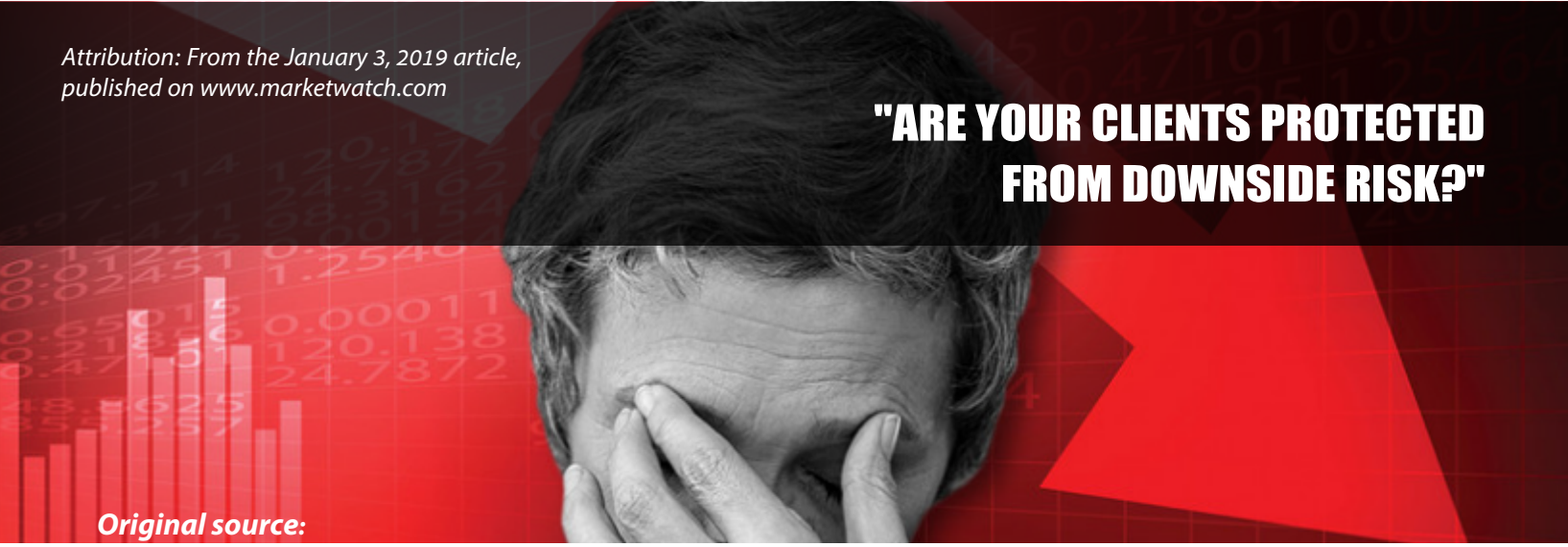

"ARE YOUR CLIENTS PROTECTED FROM DOWNSIDE RISK?"

Original source:

MarketWatch

Is your retirement on hold because of the stock market? What to do now

by Alessandra Malito

Because of stock market volatility — and likely the start of a downturn — Jeff Janus, a 59-year-old word processor in Chicago, won't be able to retire when he hoped.

Janus was planning to retire soon. His goal was to do so when his 401(k) plan reached $1 million, and he was close, until October. In the last two months, his account balance dropped about $100,000, and as a result, his retirement date has been pushed back a few years. "Now it just seems like somewhere in the indefinite future,"
he said.

Though disappointed, Janus made some changes to his portfolio, and tweaked his investing philosophy as well. He used to try to time the market with his 401(k) assets, which he controlled and were heavily invested in equities, but he's diversified his plan since then and is looking to recoup his losses — however long it takes. Janus remembers a point during the market crash in 2008 when his retirement account had less money than he invested, but he rode it out. "That subsequent bull market has fueled my hopes and dreams," he said.

More than three-quarters (77%) of advisers expect a market downturn sometime in the next two years, according to a survey by Oak, Pa.-based financial services firm SEI Investments Company.

Typically, word of a market downturn has many investors panicking about losing their money and many advisers telling those investors to remain calm and do nothing — after all, market volatility is normal, and what goes up must come down (and vice versa).

But that advice doesn't work for near-retirees, who will soon be leaning on their investments and returns to fund their lifestyles and financial obligations. When people enter retirement at the start of a downturn, they face a "sequence of returns risk," where they may be withdrawing from their portfolios' principles because their investments are seeing low, no or negative returns (thus diminishing potential returns of the future).

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Janus is one of these near-retirees. About 10,000 baby boomers retire a day, a rough estimate used by the Social Security Administration and from a Pew Research Center report (the actual figure is hard to pin down, because older Americans may begin claiming Social Security benefits while still working, a Pew Charitable Trusts spokesman said). Baby boomers, born between 1946 and 1964, expect they'll need $658,000 in their 401(k) plans by retirement, though the average amount in those plans is only $263,000, according to a survey of 900 investors by financial services firm Legg Mason. This also does not account for what they'll actually need, which could be significantly more, especially with rising health care costs in retirement.

The recent bumpiness of the stock market has near-retirees wondering what to do: should they take all their money out and keep it in cash? How can they reap the benefits of investing without the risk of losing their nest egg? Some are even taking to social media sites, like Reddit, for advice. One user posted on Reddit's self-investing thread, saying he plans to retire in five years, and was wondering if he should pull out of his 401(k) plan so he doesn't "lose a lot in this upcoming bear market." Fellow Reddit users advised him that going all-cash wasn't a good option either, as one would not survive in retirement that way. Others said he shouldn't be too heavily invested in equities, while still others said there needs to be a better balance between stocks and bonds (to avoid being too conservative and losing out on future investment returns).

Cash will play an important role for those planning to retire in the next five years. Near-retirees should consider having two to three years worth of cash on hand when going into retirement so that they don't have to worry about paying for their everyday living expenses, said Steven Brett, president of Marcum Financial Services in Melville, N.Y. One to two years could also be enough, or investors may want to put their money into a Certificate of Deposit, which will earn them a higher interest rate than most savings or checkings accounts, said Thomas Rindahl, a financial adviser at TruWest Wealth Management Services in Phoenix, Az. "Have additional funds in cash so that the rest of the assets don't necessarily have to be liquidated at an inopportune time," Rindahl said.

After putting cash aside, investors nearing retirement may choose to rebalance their portfolios to be more conservative, at least for the interim — eventually retirees may want to adjust their portfolios so their assets continue to grow through retirement, Brett said.

Traditional advice may have suggested retirees move more of their investments to bonds, but since people are living longer and spending more time in retirement, they'll need their money to stretch for those years. "The adage that once you retire you should be 80% in bonds and 20% in stocks is all gone," said Ed Gjertsen, vice president of Mack Investment Securities in Northfield, Ill. and Janus's adviser. "The way a portfolio is allocated is more personal than it is broad."

Near-retirees should begin planning for and calculating the expenses in retirement, including basic costs of living (housing and food), medical bills, lifestyle choices (including vacation and gifts), taxes, charitable giving and the unexpected, said James Schwarz, a financial adviser at CLEAR Retirement Advice in San Mateo, Calif. "I look at the next five years and say what are the actual withdrawals we are planning?" he said. Then make sure there's enough cash and conservative investments to cover that — he likes to have about five years' worth, though some may want to be even more cautious and have eight to 10 years.

At the same time, it's important to keep up contributions to retirement and health savings accounts, when eligible. New contributions are especially important during a downturn because equities tend to be "on sale," meaning their less expensive than during an upswing. "To help minimize worry, take action now regardless of what may or may not happen in the future," he said, "and think of a downturn as an opportunity instead of a disaster."

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