Keeping on Track for Retirement

Picture this: you're approaching retirement, and everything is going well. Your investments will provide you with enough income to enjoy the retirement you've always dreamed of. But then the stock market unexpectedly crashes.

This scenario has played out countless times, for countless Canadians, including as recently as early 2020. The impact of COVID-19 and the ensuing lockdowns had a major impact on stock markets around the world.

In just over a month, markets plummeted by as much as 30%. Just like that, many Canadians who were either retired or close to retiring saw their savings decimated by as much as a third. Not surprisingly, this caused a lot of stress for many of them.

Don't panic — stay invested

Many financial advisors were inundated with calls from their clients, close to panic and feeling powerless as their savings went into freefall. Some days saw single-day losses that were the biggest since 1987. Those investors who studied the markets closely saw their investments drop in value by hundreds or even thousands of dollars in a day.

In dangerous situations, our natural reaction is fight or flight, or, in this case, sell. But the vast majority of advisors gave the same piece of advice: "Don't panic. And don't sell."

It's good advice during any crash. History has proven that the markets always bounce back from crashes and then continue to grow beyond their pre-crash levels. It typically takes a couple of years to recuperate those losses, but it always happens. In fact, some markets in 2020 bounced back within five months. If you'd held onto your stocks, you'd probably be in a pretty decent position. If you'd sold when prices were on a downward trend, you might have taken a fairly big hit and could find yourself sitting on substantially devalued savings.

What should you do after a crash?

The same advice applies after a crash as during one: stay invested. Market volatility is a part of investing, and a decent financial plan and well-built portfolio should be able to weather the various financial storms the markets send your way.

The next step is to speak to your advisor and re-evaluate your portfolio. Market crashes can play havoc with your asset allocation. This is the investment strategy used to balance risk versus reward by having set ratios of assets, for example, 60% of the riskier equities (stocks) and 40% of the safer bonds. Your advisor will be able to help you to reset the balance or suggest a different mix, depending on your risk tolerance level.

What should you do if your savings took a hit?

If you gave in to panic and sold some of your assets, reducing your savings in the process, you need to have a different conversation with your financial advisor. They can come up with a new plan that still allows you to retire comfortably. However, you may have to make a few concessions, such as:

- Delaying your retirement date by a few years
- Reducing the amount you withdraw from your savings
- Delaying your overseas travel plans
- Cutting back on luxury expenses

How to be better prepared for the next crash

Given that we know that market crashes happen in cycles, and markets always bounce back, to best prepare for them when you're retired, you need a strategy to help you ride them out without having a negative impact on your investments.

The best way to do this is to always have an emergency cash fund that you can use to cover your living expenses when the markets fall. Most financial experts suggest enough money to cover your expenses for two to three years, the typical time it takes for a market to right itself.

You need to keep the money in very liquid accounts, that is, those that allow you to easily withdraw the money when you need it. High interest savings accounts and redeemable guaranteed investment certificates (GICs) will provide some interest while giving you the freedom to withdraw cash at any time. The secret is to avoid having to cash in investments to cover your living expenses when they have seen a large drop in value.

After all, your investments only experience a real loss when you sell them. An emergency cash fund means you can wait until your investments have regained their original value.

Staying on track starts with the right advice

Cornerstone financial advisors can help you to reassess your portfolio and make any adjustments it might need after a crash. They can also help you to draw up a plan to make up any losses and keep your retirement plans on track. Call us on 1.855.875.2255 to set up a meeting.