Morgan Stanley

Facing Fluctuations:
How to Navigate Market Volatility and Retirement Planning at Various Life Stages

The markets may be unpredictable, but your retirement plans don't have to be.

Market volatility can impact both your finances—and your peace of mind—at different stages of retirement planning. And while volatility is a normal function of the markets, it can also present a challenge when you're planning for this major life milestone—whether you're nearing retirement, actively enjoying it, or just starting to plan for it.

By understanding how to approach and potentially adapt to market fluctuations, you can develop a strategy to help achieve your retirement goals—and avoid impulsive decisions that may impact your portfolio unfavorably.

Let's take a look at how volatility may impact retirement planning at every stage, as well as ways to help navigate market ups and downs.

Explore these questions and considerations to learn more.

Retirement Status: Years to Go

QUESTION:

How should I invest for retirement when it's still decades away?

INSIGHT:

When retirement is still a long way off, you can usually afford to be a little more growth-oriented in your investment strategy. By investing on a regular basis, you can help build a strong foundation for your retirement savings:

- **Focus on growth.** With a longer time horizon, you may wish to take advantage of investments like stocks that involve higher risk but typically offer higher returns.
- **Contribute regularly to retirement accounts.** This is the time to make the most of your contributions to retirement accounts like a 401(k) or IRA—especially if your employer offers matching contributions. Having time on your side can be a tremendous advantage. And saving early and often, even in smaller amounts, can help put the power of compounding interest to work for you.
- **Diversify your investments.** A Financial Advisor can help provide education and guidance on different asset classes and strategies that may help you reduce risk and capture opportunities in different markets.

QUESTION:

What role does market volatility play in long-term retirement planning?

INSIGHT:

Market volatility can be unsettling, but when you're planning for retirement many years down the road, it's important to keep a long-term perspective. Avoid the temptation to react to short-term market fluctuations. Instead, focus on your long-term goals, as markets have recovered from downturns in the past. And as you continue investing, regularly review your portfolio and rebalance where appropriate.

QUESTION:

How can I help protect my retirement savings from inflation?

INSIGHT:

Inflation erodes the purchasing power of your money. Planning for inflation now can help your retirement savings retain their value in the decades to come.

Growth assets like stocks and real estate are generally considered good hedges against rising prices, as their value may adjust and increase with the cost of living. Over the long term, these assets may outpace inflation, helping your retirement savings maintain their value. **Regularly review and adjust your portfolio so that it is positioned to help combat inflation.**

Retirement Status: Coming Up Soon

QUESTION:

The market is down, but I'm ready to retire. What might it look like to wait it out?

INSIGHT:

Waiting out a market downturn requires patience, but—depending on your financial situation and flexibility—it can also help safeguard your retirement funds.

You might choose to continue working (even part-time) for a few more years, which allows your retirement investments more time to recover and grow as the market stabilizes. Market downturns can be stressful, especially when retirement is near, and waiting it out can test your emotional resilience. A Financial Advisor is a valuable resource for support. **Together, you can reassess your retirement goals and define a strategy to align with your time horizon and risk tolerance.**

QUESTION:

What kinds of investments can I use to help hedge my retirement plan?

INSIGHT:

As you near retirement, it's often a good idea to reconsider your approach to investing, which may help to safeguard the wealth you've spent years accumulating. These options may help hedge against market volatility with respect to your retirement savings:

- **Bonds,** particularly U.S. Treasuries, offer stability and regular interest payments.
- **Bond funds or ETFs** provide diversification within bonds, spreading risk across multiple securities.
- **Certificates of Deposit (CDs)** are FDIC-insured, offering fixed returns.
- **Stable value funds,** found in retirement plans, aim to provide steady returns with low volatility.
- **Dividend-paying stocks** from well-established companies may offer income.
- **Treasury Inflation-Protected Securities (TIPS)** help protect against inflation, helping preserve your purchasing power.

QUESTION:

How can I help minimize the impact of a market downturn on my retirement income in the years to come?

INSIGHT:

1. **Don't rely solely on your investment portfolio.** As retirement approaches, consider other income streams like Social Security to reduce the pressure on your investment withdrawals during a downturn.
2. **Plan to implement a withdrawal strategy** that adjusts your annual withdrawals based on market conditions. For example, withdrawing a fixed percentage of your portfolio rather than a fixed dollar amount can help preserve your savings during market declines.
3. **Maintain a cash reserve to cover living expenses.** This will allow you to help avoid selling investments at a loss during a downturn, giving your portfolio time to recover.

Retirement Status: Reaping the Rewards

QUESTION:

I'm retired and considering portfolio reallocation. How should I approach this during volatile markets?

INSIGHT:

Reallocating your portfolio during market fluctuations requires careful consideration to help maintain your income while minimizing exposure to risk.

- **Review your asset allocation.** Assess your current mix of stocks, bonds, and cash. Consider shifting to more conservative investments, such as bonds or dividend-paying stocks, to help reduce risk.
- **Take a gradual approach.** By investing smaller amounts at regular intervals, you can help avoid making large moves at inopportune times and reduce the impact of market fluctuations.
- **Seek professional guidance.** During volatile periods, a Financial Advisor can help you navigate market conditions, reassess your goals, and provide education and guidance that aligns with your long-term retirement needs.

QUESTION:

I have unexpected financial concerns, like higher healthcare costs. How can I balance them with a market downturn?

INSIGHT:

Managing costs during retirement and a market downturn may require a combination of careful budgeting and strategic planning. It might be helpful to reevaluate your discretionary spending to free up funds for unexpected bills.

You may also wish to consider using your cash reserves, emergency funds, or investments like CDs or money market funds to cover immediate expenses. This approach can help you avoid selling volatile investments at a loss during a downturn.

QUESTION:

Should I change my withdrawal strategy during periods of market volatility?

INSIGHT:

It can be a good idea to review your withdrawal strategy during volatile markets, but try to avoid making hasty decisions. You may wish to consider reducing withdrawals. Or, you could draw from more stable assets like cash or bonds to allow your investments an opportunity to recover. A Financial Advisor can help provide education and guidance to help with your ongoing retirement goals while aiming to reduce the impact of market fluctuations on your retirement funds.

Questions About Navigating Market Volatility and Your Retirement Planning?

Book time with our Financial Advisors who can help provide education and guidance as you plan for your retirement.

Ready to get started?
Click here.

Morgan Stanley Virtual Advisor
866-743-5700
8:00 a.m.-7:30 p.m. ET, Monday-Friday

Already a client?
Schedule your next conversation.

Morgan Stanley Virtual Advisor
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Please select "Retirement Planning" from the menu when scheduling an appointment.

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