Tips To Help Avoid "Market Panic" Reaction

Have A Plan To Help Protect Your Savings From Major Market Corrections

Intro

Planning for retirement is never a “set it and forget it” activity: There are unexpected disasters, market drops, and changing laws that invariably cause retirees to reevaluate their plans. Diseases, natural disasters, or political instability are examples of things that can cause market downturns or drops. Such occurrences are difficult to predict, and their consequences can cause people to make hasty decisions with their finances.

However, you can prepare yourself for a downturn by having a solid financial strategy in place. The most recent bout of “market panic” likely won’t be the last one you’ll see in your lifetime, so why not have a plan to address future market drops? If you’re concerned about your financial security as you near and enter retirement, assessing your risk tolerance, reevaluating your portfolio, and seeking professional advice could be a good idea.

Retirement shouldn’t be a time of panic and anxiety; it should be a time when you feel financially secure and can enjoy the money you’ve worked hard to save for decades. There are ways to prepare yourself against reactionary decision-making other than delaying your retirement or keeping all your money in cash stashed in your mattress. There are ways to help mitigate risk and take advantage of opportunities, even in uncertain times. Knowing what to do can be complicated, but for now, let’s start with some practical advice.

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Practical Advice To Avoid Making Reactionary Decisions

1

DON’T withdraw early from your 401(k) or IRA. While this might seem tempting during volatile periods, it’s typically not a good idea to cash out of your 401(k). If you withdraw money before age 59½, you could have to pay the early withdrawal penalty of 10%. If you are over 59½, you are not subject to the early withdrawal penalty. But keep in mind that withdrawals from a 401(k), IRA, or other traditional retirement plans will be taxed as ordinary income.[1,2]

2

DON’T make decisions based on emotions. This can be an easy trap to fall into when your financial security is at risk. You may want to pull all your money from the market when it drops to save your investments, but it may be wiser to allow time for them to recover. Making hasty decisions like that can be counterproductive in the long run. One benefit of having an advisor is having access to someone who has dealt with market drops before.

3

DON’T get freaked out by the news. While it’s important to know what’s going on, there is such a thing as being too glued to the media. Headlines often report a worstcase scenario or even exaggerate in order to get as many eyes as possible. Read with caution and take breaks from media to destress.

4

DO stay informed and make decisions with the backing of your financial strategies and goals. With a plan that accounts for both positive and negative scenarios in the markets, you can avoid the feelings of panic associated with having an incomplete investment plan or putting “all your eggs in one (or just a few) basket(s).”

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What Are "Bear" And "Bull" Markets?

Here's How You Can Tell Which One You're In

A **bear market** is a technical term that means that the market has fallen 20% or more from recent highs due to widespread panic or pessimism.

Why is it called a "bear market," you ask? When bears attack, they swipe down with their paw, as opposed to bulls who lift with their horns. So, a bear market is a colloquial term used to describe a stock market that has falling share prices, and a bull market is a term used to describe a market that has rising prices.

Bear markets are often associated with declines across the market, but specific sectors can be in a bear market even when the overall market is doing well, and vice versa. So, there are still many investment opportunities in a down market.

A **bull market**, on the other hand, refers to when the market is on the rise. It can apply to the stock market, as well as bonds, real estate, currencies, and commodities. It's commonly defined as a time when stock prices rise by 20%, often after a drop of 20%. Bull markets tend to last for months or even a few years, with the most recent bull market having lasted 12 years.[3]

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The State Of The Market When You Retire Could Affect You In The Long Term

Unfortunately, the state of the market isn't under your control when you retire. Even if you've saved diligently your whole working life, a market downturn around the time of your retirement can have a serious negative impact on your wealth in the long term. In fact, two retirees with identical wealth and long-term market averages in retirement can have very different financial outcomes depending on the state of the economy when they begin retirement.

Someone retiring during a bear market might see their portfolio recover as the market does, but they will also see a reduction in the overall return of their portfolio because of how much they had to withdraw early on when prices were down. Withdrawing funds while your portfolio loses value can negatively affect your returns throughout retirement. If someone with a similar portfolio retires during a bull market, they can take withdrawals of fewer equities and lower their risk of causing smaller returns throughout retirement.

However, this doesn't mean that you can't retire during a bear market. There are ways to mitigate risk and help protect what you've earned, even in the event of a market downturn.

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The Challenges Of Timing The Market

While taking on some investment risk in retirement might be fine, there can be problems with trying to time the market by attempting to predict relative highs and lows in asset prices.

In order to successfully time the market, you have to correctly guess when to get out and when to get back in. The fact of the matter is that if you try to hop in and out, you're probably playing a guessing game that's stacked against you.

1

Market drops can be caused by unpredictable real-world events, such as the coronavirus pandemic, political instability, and natural disasters. There is simply no way to foresee all the periods of panic in the market that may occur throughout your retirement. And while suffering a market drop in your younger years can be fine, it can pose much more of a threat as you near and enter retirement.

2

There may often be recoveries after market drops. Over time, the market goes up, with periods of volatility and downturn along the way. In order to time the market successfully, someone not only has to avoid the drop, they also have to catch the rebound. In a worst-case scenario, someone might panic and sell, thus locking in their losses and missing out when the market recovers.

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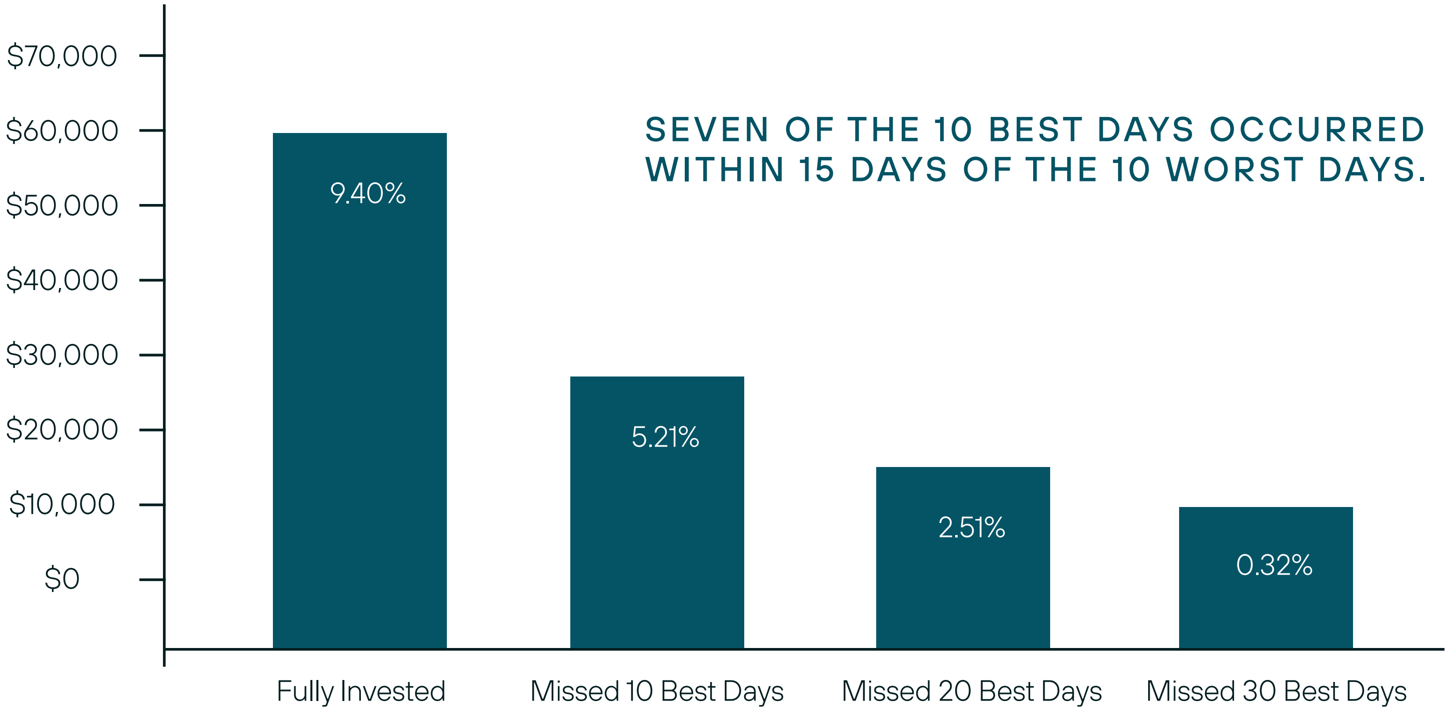
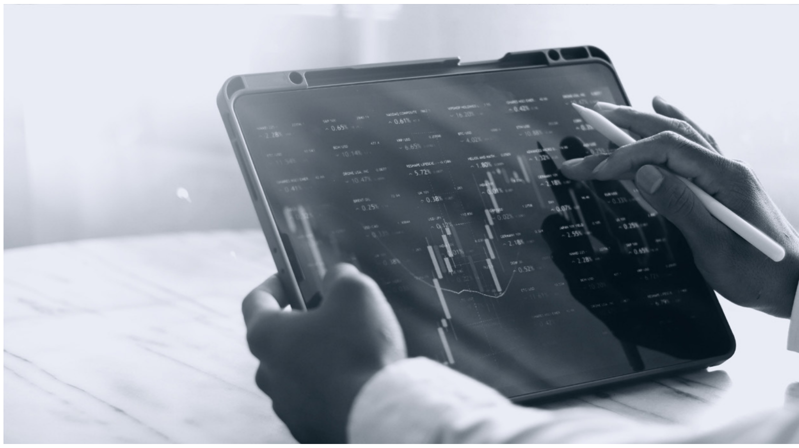
Annualized Performance Of A $10,000 Investment Between January 2002 And January 2022



Past performance does not guarantee future results.

A major rebound could happen in a single day, making the probability of missing it high if you only follow a “timing the market” strategy. Consider the findings of a study on what would happen to a hypothetical $10,000 investment into an S&P 500 index fund from January 2002 to January 2022. Staying invested throughout the entire time period resulted in gains of 9.4%. But, missing the ten best days of the market resulted in gains of only 5.21%. And missing the best 30 days resulted in gains of 0.32%.



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5 Ways An Advisor Can Help You Avoid "Market Panic"

1. Risk Tolerance Assessment

It's all very well and good to hear that workers in their 20s and 30s don't need to worry in the event their 401(k) takes a hit, but what about you? It's important to assess your risk tolerance periodically and update your investment plan accordingly. While the market will eventually recover, you may not necessarily be able to ride out the storm. "Markets can remain irrational longer than you can remain solvent," said famous economist John Maynard Keynes.[4]

2. Portfolio Diversification

This seems like a simple rule, but knowing how to diversify can be more complicated than you think. Diversifying to mitigate risk is important because performance in any one asset class is unpredictable. Among the traditional asset classes are stocks, bonds, and cash. We can help you determine what portion of your portfolio should be in each, as well as help you consider other investments.*

3. Longevity Risk Assistance

We're living longer than ever, which means that retirement savings must stretch further than ever.Guaranteeing a steady income stream to cover your basic needs is a crucial part of planning for retirement. The threats of market volatility and inflation can put you at risk, but there are ways to mitigate this. We can help you turn your nest egg into a steady income stream that laststhroughout retirement.

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4. Tax Minimization Strategies

Your IRA may have taken a hit due to a market downturn, but this does offer some opportunity. Converting part or all of your traditional IRA to a Roth IRA could mean saving on your tax bill overall. You would pay tax on the funds converted and then be able to take tax-free distributions from your Roth IRA later in retirement. Since your tax bill at the time you convert would be based on the value of the assets in your IRA, it might be lower after a market drop. After funds are converted to a Roth IRA, they can grow tax-free as the market bounces back and be withdrawn tax-free. Also, consider that taxes are relatively low at this time and are likely to rise in the future.

5. Address Your Questions

There is a lot of information and advice out there, but much of it doesn't apply to your specific situation. The benefit of having one person oversee a single retirement plan that includes Social Security optimization, tax minimizations, risk management, investing strategies, and estate planning is that these areas can all work together. We at VestGen Wealth Partners can help you create a plan based on your unique financial and retirement goals and adjust them based on your specific situation. So, contact us at **GetRetiredStayRetired.com** or **(847) 907-9600** to get started.

This brochure is designed to provide general information on the subjects covered. Pursuant to IRS Circular 230, it is not intended to provide specific legal or tax advice and cannot be used to avoid penalties or to promote, market, or recommend any tax plan or arrangement. You are encouraged to consult your personal tax advisor or attorney.

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Sources

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* Diversification does not ensure a profit or protect against loss.

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