MARKET MONITOR

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Major Portfolio Adjustments shouldn't be Necessary when Retirement is Imminent

BY: MICHAEL ALEXENKO, CFA

When there is a marked spike in stock market price volatility it can cause people to begin to question what they should be doing in their portfolios to help protect from more downside risk. For those who are employed and still several years or decades from retirement, remaining calm is a little easier. Their portfolios benefit from the ability to add investments at more attractive prices during market corrections and/or the total value of their portfolios may not have reached a level that causes large enough dollar losses to create serious concern if the market is off by 30% from the previous twelve months.

Simple Retirement Planning Checklist

√ Create Reasonable Goals

√ Prepare Accurate Budget Forecasts

√ Know Your True Risk Tolerance

√ Implement Investment Strategy

√ Monitor Plan and Adjust it Periodically

If you're nearing retirement there are so many things that you need to think about and get organized to help relieve anxiety about your future financial security. For the imminent retiree, throwing in a 20% drop in the stock market, on top of all the other questions floating around in a person's head, can certainly exacerbate the worry that comes along with the idea of relinquishing a regular paycheck.

Reacting to market movements or making decisions in a panic mode definitely don't increase the chances that the optimum outcomes are achieved. So regardless if your 25 years or 2 years from retirement, the idea of adjusting your portfolio based on what the market has been doing for the past three to six months is not a very good one.

The best possible solution for processing risk reduction in a portfolio is to incorporate it into your planned strategy. If a person close to retirement begins to fret about market movements and worries that all of his or her hard earned savings are going to evaporate right before the last paycheck is deposited, then the likely cause of that is a lapse in proper planning. If you're entering retirement with a portfolio that remains invested at an 80% stock level it is little wonder that at the age of 65 you might not be able to stomach the risk of potential losses at such an aggressive allocation to equities. To avoid finding yourself in the position of wondering if now is the right time to begin selling stock because the markets might be down 10%, you need to initiate a shift in your asset allocation years in advance of your retirement date.

Years in advance might sound extreme, but it's not at all unreasonable when you consider that in all likelihood the risk tolerance for a 33 year old will go down as the person reaches 40-45 and again when he or she hits 50-55 and so on. If an investor has been monitoring his or her attitude toward risk and how he or she is tracking versus retirement goals, then a natural gradual shift toward less risk will be the normal portfolio evolution.

However, it's impossible to know if you're tracking close to your goals if you haven't established any goals to track. For the soon-to-be retirees who don't have a firm grasp on how much their living expenses will be when they do retire, the prospect of a coinciding bear market will undoubtedly cause more stress.

So to escape the mistakes of kneejerk reactions it would best for people to start their planning process by doing a little budgeting. There is an excellent budgeting tool available at www.royalassetmangers.com. If you

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Planning Tools to Prevent Retirement Panic

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want to achieve the most accurate results, focus on the average monthly costs of your living expenses and be sure to include allocations for one-time expenses such as home repairs, cars, and vacations. Then you can extrapolate the monthly figure to calculate your estimated annual cost.

Another topic to tackle is to measure your true risk tolerance. Again, on www.royalassetmangers.com you'll find a risk tolerance questionnaire that although may not be the definitive answer to what level of risk you're able to accept, my experience has been that it does a very good job of getting close to the accurate conclusion.

If you do have a little time before retirement commences, you can give some thought to how much you have saved and whether the amount is sufficient or if you have to make some catch-up savings plans. Nothing drives home the point of the damage that ex post facto planning can do if you're in need of $100K in annual retirement income and at the age of 60 you have only $200,000 saved and you aren't a City of Chicago public employee with an oversized pension waiting.

The organized and prepared individual who has created goals based on good budgeting forecasts and has evaluated his/her risk tolerance hopefully has had access to a selection of good investments in order to implement the critical investment strategy. One of the drawbacks of 401(k) plans can be their limited fund options that make it difficult to build a well-diversified portfolio. Assuming that your 401(k) does have an adequate number of choices it should allow you to build a diversified portfolio and that diversification can aid in defending against some downside risk.

Taking the time to do some diligent planning will not immunize your portfolio from losses when the stock market has steep declines, but it will make it much easier for you to avoid making rash moves that could damage your accumulated retirement wealth.

Market Monitor: Recent Rally Shows Market's Penchant for Cheap Money

By: Michael Alexenko, CFA

We went about four years without a 10% correction hitting the S&P 500. It wasn't until last August that the market finally registered a complete correction since 2011, but once it did it continued for another six months with the appearance of ending on February 11. Since February 11, the market has gained nearly 15%. Entering into February there was much concern being expressed for falling corporate profits, huge debt problems in China, a weak domestic economy, negative interest rates around the globe and our Federal Reserve forecasting four rate increases in 2016 amounting to a 1% hike in short term rates in calendar year 2016. The only issue that has changed since February is the Federal Reserve's backpedaling on its rate hike promise.

The market loves cheap money and the Fed chairlady delivered the market's favorite message not coincidently on February 11 with the speculation that the USA could also join in on the negative interest rate policy. She followed up this comment on March 16 with the official Federal Reserve policy of promising low interest rates for longer. How much longer the Federal Reserve goes with extraordinary monetary policy measures becomes anyone's guess. It's been seven plus years and the impact on stock prices has been powerful. For those who believe economic fundamentals are more responsible for the market rather than easy monetary policy these last couple of episodes of Janet Yellen comments and the subsequent market moves suggest cheap money still rules.

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