

Retirement tips for volatile stock market

By Haitham “Hutch” Ashoo and Chris Snyder

More and more Americans – 28 percent in 2013 – say they’re not at all confident they’ll have a comfortable retirement, according to an annual survey by the Employee Benefit Research Institute.

Even the wealthiest among us have concerns; 38 percent of U.S. multi-millionaires are not “very confident” about their retirement income, a 2013 U.S. Trust survey found.

A “comfortable” retirement means different things to different people.

The first thing you need to determine is what “comfortable” means to you to ensure you have what you most desire in retirement.

Most retirees and pre-retirees will depend on income from their investments to maintain their desired lifestyle. Any dramatic negative market volatility that’s not fully understood can be devastating to their mindset and planning.

As wealth management advisers, we anticipate – based on historical patterns – an average 5 percent drop in the market about three times a year. Advisers should be planning for that. We tell our clients, “Don’t focus so much on the drop – we’ve planned and accounted for these predictable, recurring negative events. Instead, we should evaluate whether it will prevent you from reaching your life goals.”

We offer these tips for those worried about the volatility in today’s market:

1. Have a deep understanding of your retirement life goals.

If you don't have clear life goals, neither you nor a financial adviser can create a map to get you there.

Think about what kind of cars you wish to drive; whether you'd like one or more vacation homes; where in the world you'd like to play golf; whether you want to budget \$10,000 a year for travel or \$250,000. You also need to think about your beneficiaries and/or charitable causes that are near and dear to your heart. What sort of financial legacy do you desire for them?

2. Do you or your financial adviser have a reliable process for evaluating your progress toward your life goals?

You need to know whether a drop or correction in the market is going to affect your ability to meet your life goals, so you can adjust for that. Simply measuring investment performance is not a reliable means of determining whether a person is on track to meet their life goals.

We create a wealth management analysis that stress tests their retirement life goals through a simulation of stock, bond and cash activity from 1925 through 2013. That includes recessions, depressions, catastrophes, bull and bear markets, and high and low inflation. We do this on a quarterly basis, since the market is constantly changing.

The analysis produces a score that reflects the level of confidence their clients can have that they will meet their goals. If the score is not between 75 and 90 percent, the advisers consider "what if" scenarios with their clients.

3. Avoid destructive investor behavior.

Human nature is counter-intuitive when it comes to investing, and that can lead to bad decision-making.

Even the smartest, biggest institutional investors make the mistake of allowing their emotions to guide their judgment.

When the stock market goes up, people's enthusiasm goes up and they rush to buy, which increases their risk. Then a correction occurs and they find themselves overweight in equities and they wonder what happened.

This destructive behavior can have a devastating impact on their plans in retirement.

It is not worth assuming more risk if you have an analysis that shows you are able to achieve your retirement goals with less risk.

4. Once you've accomplished 1, 2 and 3, let your financial professionals do the work.

It may be hard to turn a deaf ear when friends or family insist you should act or react because of something they've read or heard in the news, or because of an experience they've had. Let your professionals guide you.

We're paid to provide our clients with peace of mind, and to allow them to enjoy everything that is near and dear to their hearts.

Life's too short to waste time and sleep worrying every time something happens in the world that could affect your investments. Since we have a process for ensuring our clients are making progress toward their goals with a high degree of confidence, we want them to take it easy and have fun. They deserve to enjoy their lives today.

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