WHAT A BEAR MARKET MEANS FOR RETIREES

By: Chris Casacchia - August 11, 2022

Retirees and those nearing retirement are facing a slew of new financial challenges as their dollars stretch thinner amid a boom in living costs, inflation, and other economic pressures. Navigating the traps of a bear market is the latest test for millions in this growing segment. With sliding stocks already in bear territory, bonds and real estate could be next, finance experts warn.

Recent retirees and those on the brink should take notice, especially if they're relying on savings to supplement income, asserts finance expert John Graves.

"Taking losses in the three years immediately preceding and the three years immediately following retirement can significantly decrease that income because they will be compounding on a smaller amount of money," said the founder and managing partner of G&H Financial Group in North Canton, Ohio.

What Does a Bear Market Mean for Retirement?

A bear market occurs when the value of equities or other investment positions, often correlated to broader indexes such as Standard & Poor's 500 or Dow Jones Industrial Average, drop by at least 20% from their most recent highs.

That descent, particularly tied to other weakening economic indicators, can fuel a recession and a cascade of problems for retirees and those nearing retirement.

"There's a heightened risk of running out of money for retirees that begin their retirement during or in front of a recession," said Doug Amis, president and CEO of Cardinal Retirement Planning Inc. in Chapel Hill, N.C.

Those awaiting retirement may have to wait or work a bit longer than originally planned, according to Doug Carey, owner and founder of WealthTrace, an Indiana company that makes financial and retirement planning software for consumers and financial advisors.

"We will very likely see a lot of people postponing retirement and staying in the workforce longer over the coming years," he said.

Investment Strategies in a Bear Market

With so much market volatility, general economic uncertainty and heightened recessionary fears looming, fixed and indexed annuities, which earn interest and generate payouts at specific intervals, could be attractive options for some conservative investors, suggests Ron Tallou, founder and owner of Tallou Financial Services in Troy, Mich.

"Keep in mind, fixed annuities are contractually guaranteed not to lose money. Interest rates having gone up has made the pricing of safe vehicles more favorable because they too can offer high rates," Tallou said. "Many indexed annuities tie your performance to a broad index like the S&P 500, so if the markets improve sooner than later, they can get a portion of the returns."

Graves endorses a defensive strategy for those relying on retirement savings for income.

"At the moment, it is seemingly more important to preserve and protect than to make gains," he said. "If they are income vulnerable, retirees may want to consider exiting the traditional market for safe harbor alternatives."

"The most important thing to consider for a retiree in a bear market is income," Graves reiterated. "In retirement today, income is king."

Staying in the market, however, keeps the benefit of compound interest on your side, which is particularly important for long-term investors like retirees and those nearing retirement, asserts Amis, who recommends this three-tiered approach:

1. Stay in the market.
2. Hold more stock.
3. Increase your tax efficiency.

"As hard as it may be to stomach, biting off as much stock as you can chew while spending conservatively is the best move you can make if retiring into a bear market," he said. "If you've already retired and the bear market hits, review your investment plan and stick to it. Changing your asset allocation based on an emotional knee-jerk response can limit your return when you need it the most."

Other Concerns and Considerations

This bear market is a bit different from others in the past. Typically, when stocks fall precipitously, bonds rise. But during this nontraditional swing, bond prices have also decreased as bond yields increased dramatically, a reverberation of the highest inflation spike in over 40 years, Carey explains.

"The S&P Aggregate Bond Index is down 11% this year. So, investors who have a mix of bonds and stocks were negatively impacted by both," he said. "In short, there have been few places to hide this year when it comes to investing. Even those in cash have lost 8.6% in purchasing power over the past year due to extremely high inflation."

Retirees, who typically make less money in their non-working years, should stress test their finance accounts to gauge how much they'll need to earn on average with inflation so that they can ensure income through life expectancy, Tallou advises.

"Given the high inflation of necessities like gas and food, retirees need to be extra careful in a bear market and take into consideration sequence of returns," he said. "With the cost of living having significantly gone up, retirees will have to liquidate more out of their retirement account to pay for goods and services. The combination of taking more out and experiencing a loss in your accounts can run the risk of running out of money sooner."

Falling stock prices and rising interest rates also can lead to "stagflation," a combination of high inflation and economic stagnation, often marked by slow growth rates and sustained high unemployment.

That unwelcomed combination in a bear market is a significant concern for retirees and those on the brink of retirement. It may require some tweaks to diversifying the portfolio to catch the upside when conditions improve, according to financial advisor Colby McFadden.

"This is why it is important for retirees to always have a larger allocation of cash within their portfolio than they did when they were younger," said the founder and CEO of Quiver Financial in San Clemente, Calif. "It is best to focus on recovering quickly, and the best way to recover from short-term losses is to have cash available to put to work when the bear market ends."

John Graves, founder of G&H Financial Group, specializes in retirement planning and working with clients pre- and post-retirement who desire to preserve their money for when they need it most. John prides himself on building and maintaining long-lasting relationships with clients and their families.
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