Bear Market Mistakes Retirees Often Make

Here's how to avoid panicking when your retirement investments decline in value.

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A stock market decline tests your risk tolerance, and can be a time to review your asset allocation and financial plan. **(GETTY IMAGES)**

In times of stock market declines, inflation and uncertainty, financial planners often have to hold the hands of their clients to help them through the volatility.

For most people the advice is simple: You [have time to wait it out] and not react to the market's short-term ups and downs. But the advice is different for baby boomers who have already retired.

Retirees who take regular distributions from their accounts must make sure they are not selling into the [bear market] lows and locking in the market loses, thus doing long-term damage to their portfolio. Baby boomers need to take steps to protect their portfolio to [make it through a bear market] with minimal damage to their retirement savings.

Aim to avoid these bear market retirement mistakes:

- Don’t get out of the market.
- Keep enough savings in cash to make it through a downturn.
- Review your investment allocations.
- Meet with your financial planner.

Don't Get Out of the Market

Selling while your investments are down in value locks in your losses. “Getting out of the market is just a horrible idea," says Brian Robinson, a financial advisor and partner with SharpePoint in Phoenix. “It can do irreparable damage. A big reason you really want to stay invested is when things do turn around, or when the market sees some light at the end of the tunnel, the market moves pretty quick."

You don't want to miss out on the gains when the stock market eventually recovers. “So, if you're sitting on cash, you're going to be missing the first days or a week of positive gains, and that's huge,” Robinson says.

Keep Enough Savings in Cash to Make It Through a Downturn

Aim to keep enough of your savings in cash or cash equivalents to make it through the downturn. “In a bear market, if you don't have cash set aside for your living expenses and you have to sell investments to create cash for living expenses, that can be very detrimental,” says Robert Gilliland, a managing director and senior wealth advisor with Concenture Wealth Management in Houston.

If you keep enough cash on hand to cover at least three to six months of your retirement expenses, you shouldn't have to sell assets while the stock market is down. “Let's say you're in a portfolio that is fully invested, and you're pulling out a couple of thousand a month. That $2,000, $3,000 or $4,000 a month needs to be already set aside in cash or very short-term, one-month treasuries, something that is not going to move much, but it's going to give you a better cash flow,” Gilliland says.

Review Your Investment Allocations

A stock market decline tests your risk tolerance, and can be a time to review your asset allocation and financial plan. “Clearly when you have a bear market, if your allocations are out of whack and you're taking more risk than what you're comfortable with, you need to have a plan to make adjustments that may be reducing the amount of risk,” Gilliland says. “You need to evaluate your tolerance for risk. You need to evaluate your individual holdings now.”

Meet With Your Financial Planner

If you are having trouble staying the course and coping with stock market declines, it can be a good time to speak with a financial professional who can offer advice. “If you have an advisor or financial planner, you want to sit down with them and review your plan and look at possible outcomes,” Gilliland says. “What are your probabilities of success if the market turns around and goes up?"

A financial adviser can explain your potential for losses and gains and help you develop an investment plan you can live with. "It helps you not make those emotional decisions, because most of the time that's the absolute wrong decision,” Gilliland says.