SMART INSIGHTS FROM FINANCIAL PROFESSIONALS

The Bull Run Is Over: It's Time To Replace Luck with a Plan

It's not hard for investors to look good during a bull market, but now comes the real test.

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When the market plummeted on March 9, for the first time since 2008, I was on a beach in North Carolina, watching my 3-year-old chase seagulls.

It was supposed to be a "mental health" day. My wife's boss had generously lent us her beach house for a quick getaway before our second child, due in a couple of months, came along.

Seemed like a great idea. Then, I got a notification at 3 a.m. that oil prices had plunged. And a few hours later, at 9:49 a.m., the S&P 500 fell 7%, triggering a halt in trading on the New York Stock Exchange. I couldn't help wondering if I'd be spending the rest of the day on the beach with my family or on the phone with nervous clients.

But I didn't get a single call.

That's not to say that it wasn't an anxious day for us all. Or that we could tune out the noise completely. But the clients I work with managed to motor through it without panicking. And that's a big win for a retirement planner.

I know it's been difficult for many investors who are near or in retirement, especially those who haven't yet put together a plan to protect themselves against a serious downturn or bear market.

Many of those people have been depending on what I call "accidental alpha." Their 401(k) and IRA balances haven't been growing (and growing and growing) because of their amazing investment skills. And they haven't avoided a major loss in over a decade because of anything special they did to avoid risk. (Indeed, most prospective clients I meet with have far more risk in their portfolios than they realize.) These people have only been safe for so long because the market has been on a record-setting bull run.

But leaving your investments to luck isn't a plan. And, clearly, there can be consequences.

So, what are some steps you can take now to better prepare yourself and your portfolio for volatile times?

START WITH AN INCOME PLAN

It's critical to create a retirement income plan, either on your own or with help from an adviser who's a retirement planner. Start by adding up what you'll have coming in every month as guaranteed income — Social Security, pensions, maybe an annuity. Then take a hard look at your current and future must-have and would-like-to-have expenses. (If you haven't retired yet, try to come up with an accurate estimate.)

If your guaranteed income won't cover your must-haves, you'll need a plan to fill that gap using the money in your investment accounts — and you'll want to keep that money as safe as possible. Once you've figured out how you'll pay for the basics, you can decide how much risk you want to take with what remains in your portfolio.

RID YOUR PORTFOLIO OF UNWANTED RISK

There's an old Wall Street saying, "Sell down to the sleeping point." It means only assume as much risk as will allow you to sleep comfortably at night. But how do you know what that is? Many advisers today use third-party software to identify their clients' risk tolerance and risk capacity (how much risk they're willing and able to take with their investments). We also analyze how much risk they actually have in their portfolio.

When we plug in the numbers, we find most people are more comfortable with a conservative or moderate approach to investing, but their portfolios are often riddled with risk. Which is kind of like driving with a broken speedometer — the fact that you intended to go slower or right around the safe limit won't keep you from getting a ticket, or worse, if you keep speeding along.

Typically, slowing down means moving to income-producing investments (Treasury bonds, investment-grade corporate bonds, dividend-paying stocks or even certificates of deposit) in retirement. But with low interest rates, inflation risk becomes a factor for many of those options. Which is why going with tactically managed income funds may be worth the higher cost for some investors. I know I have no problem with letting some of the smartest brains in the world help figure out which companies will survive and which will fail.

MAKE YOUR INVESTING APPROACH AGE APPROPRIATE

A big market loss is particularly devastating when it occurs just before or early in retirement. Unlike younger workers, who have time to recover after a downturn, those who are nearing or new to retirement may struggle to build back the nest egg they're depending on for income. They may find they'll have to keep working awhile longer so they can keep contributing to their retirement accounts. Or they may have to cut back on their withdrawal plan — which could mean pulling back on some of their lifestyle.

This is why I recommend starting the planning process at least 10 years before you plan to retire. That first meeting should be a gut check with an adviser you trust to find out if you're on track, and if you aren't, learning about the products and processes you might need to put in place.

At five years out, it's time to adjust your risk. You might want to prepare a "bucket" strategy, for example, by choosing some investments that will meet your needs for the near future and others for the medium to long term. Or, you may decide on a "laddering" strategy, using investments that mature at different stages of your retirement. No matter which investments or strategies you choose, from that five-year point on, it's a good idea to meet with your adviser at least once every year to be sure you're ready to push "play" on retirement.

This isn't the phase of life when you want to be worrying about what's happening day to day in the stock market and how it could affect your future. Do you really want that to be your job in retirement? Or do you just want to be on the beach with your family watching your grandkids chase seagulls?

As an Investment Adviser Representative at Fitzwilliams Financial (www.ffinancial.net), Brian Lindberg is passionate about helping clients create financial confidence for retirement. He holds his Virginia life, health and annuities license and has passed the Series 65 securities exam.