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While most of the country focuses on staying healthy and safe during the current pandemic, it’s hard to escape the real economic impact all of this has taken. The general age group most susceptible to the health dangers of COVID-19, people 60 years old and older, and includes many Americans who are nearing retirement. The recent stock market volatility has, in most cases, hit their portfolios. Many are concerned that their “magic number” for retirement is not as sufficient as it was just two months ago.

You may be wondering if you should still retire. You may be asking: “What do I do now?” If you have these concerns, here are some recommendations to consider.

The 4 Percent Rule Works in Many Market Conditions

For those considering retirement right now, working longer or waiting for the stock market to rebound is certainly a consideration. No one likes to see their net worth reduced just as

they're about to leave the workforce. Before you jump to conclusions though, re-run the math. Most people who have a well-balanced, diversified portfolio, can rely on their investments to carry them through.

One simple mathematical equation to use is the 4 Percent Rule. This formula has worked even through many periods of poor returns, including the Great Depression, Tech Bubble, and the Great Recession.

History shows that there is a low probability that a person or couple with a diversified portfolio will deplete their principal over 30 years if they enter retirement and withdraw no more than 4% of their beginning balance, adjusted for inflation each year. In fact, for over half of the 30-year periods tested back to 1926, the portfolio value at the end was higher than it was at the beginning.

Based on this 4% withdrawal principle, if you retired with $1 million earlier this year – even though it may be down right now -- you can still withdraw $40,000 – 4% of $1 million – from your portfolio in year 1. In year two, you can increase your withdrawal to $40,800 (assuming 2% inflation), and so on.

Through March 31, 2020, a portfolio of 60% MSCI ACWI global stock index and 40% Barclays Aggregate Bond index has grown 6.84% per year over the past 30 years. While we know investment returns are not consistent from year to year, let's assume this rate of return continues for the next 30 years. The $1 million portfolio ends up with approximately $2.4 million in 2050 – or roughly $1.3 million in today's purchasing power, assuming a 2 percent rate of inflation.

It's Been Said Before, But Stay the Course

Bear markets are common – there have been 25 of them since 1928 – it's just that we haven't seen one since the Great Recession in 2008/2009. Since 1957, the average duration of bear markets is around 12 months, and the average duration for bull markets is around 55 months. The average decline for the S&P 500 index in a bear market is approximately 34%, and the average gain in a bull market is approximately 153%. This shows us that good times tend to last longer than the bad times.

Over the last 70 years, approximately 75% of the S&P 500's strongest days have occurred during bear markets. So, if history has taught us anything, the best way to weather the storm is to stay the course because it is challenging to time the market bottom, and you cannot afford to miss out on the often-quick recovery.

Make Certain Your Portfolio is Diversified

Most new retirees have both stocks and bonds in their portfolios. They may have real estate or alternative investments as well. While stocks are taking a drubbing now, don't let emotions derail the game plan.

During the past few years, I've worked with some clients who believe their mix of stocks and bonds was holding them back, especially when the S&P 500 grew by 31% in 2019. Now, the tables have turned, people are less aggressive with their stock portfolio, and bonds are holding up comparatively well.

Each person needs to find their balance for risk and stick to their long-term allocation. Bonds

provide a hedge against falling stock prices and typically hold up well as investors appreciate the safety of income-producing, high-quality assets when stock prices are dropping.

Rebalance Your Portfolio

During wild swings in the market, an investor's mix of stocks and bonds can get out of balance. For example, if you started with 60% invested in stocks and 40% in bonds, a 25% drop in the stock market means you now have roughly 53% of your portfolio in stocks and 47% in bonds.

To rebalance, you need to sell bonds and buy stocks, getting the portfolio back to its 60/40 mix. This strategy enables you to take advantage of buying stocks at lower prices, which will help ensure you achieve the long-term growth that is needed to support your retirement. Rebalancing your portfolio during bear markets will help you benefit from strong stock returns when they come around.

Use Cash to Cover Living Expenses

Generally speaking, you don't want to sell stocks now, as you will be selling positions that have dropped in market value. If at all possible, a good rule of thumb for retirees is to have enough cash in the bank to pay for one to three years of living expenses. Also, it's recommended to have enough investments in bonds to cover three more years – thereby leaving your stock portfolio untouched during difficult times.

For example, a couple with monthly expenses of $8,000 may receive $3,000 in Social Security payments and other retirement income. This means they will need $5,000 in cash each month for expenses and should aim for approximately $60,000 - $180,000 in cash for short-term needs. This amount will help cover expenses for a year or more while you wait for the bear market to run its course. And, your need for cash may be less currently since we aren't dining out or traveling while the coronavirus is still very much a risk.

Delay Any Major Expenses Right Now

Just about everyone is saving money by traveling less and staying at home. Being quarantined in your house can lead to grand visions of kitchen remodels, finished basements, or a second home on the beach. Don't make these large purchases just yet. Putting these plans on hold for a while should help your portfolio recover, so you don't need to sell stocks when they are down or drain valuable cash in the bank.

Although it can be difficult to watch your portfolio fluctuate, it's important to keep in mind that downturns are only a temporary part of the process. If you can be frugal now and not let emotions derail your investment strategy, it should pay off when the market recovers.

Have more questions about your retirement number? Click here [1]

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