Hilltop
WEALTH & TAX SOLUTIONS

Have a Plan to Help Protect Your Savings from Major Market Corrections

INTRO

Planning for retirement is never a “set it and forget it” activity: There are unexpected disasters, market drops, and changing laws that invariably cause retirees to reevaluate their plans of action. Ultimately, there is no way to predict everything that will cause market downturns, such as diseases, natural disasters, or political instability. However, you can prepare yourself for a downturn by having a solid financial plan in place. The most recent bout of market volatility likely won’t be the last you’ll see in your lifetime, so why not have a plan to address future market drops? If you’re concerned about your financial security as you near and enter retirement, assessing your risk tolerance, reevaluating your portfolio, and seeking professional advice could be a good idea.

Retirement shouldn’t be a time of anxiety or worry, it should be a time when you feel financially secure and can enjoy the money you’ve worked hard to earn for decades. There are ways to protect against market volatility other than delaying your retirement or keeping all of your money in cash stashed in your mattress. There are ways to mitigate risk and take advantage of opportunities, even in volatile times. Knowing what to do can be complicated, but for now, let’s start with some practical advice on what not to do.

PRACTICAL ADVICE

1

DON'T withdraw early from your 401(k) or IRA. While this might seem tempting during volatile periods, it's typically not a good idea to cash out of your 401(k). If you withdraw money before age 59 ½, you could have to pay the early withdrawal penalty of 10%. If you are over 59 ½, you are not subject to the early withdrawal penalty. But keep in mind that withdrawals from a 401(k), IRA, or other traditional retirement plans will be taxed as ordinary income.

2

DON'T make decisions based on emotions. This can be an easy trap to fall into when your financial security is at risk. You may want to pull all your money from the market when it drops in an attempt to save your investments, but it may be wiser to allow time for the market to recover. Making hasty decisions like that can be counterproductive for the long-run. One benefit of having an advisor is having access to someone who has dealt with market drops before.

3

DON'T get freaked out by the news. While it's important to know what's going on, there is such a thing as being too glued to media. Headlines often report a worst-case scenario or even exaggerate in order to get as many eyes as possible. Read with caution and take breaks from media to destress.

4

DO get information and make a plan!

BEAR MARKETS

A bear market is a technical term, and it means that the market has fallen 20% or more from recent highs due to widespread panic or pessimism. Bears get a bad reputation because when they attack, they swipe down with their paw, as opposed to bulls who lift up with their horns. A bear markets can be long or short, but on average a bear market lasts 286 days.[1]

Bear markets are often associated with declines across the market, but specific sectors can be said to be in a bear market even when the market is doing well, and vice versa. There are still many investment opportunities in a down market.

A bull market, on the other hand, refers to when the market is on the rise. It can apply to the stock market, as well as bonds, real estate, currencies, and commodities. It's commonly defined as a time when stock prices rise by 20%, often after a drop of 20%. Bull markets tend to last for months or even years, with the most recent bull having lasted 12 years.

[1] https://www.forbes.com/sites/qai/2022/08/24/the-average-bear-market-lasts-289-days-how-long-do-we-have-left/?sh=42b5be895d5d

THE STATE OF THE MARKET WHEN YOU RETIRE COULD AFFECT YOU IN THE LONG TERM

The state of the market at the time of your retirement is not within your control. Even if you've saved diligently your whole working life, a market downturn around the time of your retirement can have a serious negative impact on your wealth in the long-term. In fact, two retirees with identical wealth and long-term market averages in retirement can have very different financial outcomes depending on the state of the economy when they begin retirement.

Someone retiring during a bear market might see their portfolio recover as the market does, but they will also see a reduction in the overall return of their portfolio because of how much they had to withdraw early on when prices were down. Withdrawing funds while your portfolio loses value can negatively affect your returns throughout retirement. If someone with a similar portfolio retires during a bull market, they can take withdrawals of fewer equities and lower their risk of causing smaller returns throughout retirement.

However, this doesn't mean that you can't retire during a bear market: There are ways to mitigate risk and help protect what you've earned, even in the event of a market downturn.

TIMING THE MARKET

While taking on some investment risk in retirement can be fine depending on your situation, there can be problems with a “timing the market” approach. In order to successfully time the market, you have to correctly guess when to get out and when to get back in. There is a 50% chance of doing one of these correctly, but only a 25% chance of doing both correctly. There are two ways to fail to time the market:

1

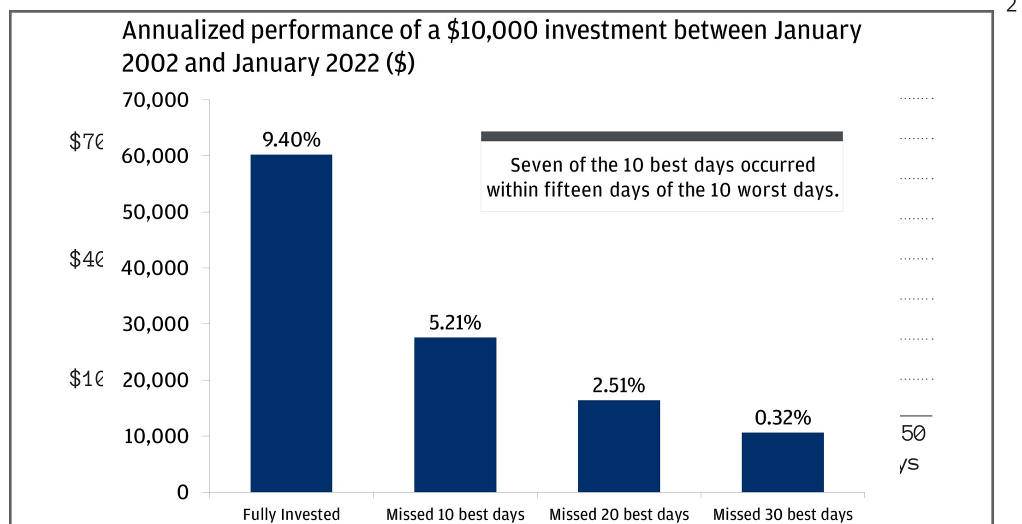
Market drops can be caused by unpredictable real-world events, such as the coronavirus pandemic, political instability, and natural disasters. There is simply no way to foresee all the periods of market volatility that may occur throughout your retirement. And while suffering a market drop in your younger years can be fine, it can pose much more of a threat as you near and enter retirement.

TIMING THE MARKET

2

There will always be recoveries as long as there are market drops. Over time, the market goes up, with periods of volatility and downturn along the way. In order to time the market successfully, someone not only has to avoid the drop, they also have to catch the rebound. In a worst-case scenario, someone might panic and sell, thus locking in their losses and missing out when the market recovers.

A major rebound could happen in a single day, making the probability of missing it high if you only follow a timing the market strategy. Consider the findings of a study on what would happen to a hypothetical $10,000 investment into an S&P 500 index fund from January 2002 to January 2022. Staying invested throughout the entire time period resulted in gains of 9.4%. But, missing the ten best days of the market resulted in gains of only 5.21%. And, missing the best 30 days resulted in gains of 0.32%.



[2]

[2] https://www.chase.com/personal/investments/learning-and-insights/article/tmt-february-eighteen-twenty-two

5 WAYS AN ADVISOR CAN HELP YOU

1

We can help you assess your risk tolerance: It's all very well and good to hear that workers in their 20's and 30's don't need to worry in the event their 401(k) takes a hit, but what about you? It's important to assess your risk tolerance periodically and update your investment plan accordingly. While the market will eventually recover, you may not necessarily be able to ride out the storm. "Markets can remain irrational longer than you can remain solvent," famously said economist John Maynard Keynes.

2

Help you diversify your portfolio: This seems like a simple rule, but knowing how to diversify can be more complicated than you think. Diversifying to mitigate risk is important because performance in any one asset class is unpredictable. Among the traditional asset classes are stocks, bonds, and cash. We can help you determine what portion of your portfolio should be in each, as well as help you consider alternative investments like real estate. Real Estate Investment Trusts (REITS), Delaware Statutory Trusts (DSTs) and Opportunity Zones offer ways to invest in real estate without taking on the typical hassles of dealing with tenants or managing a property.

5 WAYS AN ADVISOR CAN HELP YOU

3

Help Protect Against Longevity Risk: We're living longer than ever, which means that retirement savings much stretch further than ever. Guaranteeing a steady income stream to cover your basic needs is a crucial part of planning for retirement. The threats of market volatility and inflation can put you at risk, but there are ways to mitigate this. We can help you turn your nest egg into a steady income stream that lasts throughout retirement.

4

Find Tax Minimization Strategies: Your IRA may have taken a hit due to a market downturn, but this does offer some opportunity. Converting part or all of your traditional IRA to a Roth IRA could mean saving on your tax bill in the long run. You would pay tax on the funds converted, and then be able to take tax-free distributions from your Roth IRA later in retirement. Since your tax bill at the time you convert would be based on the value of the assets in your IRA, it might be lower after a market drop. After funds are converted to a Roth IRA, they can grow tax-free as the market bounces back, and be withdrawn tax-free. Also consider that taxes are relatively low at this time, and are likely to rise in the future.

5 WAYS
AN ADVISOR CAN HELP YOU

5

Answer Your Questions: There is so much information and advice out there, but much of it doesn't apply to your specific situation. The benefit of having one person oversee a single retirement plan that includes Social Security optimization, tax minimizations, risk management, investing strategies, and estate planning is that these areas can all work together. We can help you create a plan based on your unique financial and retirement goals and adjust based on your specific situation.

DISCLOSURE

Hilltop Wealth Solutions ("Hilltop") is a registered investment advisor with the Securities and Exchange Commission ("SEC") and only transacts business in states where it is properly registered or is excluded or exempted from registration requirements. SEC registration does not imply a certain level of skill or training. Please refer to our Form ADV Part 2A disclosure for additional information regarding the qualifications and business practices of Hilltop. Hilltop Wealth Solutions, LLC is an SEC Registered Investment Adviser firm. Hilltop Tax Solutions, LLC, is an affiliate of Hilltop Wealth Solutions that provides tax and bookkeeping services.

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