RETIREMENT

How to navigate the turbulent stock market depends on when you will retire

By Claire Ballentine and Suzanne Woolley May 09, 2022, 11:14 a.m. EDT3 Min Read

The stock market's awful performance can be an opportunity for younger investors.

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You know you're not supposed to look, but it's impossible to resist.

When stocks are plunging, checking your investment accounts is risky business. The market turbulence is jarring for younger investors, who are used to the idea that stocks always go up. And for those with a bit more experience, watching hard-earned money suddenly disappear is a terrible experience.

During times like these, experts say that it pays to keep calm and not make any drastic, stress-fueled decisions. Remember: U.S. stocks have historically performed well when the Fed is raising rates, with an average annual return of 9% in the 12 rate-hike cycles since the 1950s.

Still, holding tight means dealing with volatility.

"As uncomfortable as this is, this is the admission price for being in the market," said Keith Lerner, chief market strategist at Truist Advisory Services.

Here are some tips for surviving the market volatility, depending on your age:

If you're 25
For young investors, market drops are an opportunity.

"The person who is youngest should be happy about this," Lerner said. "Especially as they invest for retirement, they're getting things at cheaper prices."

When stocks are falling, advisors say to keep investing according to your financial plan, especially involving 401(k) contributions and broad-based indexes like the S&P 500 or the Nasdaq 100.

"You may not even be thinking about your retirement, but a Roth IRA is very valuable since it grows tax-free over time," said Marguerita Cheng, founder of Blue Ocean Global Wealth.

Max Gokhman, chief investment officer at money manager AlphaTrAI, recommends a core portfolio of diversified ETFs like the SPDR S&P 500 ETF Trust (SPY) or Vanguard Total Stock Market ETF (VTI). He stresses the importance of HODLing — crypto slang for “holding on for dear life,” or resisting the urge to sell when investments are in the red.

Even adding a bit of crypto exposure might be beneficial as a way to diversify, he said. Just don’t make it the majority of your holdings.

Market volatility and the Fed's interest rate increases aren't likely to reverse the trend.

“Right now is a great time to buy, things are on sale,” said Craig Ferrantino, an advisor and the founder of Craig James Financial Services. “I don't worry about that saying about 'catching a falling knife' with someone who is 25 because if the market does fall farther they have more time to buy in again.”

If you're 45
This is the age when most people are planning for future big events — kids’ college, a vacation home, retirement — and big stock market declines can inspire fear.

Experts advise sticking to a long-term plan and not making any knee-jerk reactions.

“The reality is that a 25-year-old and even someone who is in their 40s is going to face several episodes of market turbulence over their time horizon, so it is important not to let these short-term movements derail their long-term strategy,” said Adam Phillips, managing director of portfolio strategy at EP Wealth Advisors.

But if you can’t resist, there are small tweaks you can make. Gokhman says diversifying away from bonds toward defensive stocks might be a good move. Companies in sectors like utilities, miners and biotech have consistent margins and low leverage — making them a promising bet moving forward.

If you're 65
For those close to retirement, stock market pain is the most stressful. Plans to cash out 401(k)s or take advantage of other retirement accounts suddenly seem in jeopardy.

The first step is to check with your advisor or whoever helped you make a financial plan, and take stock of your situation. If your portfolio is tilted more toward equities, it might make sense to shift more towards bond or cash exposure.

“We have had a few people go to a very defensive position, and in some cases picked up some value stocks,” Ferrantino said. “They are moving out of growth and into value, and value is paying them better dividends.”

If you’re already in retirement and need money right now, the best move could be tapping into other income sources you have before selling your market holdings at a loss right now, according to Kathy Carey, director of research and planning for Baird’s Private Wealth Management.

“If you need to dip into your investment assets and you're selling them at a low price, you might have to sell more of it to get that cash,” she said. “Then your ability to participate in a recovery is less because you have less in the market.”

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