THE REWARD YEARS

Damage Control

Here's what to do if your nest egg has been scrambled by the crash
by David Aston

A crash is a blow for any investor, but it can be devastating if you're a retiree. You depend on your nest egg to support your standard of living and your net worth has just taken a big hit. What do you do now?

Your first step should be to assess the damage. Opening your brokerage statements will create a sinking feeling in your stomach, but facing the music will make you feel better in the long run. If your net worth is still ample, you can breathe a sigh of relief. If your portfolio has shrunk to the point where it no longer meets your needs, you can begin planning what to do about it. Here are some possibilities.

Update your financial plan—or get one. If you're uncertain about your financial situation, it's time for your financial adviser to prove his or her value. Get your adviser to update your financial plan to reflect the new reality. Don't have a financial adviser or your broker doesn't do plans? Consider getting a fee-for-service financial planner to prepare one. While a good plan won't come cheap, the peace of mind you might get from it could prove invaluable.

Stop the bleeding. If your plan comes up short, don't panic. It's probably not as bad as you think. Categorize your expenses into basic needs (the must-haves) and discretionary expenses (the nice-to-haves). If you find that your portfolio covers your must-haves but not all your nice-to-haves, that's disheartening but not disastrous. "It relieves anxiety to be able to say 'Maybe it's not quite the lifestyle I want, but I am going to be OK,'” says Karin Mizgala, a financial planner and educator with the Women's Financial Learning Centre in Vancouver.

If there is a gap between your income and your expenses, clamp down on your spending until you have a chance to think through the situation. You might be surprised how much difference a few economies can make. Tony Mahabir, a financial adviser with Canfin Financial Group in Oakville, Ont., points to the example of two of his clients, a Mississauga, Ont., couple in their early 60s who were about to retire with just enough money to cover their spending needs. The recent crash slashed the value of their holdings and created a $600-a-month gap between their needs and their means, says Mahabir. The couple discovered they can cut $300 a month by reducing restaurant meals, gifts and vacations, as well saving insurance on a second car by parking it in their garage for the time being. They'll see if markets recover before making longer-term changes.

If the gap between your needs and your means can't be easily resolved, start rethinking how you live. You're likely to find that many nice-to-haves, and maybe even some of your must-haves, aren't so necessary after all. Mizgala gets new clients to
Damage Control

Here's what to do if your next egg has been scrambled by the crash by David Aston

STOCK MARKET crash is a blow for any investor, but it can be devastating if you're a retiree. You depend on your nest egg to support your standard of living and your net worth has just taken a big hit. What do you do now?

Your first step should be to assess the damage. Opening your brokerage statements will create a sinking feeling in your stomach, but facing the music will make you feel better in the long run. If your net worth is still ample, you can breathe a sigh of relief. If your portfolio has shrunk to the point where it no longer meets your needs, you can begin planning what to do about it. Here are some possibilities:

Update your financial plan—or get one. If you're uncertain about your current financial situation, it's time for your financial advisor to prove his or her value. Get your advisor to update your financial plan to reflect the new reality. Don't have a financial advisor? Or your broker doesn't do plans? Consider getting the fee-only service financial planner to prepare one. While a good plan may come cheap, the peace of mind you might get from it could prove invaluable.

Stop the Meeting. If your plan comes up short, don't panic. It's probably not as bad as you think. Categorize your expenses into basic needs (the must-haves) and discretionary expenses (the nice-to-haves). If you find that your portfolio covers your must-haves but not all your nice-to-haves, that's disappointing but not disastrous. It requires anxiety to be able to say "Maybe it's not quite the lifestyle I want, but I am going to be OK," says Karin Mijagla, a financial planner and educator with the Women's Financial Learning Centre in Vancouver.

If there is a gap between your income and your expenses, clamp down on your spending until you have a chance to think through the situation. You might be surprised how much difference a few economies can make. Tony Mahabir, a financial adviser with Can Dickinson Financial Group in Oakville, Ont., points to the example of two of his clients, a Mississauga, Ont., couple in their early 60s who were about to retire with just enough money to cover their spending needs. The recent crash slashed the value of their holdings and created a $600-a-month gap between their needs and their means, says Mahabir. The couple discovered they could cut $300 a month by reducing restaurant meals, gifts and vacations, as well as saving insurance on a second car by parking it in their garage for the time being. They'll see if markets recover before making longer-term changes.

Practice patience. Most portfolios aim for some long-term balance between stocks and fixed-income investments such as bonds and GICs. For example, some retirees choose a 50-50 asset allocation—or in other words, half stocks and half fixed income. But the market crash is likely to leave a balance that feels wrong. Since stock prices have been hammered, your holdings of stocks will probably make up a far smaller part of your portfolio than before.

For the time being, that's fine. It makes sense to satisfy your cash needs by selling down the GIC or bond part of your portfolio. That will give your beaten-down stocks a chance to recover.

Then came the October crash. The value of her balanced fund tumbled to about $50,000. She and Raythan felt that she would probably be better off in the long run sticking with the balanced fund and giving it a chance to recover. But with a potential recession looming on the horizon, there was a distinct possibility that stocks could drag her balanced fund further down for a long time.

There was another option—she could convert her next egg to GICs. This would provide much greater safety, but the modest returns would probably be too low to allow her to maintain her current level of spending, according to Raythan's calculations. She faced a strong choice of outright her savings. So she decided she would stick with the balanced fund and ride out the market swings.

Many retirees face a dilemma: they need the higher returns that stocks can deliver, the less they can afford the risk. But they can't afford to lose their principal and increases in sales revenue, so they cut back. The result is that they don't realise the risk they face in losing their principal and returns.