How to preserve financial wits amid market meltdowns

KIRA VERMOND
SPECIAL TO THE GLOBE AND MAIL
PUBLISHED JANUARY 25, 2019

About a year ago, Lorne Steinberg, chartered financial analyst and president of Lorne Steinberg Wealth Management Inc. in Montreal, started advising a couple who had just sold a family business and wanted to retire.

“They became a client at the worst possible time,” he says now. After working so many years on the business, they didn’t want to lose a chunk of their retirement savings to bad timing. And indeed, since then they have faced increasing market volatility. (Mr. Steinberg ended up investing 45 per cent of their money in high-yield fixed income and 40 per cent in equities, and keeping 15 per cent in cash to provide a buffer in case of declining markets.)

The market troubles, especially those in recent months, are causing even seasoned investors to sweat. But perhaps the most nervous of all might be people on the cusp of retirement.

Mr. Steinberg understands. While people are working, there’s always the prospect of more money coming in. If an investor makes a mistake, or markets take a dive, he or she still has a salary to draw on. “But when the tap gets turned off and there’s no weekly paycheque coming in, people get nervous,” he says. “They’re thinking, ‘This is all I have and I’m never going to have more.’”

That feeling of apprehension has been more pronounced in recent decades for older investors and retirees, says Sarah Bull, a partner and portfolio manager for KJ Harrison Investors in Toronto. For starters, gone are the days of company pensions that offered a guaranteed income during retirement.

“Many retirees don’t have that any more, so they have to rely on their portfolio,” she says.

In addition, low interest rates have caused investors to rely more on equities. Unfortunately, that risk creates higher stakes come retirement time – and heightened anxiety. “In order to achieve your retirement goals you’re getting pushed into riskier assets,” she says. “It really changes people’s behaviour and causes these emotions in a volatile market.”

Here are ways investors can help keep their sanity – and their retirement funds – intact.

KEEP PERSPECTIVE

First, remember that corrections are a normal part of market cycles, says Ms. Bull. And "generally what happens after a correction is that markets tend to deliver great returns,” she says.

Since 1945, the S&P 500 Index has gone through 24 corrections, falling an average of 13 per cent over a four-month period, according to research from Goldman Sachs in the United

States. It has hit bear market territory 11 times, too, defined as a market loss of greater than 20 per cent.

But neither of these conditions persist forever. Bear markets last 13 months on average.

While retirees' psychology might change when markets drop, their overall investment strategy should hold steady, says Mr. Steinberg. He cautions his clients against looking at their portfolios as just a collection of stocks – numbers on a screen. Instead, he reminds them they are invested in blue-chip companies that can weather the storm.

"We own a collection of excellent businesses and all of them are going to be in business 10 years from now," he says.

That's right. He's still talking about long-term planning, even with older retiring clients. As more people are living long past the traditional retirement age – Mr. Steinberg now plans for at least one person in a couple living to 100 – there may still be plenty of time for a portfolio to bounce back and supply income.

COMPARE APPLES TO APPLES

Tom Feigs, a Calgary-based certified financial planner and money coach with Money Coaches Canada, uses another technique to talk nervous older clients down from the ledge when markets go south. He asks them to ignore noise in the financial media and instead concentrate on their own portfolios.

"When there's a market correction such as we've been experiencing lately, you feel like you have to take some action," he says. But before doing anything, take a step back, review your goals – short, medium and long-term – and compare them to how your portfolio has done during those stretches of time.

In other words, if your goal is to take the grandchildren to Europe in five years, examine how the portfolio has done over five years – not in the most recent three months. "Give yourself some perspective," he says.

BRACE YOURSELF WITH CASH

It's not a bad idea to keep one or two years' worth of living expenses in cash, says Mr. Steinberg. "You don't want to be forced to sell stocks just to meet your monthly expenses," he explains, particularly when those stocks are at a low point.

When markets rise again – and they always do – your portfolio is still intact and riding the wave.

WORK LONGER AND PUT OFF COLLECTING CPP

One way to build that cash buffer – and avoid using your portfolio to fund living expenses – is to work a couple of years longer, or come out of retirement to take a part- or full-time job, says Mr. Feigs.

Doing so might also help delay starting payments from Canada Pension Plan (CPP) and Old Age Security (OAS), which could increase your monthly payout.

Those who hold off until 70 may reap even more financial benefits. The monthly pension payment increases by 0.6 per cent for every month a person delays receiving it, up to a maximum of 36 per cent.

SEEK HELP

Still feeling under pressure every time the stock market turns red? If you don't have one already, find a financial planner who can talk you through the downturns. Mr. Steinberg likens planners and investment managers to personal trainers and lawyers. They take the emotion out of the equation and keep you on track.

"People sometimes panic and say, 'I'm going to sell,' and there's no one there to tell them not to," he says. When we're emotional, we human beings make bad decisions. Working with someone stops you from your emotional impulses."