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What Experts Say You Need to Do to Retire In 2018

Kerri Zane | Aug. 14, 2018

Financial advisors across the country resoundingly feel that not only has 2018 been a solid year (to date) for most financial assets but that the good times have been going on for a decade. The majority indicated that client portfolios are at or near all-time highs. In large part this is because we have been experiencing the second-longest economic expansion on record.

Economic indicators are nearly all positive, home prices have been strong, and the consumer is in great shape. Getting out while the getting is good is not a bad idea. What is the best way to retire during an economic boom? What should a retiree-in-the-making do? Here is what some of the top experts have to say:

“We are not calling for this economic and market expansion to end this year,” said Mike Serio, regional chief investment officer for Wells Fargo Private Bank in Denver, "but clients looking to retire should consider looking at downside protection now, and make sure they adjust their allocations accordingly. This may involve taking advantage of appreciated assets, and shifting your asset mix to a lower risk position. It is nearly impossible to call market tops and bottoms, but going into retirement is a good time to start moving down on the risk scale if your portfolio warrants it,” said Serio.

“The money you need to live the way you want to live should be in something very safe, such as bond funds, CDs or a money market account. suggested Michal Strahilevitz, Professor of Behavioral Economics at the University of Wollongong. "The money that is not essential for you to live off should be in diversified low-cost index funds. Ideally, I would do half domestic and half international, and a nice mix of large cap, mid cap, and small cap. Vanguard and Fidelity both have very competitive options these days. Fidelity has recently introduced zero cost index funds for their IRA account holders.”

“Turn off the news,” said CFP John Bodnar, founder of Bodnar Financial Advisors. “Despite what cable news will have you believe, these times are not as unique as people think. Donald Trump is not going to destroy your portfolio. We are overdue for a stock market sell-off of 10% or more, but when will it come? Who knows- the market doesn’t have a calendar. When it does, the absolute worst thing an investor can do is panic, sell their stocks at a low and miss the recovery. Don’t try to be smarter than the market because nobody is. Take comfort in knowing the stock market always goes up; it just doesn’t go up every day.”

“Given that the consensus view is that interest rates are expected to continue to rise, a person planning on retiring by the end of the year may want to minimize sequence of returns risk and lighten their equity exposure. Research shows that during a rising rate environment, large-cap stocks perform markedly worse than in a falling interest rate environment,” said CFA Robert R. Johnson, a principal at the Fed Policy Investment Research Group in Charlottesville, Virginia. In researching for his book, Invest With the Fed, Johnson found that the S&P 500 returned 15.2% annualized when rates were falling and only 5.9% when rates were rising. He also found that large stocks outperformed small stocks during a rising rate environment. Furthermore, he found that the best-performing stock sectors when rates were rising were energy, utilities, consumer goods and foods. People need to eat, put gas in their cars, brush their teeth and heat their homes regardless of the direction of interest rates. The worst-performing sectors were autos, durable goods, retail and apparel.

Focus on putting 50% of your funds into safe investments due to the volatility of current markets, echoed Nishank Khanna, chief marketing officer at Clarify Capital. “One safe way is the Vanguard Short-Term Government Bond Index. Put 25% in an index fund that tails the market like Vanguard Total Stock Market ETF (VTI) and use the remaining 25% for investment in more volatile investments for possible higher returns. Like real estate and individual securities,” he suggested.

Finally, the majority of experts interviewed suggested that investors take an assessment of their portfolio by having an advisor perform a portfolio stress test. Have them set various bad economic and market scenarios, factor in taxes, income and liquidity to see where you might end up. Preparing for a more challenging market while generating assets during a bull market is a wise move. This can make a significant impact for a retiree that is planning on withdrawing income from a portfolio that has been impacted positively by a 10-year long bull market.