Stress-Test Your Retirement Portfolio in Volatile Markets

If you're planning to retire within the next few years — or you've recently retired — market volatility may feel especially unsettling. After years of saving and planning, you're now entering a stage where your portfolio may shift from growth to providing income. The five-year window before and after your retirement date is especially critical — when market downturns can have an outsized impact on your long-term financial security.

While you can't control the markets, there are meaningful steps you can take to "stress-test" your retirement income, so it is not consumed entirely by market drops before you stop working.

• **Explore your short- and medium-term income needs.** One of the most important steps to take is to understand how much of your portfolio you'll need to rely on for income. It depends on your other income sources such as Social Security, IRAs, 401ks, pensions and wages if you work in retirement. You'll want to avoid taking too much from your portfolio in response to a decline because that could increase the likelihood that your money may not last through retirement. A financial advisor can help you determine your threshold for monthly withdrawals, based on your income needs, long-term outlook, inflation and risk tolerance.

• **Review your emergency fund.** Are you able to set aside at least three to six months' worth of essential expenses in cash or very low-risk investments? That could allow you to avoid digging too deeply into your portfolio or selling stocks or other volatile assets at a loss if the market drops. The income bridge from an emergency fund gives your longer-term investments time to recover and can reduce stress during down markets. You may even find you want more than six months in this fund to help weather emergencies, depending on your risk and your comfort level.

• **Review your mix.** As you approach or begin retirement, does your portfolio reflect your need for stability and income? You may need to reduce exposure to riskier assets such as stocks and increase holdings in more stable ones, like bonds or cash equivalents. Your ideal allocation depends on your risk tolerance, spending needs and other income sources. The goal is to shield your savings from major losses just as you begin drawing from them.

• **Consider market swings.** If the value of your portfolio dropped 20% tomorrow and stayed there for a period of time, would you need to change your lifestyle or spending immediately? Would you need to go back to work? If your answer is yes, revisit your asset allocation or spending plan. A more conservative approach may offer less upside but can provide greater confidence during the early years of retirement.

• **Assess your spending.** Even small budget adjustments can make a big difference, especially early in retirement. Do you need to consider postponing a major purchase or trimming discretionary spending? If you're still working, directing extra income into savings can help build a cushion. If you're already retired, keeping withdrawals as low as possible during market downturns can help support long-term sustainability.

• **Stay grounded — and get support.** Market swings are inevitable, but emotional reactions and risky investing can lead to costly mistakes. Don't abandon your investment strategy. Instead, focus on what you can control: your asset mix, spending and flexibility. A financial advisor can help you stress-test your retirement plan, evaluate your options and stay focused on your long-term goals — even when the markets are anything but steady.

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