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The Coronavirus and Your Retirement Plan

By Dominic Garcia

It is hard to ignore the threat of a virus that has already spread throughout many countries around the world. The fear and economic stress that this has caused has undeniably taken a toll on the stock market and, in turn, your retirement accounts. So now we have to understand how this effects your retirement plan and how to navigate these times in order to come out on top.

The most important key to investing is to realize that no one has a crystal ball. In fact, there are only two types of people out there: those that cannot predict the market, and those that don't know that they cannot predict the market. What has been proven is that there is a much higher probability that being fearful and moving to cash is significantly more detrimental to a retirement plan overtime than simply participating in the ups and downs. So how do we maintain our confidence when faced with all the negative headlines?

Before any advisor puts together a portfolio for you, they should have taken the time to establish a comprehensive financial plan that illustrates the amount of money you could potentially need over the next one to four years, five to nine years, and ten years plus. Upon receipt of this, it becomes much easier to determine the type of investments you allocate to which buckets. For example, any money to be used within the next four years would be held within short-term instruments that have historically not seen a negative return during market downturns. Next in line would be holdings that have historically not seen a negative return over five to nine years. Which then leaves your ten year plus money; these holdings will be the ones that are most tied to the market. The question then becomes, if you are not using the volatile portion of your portfolio for at least ten years, then is it worth losing sleep over in the interim?

Another layer of protection that you can take with most planning software is the ability to incorporate different events such as a housing crisis, a 9/11 attack, a tech bubble, an '87 crash, negative interest rates, a SARS virus, etc. By including these scenarios into every retirement plan, you can account for potential outcomes and still maintain confidence that you should never have to alter your spending habits.

Since I am limited to five hundred words, I will leave you with perhaps my favorite Warren Buffet quote: "the stock market is the most efficient mechanism in the world for transferring wealth between impatient people and patient people." Everyone is in a different position; however, you must find a balance between what gives you piece of mind and what is required in order for your retirement plan to succeed.

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