



Assessing Your Portfolio Risk

Whether you are being prudent by completing some advance planning or you're concerned that recent market volatility is a prelude to a sharp or broader downturn, you are right to start thinking about how to transition your portfolio to a more conservative stance well before you retire. After all, investing heavily in stocks is often acceptable for young investors willing to take higher risk for higher returns, as they have time on their side to recover from market setbacks. But an overly aggressive investment strategy can leave you vulnerable to severe market downturns as you near the end of your career and earning years.

A substantial drop to the value of your portfolio just prior to, or soon after retiring can dramatically reduce the chances that your savings will be able to support you throughout a long retirement. The reason is that the combination of outsize investment losses, while simultaneously withdrawing from your savings for retirement income can so deplete your portfolio's value that it may not be able to recover sufficiently... even after stock prices begin rising again. This is known as sequence of return risk.



Unfortunately, whether due to complacency, failure to comprehend the risk one is taking, or another reason, many people fail to dial back their stock holdings as they enter the home stretch to retirement. As individual investors, it's often the case of "We don't know, what we don't know". But this is important, perhaps critical once we enter retirement. The good news is that 1) taking steps NOW to evaluate your risk profile as you approach retirement, and again as enter into retirement, along with 2) a sound withdrawal strategy, can mitigate [sequence of returns risk](#).

So how can you get adequate protection against market setbacks while also providing enough long-term growth potential, so your savings will be able to sustain you throughout a retirement?

First, be mindful that today's life expectancy is [just under age 80](#) (prior to the pandemic) and has been projected to [increase to 85.6 by 2060.](#)

Start by determining a mix of stocks and bonds that is appropriate given your individual circumstances today. There is no single stocks/bonds allocation that is correct for everyone of a given age. But it's fair to say that for someone in their 50's who hopes to retire in 10 years, a 100% stocks portfolio is pushing the aggressive end of your time horizon risk-tolerance. I urge you to re-think how much risk you want to be taking as you close in on your planned retirement date.

One way to arrive at a blend of stocks and bonds that makes sense for you is to complete an [asset allocation-risk tolerance questionnaire.](#) The tool not only recommends an appropriate mix of stocks and bonds, but also shows you how that mix as well as others have performed on average in the past as well as in up and down markets.¹

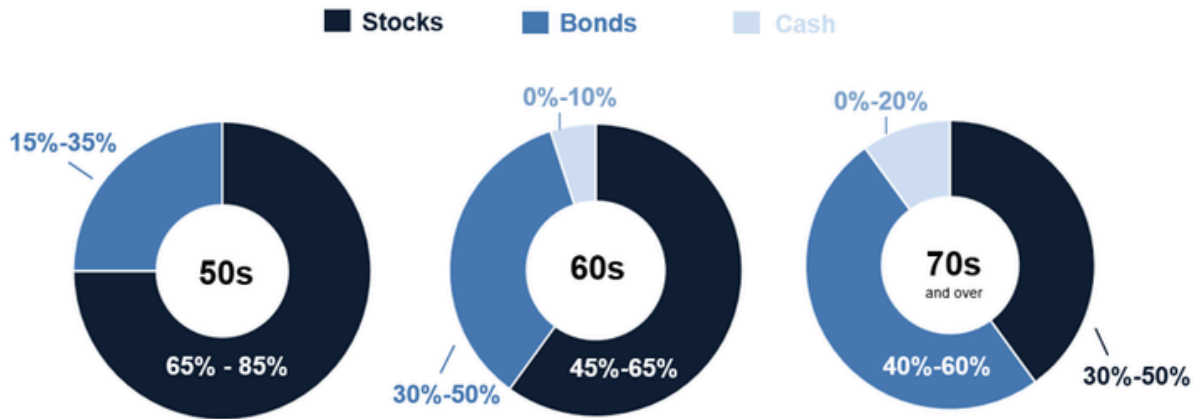
You do not necessarily have to adopt this mix exactly. You could decide to opt for more stocks on the rationale that, since you plan to retire early, you will need more robust returns to sustain your portfolio through what will likely be a longer-than-normal retirement. Conversely you could lighten up on stocks, under the thought that you don't want to run the risk of a big setback early in retirement that could shorten the longevity of your portfolio. As a general guide, a stock stake of somewhere between 65% and 75% of assets would generally be considered reasonable for investors in their early to mid-50s.¹

Whatever mix of stocks and bonds you elect, you next want to think about what your overall allocation should be when you retire and or start withdrawing from your savings. The mix that makes sense for you as you enter retirement will depend on several factors, such as:

1. How long is your savings projected to last given the size of the withdrawals you plan on taking?
2. How comfortable you are seeing your retirement savings value fluctuate with market volatility.
3. What other sources of income do you have? (Social Security, Pensions, Taxable Accounts, Home equity, etc.)

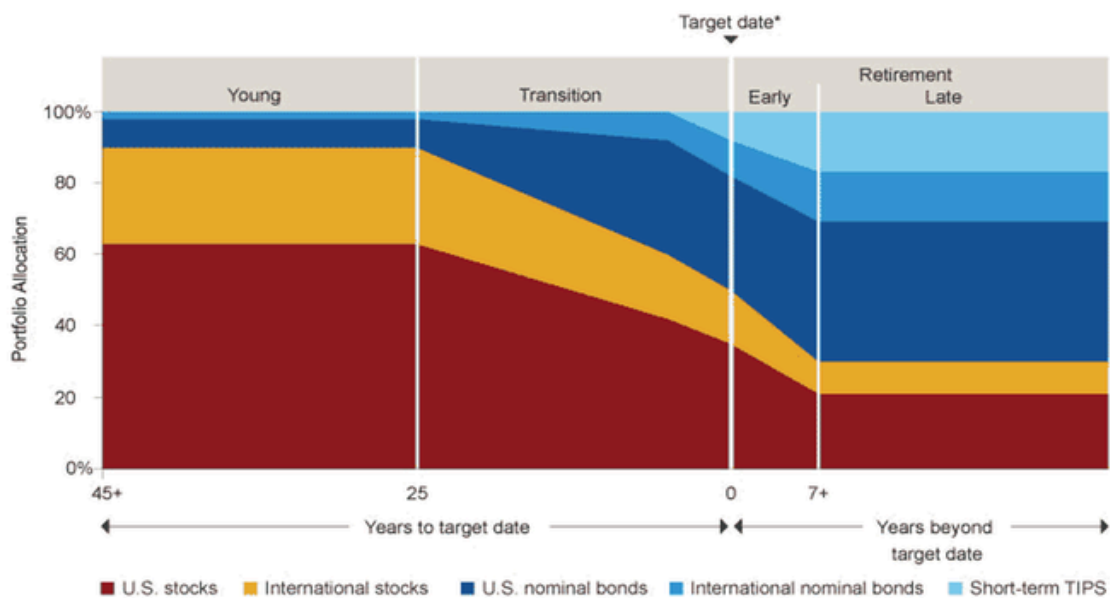
As a practical matter, however, many people enter retirement with somewhere between 40% and 60% of their savings in stocks.

¹ Material connection - Retirement Plan Advisory Group, <https://www.rpag.com/>



For informational purposes only.

Another easy strategy you adopt is to compare your current risk profile and asset allocation is to that of a like-kind Target Date Fund glide path (based on your projected retirement year) to see how you compare. You can get a sense of what sort of glidepath might be right for you or if you are too heavy on risk, late in your career by comparing a typical industry glide path like the one below.



* Target date is the year stated in the fund name.

Source: Vanguard Target Retirement Fund Glide Path

If you are overwhelmed and or worried about your risk profile. Reach out to MCF Advisors for further guidance and discussion on this important pre-retirement consideration.



For more information, contact MCF Advisors today!

Hunter B. Nighbert

Financial Advisor

859-967-0990

hnighbert@mcfadvisors.com



For informational purposes only. Not intended as investment advice or a recommendation of any particular security or strategy. Information prepared from third-party sources is believed to be reliable though its accuracy is not guaranteed. Opinions expressed in this commentary reflect subjective judgments of the author based on conditions at the time of writing and are subject to change without notice. For more information about MCF Advisors, including our Form ADV Part 2A Brochure, please visit <https://adviserinfo.sec.gov> or contact us at (859) 392-8600.