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Preparing for Retirement While in a Volatile Market

From the moment you begin your first job after college, you’re laying the foundation for your financial future, especially retirement. Yet, many investors overlook a critical factor in long-term planning: market volatility.

Global and domestic events—such as tariffs, political unrest, natural disasters, inflation, and interest rate changes—can all disrupt financial markets. These fluctuations often trigger emotional reactions, leading investors to make impulsive decisions like shifting or withdrawing investments, especially if they are near retirement age. While these moves may offer short-term relief, they can derail the progress you made toward the financial goals you worked for over the years.

Instead of reacting hastily to market swings, it’s essential to adopt a disciplined strategy that keeps you on the path to retirement. Oftentimes, when the market is down, people begin to sell investments at a lower value to offset their losses. However, not only can you reduce your net profit from the sale, but you can also potentially lose out on positive returns when the market rebounds.

See the example below to understand how the U.S. economy has reversed following a significant market event.

S&P 500 biggest declines	Black Monday 8/25/87 - 12/4/87	Gulf War 7/16/90 - 10/11/90	Asia Crisis 7/17/98 - 9/31/98	Tech Bubble 3/27/00 - 10/9/02	Financial Crisis 10/9/07 - 3/9/09	US Credit Downgrade 3/10/11 - 10/3/11	Trade War 10/3/18 - 12/24/18	COVID-19 Pandemic 2/20/20 - 3/23/20	Inflation/ rate shock 1/1/22 - 10/12/22
U.S. stocks	-33.5%	-19.9%	-19.3%	-49.0%	-56.8%	-19.0%	-19.6%	-34%	-24%
Next 12 months	+21.4%	+29.1%	+37.9%	+33.7%	+68.6%	+32.0%	+37.1%	+75%	+23.7%

Source: Retirement Strategies for market volatility | BlackRock. (n.d.). BlackRock. Retrieved July 1, 2025, from <https://www.blackrock.com/us/individual/education/retirement-volatility-strategies/>. Original chart from Morningstar. For illustrative purposes only.

Instead of selling indiscriminately, you should focus on the things you do have control of when it comes to your money. There are several different areas where you can protect your finances while continuing to make progress on your goals.



01 | Fortify Your Cash Reserves

During most economic downturns, consumer spending tends to decline, which often forces companies to reduce costs through layoffs. When layoffs occur, investors may begin to question the long-term viability of the company, leading them to sell off their shares. This can cause stock prices to drop, ultimately weakening the value of your investment portfolio. For individuals nearing retirement, this kind of market volatility can be especially concerning. That's why it's essential to have financial resources outside of your investment accounts to support your living expenses during uncertain times.

A strong cash reserve can serve as a financial buffer, helping you avoid selling investments at a loss. A cash reserve is a readily accessible pool of money that can be used to cover essential expenses when unexpected events arise. This reserve can help you stay afloat temporarily and reduce the likelihood of needing to liquidate long-term assets during a market downturn. You can build your reserve using various sources, such as your annual tax refund, proceeds from selling items on online marketplaces, or even through automated savings tools like round-up apps that deposit spare change into a savings account. High-yield savings accounts are another excellent option, offering better interest rates than traditional savings accounts. Additionally, liquid assets such as short-term bonds, money market accounts, and marketable securities can be quickly converted to cash if needed. Regardless of the method you choose, aim to accumulate enough to cover at least one to two years of living expenses to provide a solid financial cushion.

02 | Cut Spending

Reducing your spending is one of the most effective ways to increase your savings and strengthen your financial position. Start by reviewing your fixed and discretionary expenses to identify areas where you can cut back. This might include subscriptions you no longer use, dining out frequently, or pricey services that can be replaced with more affordable alternatives. Once you've identified these areas, create a revised budget that reflects your new spending priorities. This budget will help you visualize where your money is going and allow you to make more intentional financial decisions.

For example, if you notice that a significant portion of your monthly expenses goes toward dining out, you might decide to cook more meals at home or choose lower-cost dining options. These small adjustments can add up over time and reduce the need to tap into your investment accounts—especially when the market is down. By living below your means and redirecting the savings into your emergency fund or retirement accounts, you can build a more resilient financial foundation.

03 | Diversify Your Investments

While it's important not to make impulsive decisions during a market downturn, it's equally important to ensure your investment portfolio is well-diversified. Diversification helps spread risk across different asset classes, reducing the impact of poor performance in any one area. If you work with a financial advisor, they likely review your portfolio at least once or twice a year to ensure it aligns with your goals and risk tolerance. However, if you're feeling uncertain about your retirement trajectory, it's a good idea to proactively schedule a review.

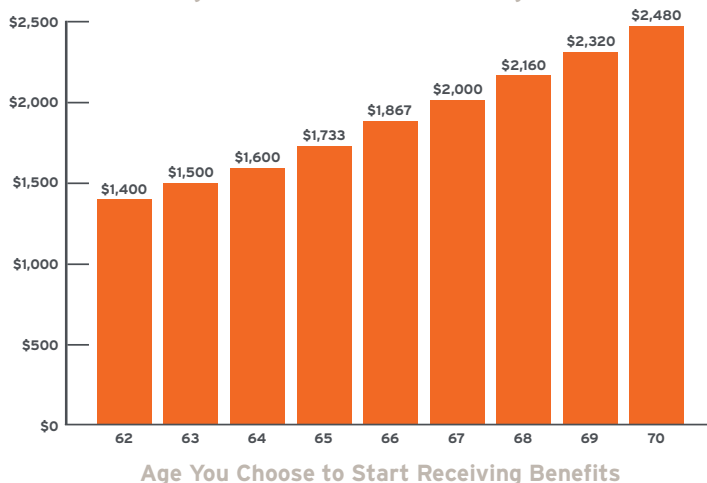
During this process, your advisor may recommend reallocating your assets to better match your long-term objectives. They might also employ a strategy known as tax-loss harvesting, which involves selling underperforming investments to offset capital gains from other assets. This can help reduce your overall tax liability. However, the tax implications of these moves can be complex, so it's essential to consult with your advisor or a tax professional to understand how these strategies will affect your specific situation. Later in this guide, we provide a detailed breakdown of short- and long-term capital gains and losses, including how they correspond to your income level.

04 | Consider Waiting it Out

Even if you're emotionally ready to retire, the timing might not be financially ideal, especially during a market downturn. It's crucial to ensure that when you do retire, you have sufficient income—whether passive or active—to support the lifestyle you envision. If your retirement savings have taken a hit, consider delaying retirement and continuing to work either full-time or part-time. This approach not only allows you to continue contributing to your retirement accounts but also gives your investments more time to recover.

What Is the Best Age to Start Receiving Social Security Retirement Benefits?

Monthly Benefit Amounts Differ Based on the Age You Decide to Start Receiving Benefits



Note: This example assumes a benefit of \$2,000 at a full retirement age of 67

Source: Social Security Administration, 05-10147 When to start receiving retirement benefits (2024). Woodlawn, MD.

Delaying retirement can also increase your Social Security benefits. For each year you delay claiming benefits past age 62, your monthly payout increases. For example, if your full retirement age benefit is \$2,000 at age 67, waiting until age 70 could increase your benefit by up to 77%, according to the Social Security Administration. The same principle applies to workplace retirement accounts like pensions, 401(k)s, or 403(b)s. By continuing to contribute and delaying withdrawals, you allow your investments to grow further. Additionally, if your employer offers matching contributions, staying employed longer can significantly boost your retirement savings.



05 | Reevaluate Your Lifestyle Expectations

When planning for retirement, most people envision a specific lifestyle—whether that includes travel, maintaining a large home, or relocating to a dream destination. However, significant market shifts may require you to reassess those expectations. While it may be disappointing to alter your plans, having a flexible mindset can make the difference between delaying retirement and moving forward with a modified version of your original vision.

For instance, if you planned to remain in a large home located in an area with high property taxes, it might be worth considering downsizing or relocating to a more tax-friendly state. This can significantly reduce your cost of living and free up additional funds for other retirement goals. Alternatively, if you had planned to purchase a second home in another state or country, you might opt for a long-term rental instead. These adjustments don't have to feel like sacrifices—they can be strategic moves that allow you to retire on time while maintaining financial stability.

06 | Create a Plan If You Must Sell at a Loss

If you ultimately decide that selling some of your investments is necessary—whether to raise cash, rebalance your portfolio, or invest in other opportunities—it's important to do so strategically. When you sell an investment for a profit, the earnings are subject to capital gains tax. Short-term capital gains apply to assets held for one year or less and are taxed at your ordinary income rate. Long-term capital gains apply to assets held for more than one year and are taxed at preferential rates.

As of 2025, the long-term capital gains tax brackets are as follows:

Long-term capital gains rate by filing status and income for 2025		
	Single tax filers	Married filing jointly
0%	\$48,350 or less	\$96,700 or less
15%	\$48,351 to \$533,400	\$96,701 to \$600,050
20%	\$533,401 or more	\$600,051 or more

Source: *How to cut investment taxes*. (2025, March 26). <https://www.fidelity.com/viewpoints/personal-finance/tax-loss-harvesting>



If you sell an investment at a loss, you may be able to use that loss to offset capital gains and reduce your taxable income—a strategy known as **tax-loss harvesting**. If your capital losses exceed your capital gains for the year, you can deduct up to \$3,000 from your ordinary income (\$1,500 if married filing separately). Any remaining losses can be carried forward to future tax years to offset gains down the line.

Many investors review their portfolios at the end of the year to identify opportunities for tax-loss harvesting. However, it's important to track how long you've held each investment to avoid triggering higher tax rates. Before making any sales, consult with your financial advisor to ensure your strategy aligns with your long-term goals and minimizes your tax burden.

conclusion

Preparing for retirement during a volatile market can feel overwhelming, but with the right strategies and support, it's entirely manageable. By building a strong cash reserve, cutting unnecessary expenses, diversifying your investments, and staying flexible with your retirement timeline and lifestyle, you can protect your financial future—even in uncertain times. Every individual's situation is different, so it's important to take a personalized approach. Reach out to us if you would like to review your current plan, explore your options, and make informed decisions that align with your long-term goals. The sooner you start the conversation, the more we can help you stay aligned on your path to retirement.



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