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# Defending Against a Downturn: Strategies in Early Retirement

Periods of market unrest are common and can wreak havoc on any portfolio – but especially in the first few years of retirement, when withdrawals are being made, as opposed to before retirement. As such, advisors need to make their clients aware of the value of retirement planning to head off the very real risk of market volatility early in retirement.

Despite that risk, most clients – particularly affluent consumers with greater market investments – may have the misperception that they are immune to market shocks. Despite the inevitability of downturns, they believe their portfolio will have time to recover, as it has in the past.

Psychologists have a name for such a tendency: "optimism bias." In short, people naturally believe that they're unlikely to experience a negative event as compared with someone else. Unfortunately, optimism bias can do significant damage – particularly in financial planning and retirement. But there are a number of ways that advisors can help clients plan for the risk of a market downturn early in retirement and defend against it – including looking into life insurance strategies.

**Sequence-of-returns risk: Why is it higher in early retirement?**

Volatility poses a much greater risk in early rather than mid to late retirement. This is called sequence, or sequence-of-returns, risk – the risk of taking withdrawals from an investment with poor returns.

When an extreme market event happens early in retirement, the long-term effects can be devastating. Simply put, a client's portfolio will have no time to recover when that client is actively taking withdrawals. What's more, the client's portfolio might never recover, especially if other unexpected expenses mount (e.g., medical bills).

According to the Prudential research report "The 'When to Retire' Decision: Impact on Retirement Security and Workforce Management":

- Individuals tend to retire in strong-performing markets – and are more likely to experience negative equity returns immediately afterward.
- Between 1926 and 2010, there were higher odds of a negative year for the S&P 500 after a three-year period of strong performance.

That means the likelihood of an early retirement downturn could be higher than your clients previously believed. Unfortunately, there's no crystal ball for the exact state of the market in 10 or 20 years. But while no one can predict if volatility will strike early in retirement, it is eventually inevitable.