In choppy market, advisers tell investors in or near retirement to stand pat

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Wall Street stocks tumbled again Thursday on fears of a global slowdown due to the coronavirus.

Older investors have seen markets swoon before. Many have heeded the mantra repeated throughout their youth and middle age, as they accumulated stocks in retirement and investment accounts: Stay the course in choppy times.

But what if they're baby boomers in or nearing retirement, and they now expect to be drawing money from those accounts to fund their daily living expenses? Does the advice change? Even after a day like Thursday, when the benchmark Dow Jones industrial average plunged 970 points?

Boston-area stockbrokers, financial planners, and money managers surveyed this week, as markets whipsawed in response to coronavirus jitters, political upheaval, and a Fed rate cut, had a one-word answer: No.

"People get really panicked in times like these," said Lis Zimmerman, partner at O'Brien Wealth Partners in Boston, noting that many retirees today can expect to live for a long time. "It's important not to give in to fear, not to let the emotion get the better of you. If you're approaching retirement, that's not the time to change your asset allocation because you're going to need that [income] growth for the next 30 years."

Financial markets tumbled more than 10 percent in late February as Wall Street reacted to the business and trade disruptions caused by the coronavirus. The markets saw wild swings this week before falling more than 3 percent on Thursday. Some analysts said the crisis merely set in motion an overdue correction to markets that were already overvalued.

Investment advisers have spent the past week reassuring nervous clients in person or on the phone. They say the biggest risk in any selloff — whether triggered by a global health scare or an economic bubble — is dumping stocks when the markets plunge. That makes it impossible to recoup losses when they rebound, as they inevitably do.

The economic fallout from the coronavirus is “an event,” said Roger Ingwersen, founder of the Harvest Group, a Waltham investment firm. “No one knows how long it’s going to last, or how much pain it will cause,” he said, "but things are going to get back to normal.”

He likened his preferred strategy of continuously buying shares, at higher prices when the market rises and at lower prices when it dips, to traveling by rail to a long-term financial goal. “We know your train is going from Boston to San Francisco,” he said. “We don’t want you getting off in Chicago — we don’t want you selling — and missing the rest of the ride.”

Embracing a buy-and-hold strategy, of course, works best for those who’ve amassed a large enough nest egg to make regular withdrawals, ideally from money set aside in cash or money-market accounts, without depleting their stock holdings. But even for those with more modest assets, counselors say it’s best to avoid tapping stock portfolios for as long as possible. (The federal government requires retirees to begin making regular withdrawals from tax-deferred retirement accounts, starting at age 70 and a half.)

John Dorfman, founder of Dorfman Value Investments in Newton, said older investors should generally keep three months’ worth of cash on hand to use for emergencies. “If you need money by the middle of this year, I would stay away from stocks,” he said.

Even for those who’ve been socking away money in retirement or investment accounts for decades, Dorfman said it’s wise to keep a portion in fixed-incomes, such as bonds or cash equivalents. But he cautioned those who’ve been holding money in cash to resist buying at low prices now amid uncertainty over the course of the new virus, warning there could be another leg down before financial markets recover.

His advice is to “hold about 15 percent aside in cash and redeploy it in the spring” when trends are clearer, he said.

“No one knows how long the virus will last,” Dorfman said. “My guess is that the markets will continue to be choppy through April and rebound in the spring. As we get a handle on Covid-19, this virus will turn from a crisis into a problem.”

While each market drop has a different catalyst — the dot-com bust, the bursting of the housing bubble, the fears over the SARS epidemic, or the trade war with China — money managers say investor reaction usually takes a similar and predictable course. They advise against concluding “this time is different” because the catalyst may seem unique.

While the coronavirus has already spread more widely than the 2002 outbreak of severe acute respiratory syndrome, or SARS, the economic impact is intensified because China plays a much larger role in the global supply chain today. But even if the impact is severe enough to tip the economy into recession, advisers say the market is certain to recover.

“This will be a blip in five years,” said John Cadigan, national sales manager for Trust Advisory Group in Woburn. “But you have to educate clients in advance that bull markets don’t last forever. People have a tendency to want to monetize losses like these. They want to sell what’s left because they think the markets are going to zero. Our job is to make sure folks have enough cash on hand for shock periods like this."

That means accumulating shares in younger years, Cadigan said, and constructing a segmented portfolio so that fixed-income assets like Treasury bills and annuities can finance the first three to five years of retirement while the bulk of an investors’ assets remain in stocks, where they’ll grow faster. “You take the risk out further in the time horizon,” he said.

Retirees’ ability to keep a big share of their portfolio in stocks partly hinges on how much they receive in Social Security, and whether they have pensions or other income to help cover their living expenses. But over the long term, money managers said, retirees will need to see growth in their assets to offset the inflation that can be the biggest risk in retirement.

Ironically, after a long period with little inflation, the Fed’s rate cut — designed to slow the economic contagion stemming from the coronavirus — could unleash a different kind of economic menace for retirees by reigniting inflation. That’s another reason cashing out now isn’t a good idea.

“If you’re using the money from your accounts to cover your living expenses, you’re going to need an asset allocation that allows for growth,” said Zimmerman at O’Brien Wealth Partners. “You could be living 20 to 30 years in retirement.”

Robert Weisman can be reached at robert.weisman@globe.com. Follow him on Twitter @GlobeRobW.