Nearing Retirement in 2022? Here's How to Protect Your Investments from the Next Market Correction

### Description

Both 2020 and 2021 weren't bad years for the stock market. But that might change in 2022.



The conditions, in fact, seem ripe for a market correction (heaven forbid a crash). Inflation is plaguing the world like a second pandemic. Consumers have largely spent their stimulus money, which refuelled the economy over the last two years. And a historic labour shortage has made traditionally fast processes, like getting your oil changed at the instant garage, a two-hour affair.

For potential retirees, that's more than a little concerning. You've been planning this moment for the last two to three decades, the moment when you punch the clock and live off your retirement savings. But if your savings is tied to your investments, you could retire on much less than you were expecting.

If 2022 is your year to retire, here's how you can protect your investments from a potential correction.

## 1. Don't try to time the market

No matter where you are in life, the advice still holds: don't try to time the market. *Ever.*

Most retirees—most people—are terrible at timing the market. You might think you're perceptive and sell your stocks before the market "crashes." Seems good in theory, but the problem lies in your limited foresight. No one knows for certain *if* the market will crash or correct itself. If it doesn't, you could miss out on more upward growth.

When you see movement in the stock market, resist any knee-jerk reactions. You might think "now's the time to sell" or "now's the time to buy," but, more often than not, you're too short-sighted to see the outcome of your decisions.

## 2. Rebalance your portfolio

That said, as a potential retiree, it's best you don't overload your portfolio with high-risk stocks. That's not to say you shouldn't have any stocks. It's just to suggest that you look closely at your portfolio and adjust it to meet a low-risk tolerance.

Even in a bull market, retirees should think twice before allocating more than half of their investment portfolio to high-risk stocks. That might have worked when you were young and had time ahead of you to recover, should a bull market gobble up your earnings. But now that you're near retirement, a market correction could do irreversible damage.

If your investment portfolio is composed of high-risk securities, now might be the right time to rebalance. You might want to consider low-risk, income-generating securities, such as GICs or bonds. Just be careful: because of low interest rates, it might be best to lock into short-term GICs or bonds, as you don't want to miss out if interest rates climb in the next few years.

## 3. Stay diversified

Even as you're moving money from stocks to low-risk securities, it's still important to stay diversified.

If a market correction happens, it's best to have your money spread across numerous market sectors, rather than only a handful. Market corrections affect sectors differently: some might tank, while others will do really well. When you invest in numerous sectors, as well as numerous companies within those sectors, you're doing your utmost to minimize losses, while also capitalizing on gains.



## 4. Store cash, but not too much

Finally, be sure you have cold hard cash on hand, preferably enough to last you through 2022 (you might want more depending on your risk tolerance).

But, because of high inflation, it might be wise to limit how much cash you keep. You might want to create a fixed income strategy that helps you earn enough off interest to at least keep pace with inflation. GIC laddering, for instance, could be good for this.

## Will a market correction happen in 2022?

If you're nervous about a market correction affecting your retirement savings, I would take the steps listed above to help you stay prepared. To be clear, no one can predict when a market correction will happen. We can look at signs, but we can never make definite statements.

Experts and analysts have been known to incorrectly predict crashes and corrections. The best you can do is stay informed, prepare your investment portfolio for retirement, and be flexible: if a crash does take your savings off course, you might want to consider postponing retirement a few years, at least until the economy recovers.

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