

Retirement planning looks tidy on paper until you remember how uneven real markets can be. One decade can treat investors kindly, with steady gains and calm trading. The next can deliver sharp declines, fast rebounds, or long stretches where your portfolio barely moves while your expenses keep rising. The gap between “what you hoped would happen” and “what actually happened” is where market risk turns into lifestyle risk.

I’ve watched that gap widen for people who did everything “right” but underestimated sequence of returns, over-relied on a single asset class, or didn’t plan for the emotional grind of volatility. The goal of retirement savings is not to predict **economy forecast** markets. It’s to build a plan that keeps working through the bad chapters, not just the good ones.

The real risk isn’t the drop, it’s what the drop forces you to do

A market decline is scary, but the math matters more than the feeling. If you are still working and contributing, a sell-off can even be useful, because new contributions buy assets at lower prices. The danger arrives when withdrawals begin, especially in the first years.

Consider a simple scenario. Suppose you retire with a portfolio you expected to fund your spending for 25 years. If markets fall hard in year one or two, you might be forced to withdraw more shares than usual to raise the same dollar amount. Even if markets recover later, those higher withdrawals can permanently shrink your asset base. This is often described as sequence risk, and it’s one of the most destabilizing forms of market risk during retirement.

People usually understand “I could lose money.” Fewer people fully appreciate “I could lose the ability to wait.” In retirement, patience is a financial tool, and bad timing can drain it.

Volatility versus loss: they feel the same, but they behave differently

Many investors track market volatility as if it were a synonym for permanent loss. Volatility is the speed and variability of price changes. Loss is the difference between what you end up with and what you started with. A portfolio can swing wildly while still finishing close to where it began, particularly over long time horizons. Conversely, a portfolio can “only” lose a moderate percentage and still be severely damaged if the loss coincides with withdrawals.

Two practical takeaways come from this distinction.

First, you want to know your plan’s sensitivity to timing, not just its headline return. Second, you want your withdrawal strategy to reflect the reality that markets do not move in helpful straight lines.

When I sit with clients who are nearing retirement, I try to shift the conversation from “how bad can the market be?” to “what would my plan do if year one looks terrible?” That question leads naturally to planning for cash needs, rebalancing discipline, and risk tolerance under stress.

Long-term planning works best when it’s designed for the long term

Most people saving for retirement have more control than they think, especially early on. Time is a structural advantage. If you’re decades away from needing the money, you can usually tolerate market fluctuations because you have room to recover. In that phase, the dominant risk is typically whether you save enough and invest in a way that gives your portfolio a reasonable chance of compounding over time.

The long-term plan usually has three pillars:

1. Contribution discipline during working years
2. Asset allocation that matches your ability to tolerate downturns
3. A rebalancing and withdrawal approach that does not punish you for living through volatility

The third pillar is where many plans become “paper plans.” People invest aggressively when they start saving, then gradually reduce risk as retirement approaches. But the moment withdrawals begin, the risk profile changes again. Your portfolio is now funding spending. The same allocation that felt comfortable when you were contributing can become a liability when you are drawing down.

Designing for the long term is less about a single investment choice and more about a consistent process that survives market chaos.

Asset allocation: the part you can control, and the part you can’t

Asset allocation is often framed as the main driver of long-term outcomes. That framing is directionally correct, but it can also make allocation feel like a guarantee, which it isn’t. Allocations are probabilities, not promises.

A diversified portfolio can still decline, especially during market-wide stress. But diversification can reduce the chance that every part of your portfolio suffers the same way at the same time. That matters when you are trying to avoid “forced selling” and keep withdrawals steady.

In plain terms, the point of mixing assets is not to prevent drops entirely. It’s to make drops less uniform and less catastrophic, so your plan has more flexibility.

The trade-off: safer assets can also create their own problems

Many investors respond to market risk by shifting heavily into bonds or cash. Those can be effective tools, particularly for near-term spending needs. But they introduce other risks you still need to manage:

- Inflation risk can quietly erode purchasing power if cash-like instruments do not keep up.
- Interest rate changes can affect bond prices. Even “safe” fixed income isn’t price-proof.
- Concentration risk can creep in when people chase stability by overloading one category.

I’ve seen people move too aggressively into conservative assets right before retirement, only to discover that their plan assumed a level of income growth that didn’t materialize. The market didn’t crash. The mismatch between expected inflation and actual returns still hurt.

A robust allocation strategy typically balances near-term certainty with long-term growth. How you split that balance depends on your timeline, expenses, other income sources, and how emotionally difficult volatility will be for you.

Sequence of returns: planning for the first five years can matter more than planning for the next twenty

Sequence risk is most concentrated near the start of retirement, but it doesn’t disappear later. It just becomes easier to manage if your portfolio has recovered and your spending plan is stable.

One practical way people manage sequence risk is by separating money by time horizon, sometimes called a bucket strategy. The concept is simple: keep enough liquid or relatively stable assets to cover the first stage of

withdrawals, while you allow longer-term assets to stay invested through market swings.

This isn't a magic system. It can still fail if retirement lasts far longer than expected or if inflation is higher than you planned. It also adds operational complexity, because you need to decide what gets spent when.

Still, bucket-style thinking can reduce the odds that you will sell risk assets at the worst time. It turns abstract market risk into a cash flow plan, which is easier to monitor and adjust.

Here's the kind of judgment call that matters. If your portfolio would need to sell stocks to fund several years of spending, you might be exposed to sequence risk. If you can fund a shorter window from more stable sources, you create room for recovery.

Rebalancing: the disciplined version of “buy low, sell high”

Rebalancing is one of those actions that feels counterintuitive until you've watched it work. When markets drop, growth assets often fall more than bonds or cash-like holdings. Rebalancing can mean buying the asset class that declined the most, using proceeds from the asset class that held up better. When markets rise, it can mean trimming what surged.

The key is to rebalance with rules, not impulses. Rules protect you from the “it feels different this time” trap.

Many investors rebalance annually or when allocations drift beyond a tolerance band. Some do it based on calendar dates, others on threshold levels. The best method is less important than consistency and tax awareness.

Taxes can complicate rebalancing because selling investments can trigger taxable gains. In tax-advantaged accounts, rebalancing is generally cleaner, and people often route trades there first. In taxable accounts, you may need to prioritize tax-efficient strategies, like harvesting losses when appropriate, or rebalancing by contributing new money rather than selling.

If you've never stress-tested your rebalancing plan, it's worth doing before retirement. It's one thing to say, “I'll rebalance.” It's another to ask, “Will I actually do it after a 25 percent decline, when my portfolio looks like it's still falling?”

Taxes and withdrawal strategy: market risk meets human behavior

Even if your portfolio allocation is sound, taxes can change the effective outcome of withdrawals. A withdrawal plan has to answer two questions:

1. What accounts will you draw from first?
2. How do those withdrawals affect your future tax situation?

Different account types often exist, such as taxable brokerage accounts, retirement accounts like traditional IRAs or 401(k)s, and Roth accounts. Withdrawals can be treated differently for taxes depending on the account type. Required withdrawals may apply later, depending on current rules and your jurisdiction.

I'm deliberately careful here. Tax rules shift, and personal circumstances matter. But the principle is stable: your withdrawal order can either reduce or amplify the impact of market declines.

During downturns, some people can benefit from tax loss harvesting in taxable accounts, if it fits their broader plan. Others may prefer to draw from more tax-efficient buckets. There are trade-offs in each approach, including the risk of selling at the wrong time, or of creating future tax burdens.

The behavioral side is equally real. When markets fall, people often increase withdrawals to “make up for lost returns,” which can be the exact opposite of what protects long-term sustainability. A good plan provides guardrails, such as spending floors and spending flexibility rules, so you’re not making decisions in the heat of a downturn.

Inflation risk: the silent market risk that doesn’t need headlines

Inflation can be brutal because it affects everything you buy, regardless of whether your portfolio is having a good year. A retirement plan that assumes expenses rise slowly can become fragile if inflation runs hotter than expected for multiple years.

This is where judgment matters more than exact predictions. You can’t know future inflation. You can plan for a range, and you can structure your portfolio to include assets that have historically provided some defense against inflation, such as certain types of equities and inflation-linked bonds. But again, no asset category is immune.

If you’re within a few years of retirement, inflation becomes a timing problem. You might not have enough time for risk assets to recover if inflation and markets both turn against you. That’s another reason cash flow planning for the early years is so important.

A practical stress test beats a spreadsheet dream

If you only do one thing, stress testing is it. Not because it predicts the future, but because it forces clarity about what “survive a bad decade” actually means for your plan.

A stress test should include scenarios with:

- Poor returns early in retirement
- Slower recovery later
- Higher spending growth from inflation than you assumed

You do not need to model every detail. You need enough structure to answer: will I be forced to sell at the wrong time? Will I reduce spending in a downturn? Do I have liquidity for several years?

Here’s a small checklist of questions I use when helping someone evaluate whether their plan has enough cushion:

1. How many years of withdrawals can my plan cover without selling my most volatile assets?
2. If the portfolio drops sharply in the first two years, do I have a rule for spending changes?
3. Will I rebalance automatically using a pre-set plan, or would I likely freeze and hope?
4. Are my cash needs separated from long-term growth assets?
5. Do my account choices reduce taxes during downturns, or do they accidentally increase them?

This isn’t about being pessimistic. It’s about replacing vague comfort with actionable understanding.

How to think about “how much risk is too much” when you’re near retirement

Risk tolerance isn’t a static number. It changes with age, job stability, health, family responsibilities, and market conditions. Someone who is calm during small dips may panic during a major decline, especially if they feel their retirement security slipping.

A professional approach to risk tolerance looks at three layers:

- Financial capacity for losses (can you cover losses without selling?)
- Psychological capacity (can you stick with the plan when the portfolio drops?)
- Operational capacity (do you have a withdrawal and rebalancing process you will follow?)

Operational capacity is often overlooked. People assume they will “do the sensible thing” in a crisis. But crises reveal whether the sensible thing was planned in advance.

If you want a simple test, try imagining what you would do if your portfolio fell significantly and kept falling for a period longer than you expected. Would you still contribute? Would you still rebalance? Would you still keep withdrawals steady? Your answers to those questions are often more informative than any risk survey.

Common pitfalls I’ve seen when market risks hit

Market risk becomes personal when it interacts with plan gaps. Here are the recurring issues that show up in real conversations, not in marketing brochures.

First, people sometimes rely on a retirement date as if it’s a switch. They invest heavily up to the target date, then reduce risk immediately. That can work, but it can also increase the odds that you lock in losses if markets are unfavorable right at retirement.

Second, people treat “diversification” as a label rather than a structure. Two funds that both hold stocks can still behave like one big stock bet. Diversification should be about how assets move relative to each other, not just about the number of tickers.

Third, people ignore liquidity. Liquidity is the difference between a temporary decline and a permanent setback when withdrawals start. A portfolio can be diversified but still ill-suited for near-term spending.

Finally, people forget that retirement is not just investing. It’s income planning, tax planning, health and longevity planning, and sometimes family planning. Market risk is only one part, but it can dominate if the rest is underprepared.

Putting it together: a market-risk plan that can survive bad years

A durable retirement strategy does not eliminate market risk. It allocates risk across time, ties risk to cash flow needs, and builds a decision process that doesn’t rely on calm emotions during a downturn.

In practice, that often means:

- Keeping a portion of assets focused on near-term spending stability
- Investing the remainder for long-term growth, because inflation and longevity require it
- Rebalancing in a rules-based way
- Planning withdrawal flexibility, so spending can adjust if markets fall
- Managing taxes deliberately, using account types strategically
- Stress-testing the plan so you know your likely behavior when conditions are uncomfortable

None of these steps remove uncertainty. What they do is prevent market risk from turning into a forced lifestyle change.

A final note on expectations: confidence comes from process, not prediction

Market planning is easier when you admit that you can't control timing. You can control how you respond. The best retirement plans I've seen share one trait: they are specific enough that you don't have to reinvent your decisions during a crisis.

If you're years away, focus on saving consistently and building a diversified allocation you can hold through volatility. If you're close to retirement, prioritize cash flow timing, withdrawal rules, and stress tests that reflect realistic downside sequences. Either way, your goal is not maximum return. It's survivability with dignity.

Market risk is real. But with the right structure, it becomes a challenge your plan is built to handle, not a threat that changes your future on the worst possible day.