



# 401(k) FIT

How to Keep Your 401(k) on Track During Market Volatility  
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Market turbulence can make any investor uneasy. Your 401(k) balance may jump one day and drop the next. During the 2020 market crash, the S&P 500 fell more than 30% in just a few weeks. Investors who stayed the course, however, saw a strong recovery in less than a year.<sup>1</sup>

The most effective approach to weathering market volatility lies in clarity, preparation, and discipline. [Meghan Hannon, CRPS®, CPFA®](#), Partner and Head of Retirement Plan Consulting, explains how market volatility affects your 401(k) and offers practical strategies to stay on track.

## Understanding Market Volatility and Its Impact on Your 401(k)

Volatility refers to how much and how quickly investment prices move up or down. For stocks, volatility often spikes during economic uncertainty, geopolitical events, or changes in interest rates. Some alternative investments, like [cryptocurrency in 401\(k\) plans](#), can be particularly volatile within a diversified portfolio.

Market downturns are a normal part of investing. For example, a **bear market**, which typically means a decline of 20% or more from recent highs, often lasts around 9 to 15 months for U.S. large-cap stocks. While this may sound lengthy, history shows that recoveries often begin sooner and grow stronger than the declines might suggest.

For your 401(k), understanding volatility matters because:

- **Your balance will fluctuate.** For example, if your account is \$250,000 and 70% is in stocks, a 20% market drop could reduce your balance by about \$35,000—even with consistent contributions.
- **It can lead to emotional decisions.** Selling during a downturn often means locking in losses and missing the recovery that usually follows.

- **Long-term perspective matters.** The typical 401(k) annual return averages between roughly 5% and 8% over time, depending on contributions, asset mix and fees. This includes years of steep declines and strong rebounds. Staying invested through both is key.

## Rebalancing: The Key to Navigating Market Volatility

**Portfolio rebalancing** is the process of adjusting your investments to maintain your target mix. Over time, some assets may grow faster than others. For example, imagine your 401(k) is 60% stocks and 40% bonds. After a strong year for your stocks, your allocation might shift to 70% stocks and 30% bonds, making your portfolio riskier than you intended.

Rebalancing means selling or trimming overweighted assets and buying more underweighted assets. In the example above, rebalancing could look like selling some stocks and buying more bonds to return to the original 60/40 allocation. This helps keep your portfolio aligned with your risk tolerance and long-term goals.

## 5 Smart Rebalancing Strategies to Keep Your Portfolio on Track

### 1. Revisit your target asset allocation

Your age, risk tolerance, and time to retirement should guide how much of your 401(k) is invested in stocks, bonds, or cash alternatives.

- Younger savers can often favor a higher stock allocation for growth.
- Those nearing retirement may gradually shift toward more conservative holdings.

Not sure if your allocation fits your goals? [Connect with an advisor](#) today.

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## 2. Don't let an off-target portfolio persist

Market swings can skew your portfolio away from its original plan. For example, after a strong equity run, your stock allocation might exceed your target. If your portfolio drifts far from your target, it may increase your risk or reduce growth potential. Rebalancing helps keep your portfolio aligned with your intended strategy.

## 3. Keep contributing through downturns

Stopping contributions during a market drop may feel tempting, but continuing (or even increasing) contributions allows you to buy at lower prices. This approach, known as dollar-cost averaging, can help boost long-term returns. Staying consistent with your savings rhythm is a key strategy for success.

## 4. Use volatility as a prompt for review, not panic

Market volatility is a cue to review your 401(k), not overhaul it. Ask yourself:

- Is my allocation still appropriate?
- Are my funds aligned with my goals?
- Has my risk tolerance changed?

A regular review cadence (e.g., annually or after major market shifts) is more effective than chasing every market move.

## 5. Diversify sensibly and resist chasing the trend

A diversified portfolio across U.S. stocks, international stocks, bonds and possibly alternative asset types can reduce concentration risk during volatile periods. Diversification doesn't guarantee protection, but it helps smooth out performance.

## Market Volatility Can Be Scary—But It Isn't the End of Your 401(k)

Market volatility is inevitable, but it doesn't have to derail your long-term goals. [Practical market volatility investment strategies](#) can help you navigate ups and downs with greater confidence. If you're investing through an employer-sponsored 401(k) plan, take advantage of available resources such as target-date funds, rebalancing tools, and educational materials to help you stay on track.

Everyone's financial situation is unique, and an experienced retirement plan advisor can make a meaningful difference. Connect with Meghan today to discuss how your 401(k) can stay resilient through market turbulence.

[Connect With Meghan](#)

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