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## Market Turmoil Spurs Trading, but Staying Put Pays Off



The U.S. stock market suffered its worst day in five years on Friday, April 4, following President Donald Trump's announcement of sweeping tariffs. The S&P 500, Nasdaq, and Dow Jones Industrial Average all posted significant losses.

Despite the turbulence, financial experts continue to advise retirement plan investors to “stay the course” rather than react impulsively.

According to Alight Solutions, stock market volatility has already driven a surge in retirement plan trading in early 2025. In the first quarter alone, 0.77% of plan balances were traded—the highest rate since Q3 of 2020. Trading was particularly elevated in March, exceeding the activity seen in the entire fourth quarter of 2024.

Initially, as the S&P 500 hit record highs through mid-February, 401(k) investors favored equities. However, as market conditions worsened, many shifted their investments into fixed income funds. Alight noted that 29 out of 60 trading days in Q1 saw above-average trading levels. Target-date funds, large-cap U.S. equity funds, and small-cap U.S. equity funds were the most actively traded asset classes.

Rob Austin, head of thought leadership at Alight Solutions, explains that while market drops may feel alarming, they are not unusual. He points out that investors often react by selling stocks during downturns and moving into fixed income. “They’re definitely not buying stocks when they’re on sale and they don’t tend to get back into the market until equities have gone up,” he says. “So in other words, they’re selling low, buying high. Not the perfect recipe for investing.”

Despite increased activity, Austin notes that less than 1% of participant assets were actually traded, indicating that most investors are sticking with their long-term strategies. He recommends that participants not already in target-date funds or managed accounts consider periodic rebalancing—ideally through automatic plan features. Although around 70% of defined contribution plans offer auto-rebalancing, only about 10% of participants take advantage of it.



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For those nearing retirement, Austin reassures that unless their portfolios are heavily weighted in equities, recent market losses have likely had only a muted effect, thanks to the gradual derisking built into many glidepaths.

### **Communication Strategies for Plan Sponsors**

For plan sponsors, effectively communicating with participants approaching retirement can be challenging. They cannot offer direct investment advice but can encourage prudent, long-term thinking.

“I think plan sponsors are generally trying to get people [who are in] the pre-retirement phase to think about derisking,” Austin says. “It’s tough to make that message now, because you don’t want people to lock in those losses especially when they don’t have the time to make that up in the next few years.”

Austin suggests that sponsors should focus on reminding participants about derisking strategies without encouraging them to lock in paper losses unnecessarily.

### **Generational Differences in Reaction**

Joe Coughlin, director of MIT’s AgeLab, notes that participants between ages 55 and 62 are likely to react most strongly to market volatility. Many may feel pressured to delay retirement to recover from losses, potentially extending their time in the workforce. In response, Coughlin predicts that older employees will increasingly demand flexible work arrangements, similar to trends previously associated with younger generations.

“In fact, what’s kind of ironic is they may start to echo younger workers in a greater way than we’ve ever expected,” Coughlin says. “Everyone was busting on Gen Z and Millennials about [wanting] to work from home, but I think this [older] group is going to react by saying ‘I need to stick around longer to make sure that my wealth span is not shorter than my lifespan, which means I need a little bit more flexibility.’”

According to Coughlin, as the market continues to shift, Gen Z and Millennial employees may begin to lose faith in their companies and organizations and grow increasingly skeptical of benefits and retirement plans. “While one generation may be reactive, the other is taking it to heart and learning,” Coughlin says.

Sources:

<https://www.plansponsor.com/401k-participants-show-high-trading-activity-amid-market-volatility/>

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