When the going gets tough: remember the long game

It’s not always easy to watch large market drops and not react, especially if the value of your retirement savings is falling. The recent stock market sell-off reminds us once again what a wild ride investing can be. Like death and taxes, precipitous market drops also seem to be one of those inevitable realities of investing life. But what we have observed, at least historically, is that markets have a way of climbing their way back.

No matter where you are on the path to retirement - with years of work still ahead, nearing retirement or even already retired — it’s important to keep the following four things in mind when the markets become painful to watch:

1 YOU ARE INVESTING FOR THE LONG-TERM

Don’t forget, retirement assets have a major advantage in the face of short term volatility—they are invested for decades. Seeing the value of your retirement assets fall may prompt you to take action, but selling may only lock in your losses—and attempting to time your way back into the market is never easy (all too often this can result in selling low and buying high). In fact, good and bad days tend to cluster together: over the last 20 years, 24 of the 25 worst trading days were within one month of the 25 best trading days.[1]

2 AT TIMES LIKE THESE, DIVERSIFICATION CAN BE YOUR FRIEND

As Harry Markowitz once said, diversification “is the only free lunch in finance.” At no time does this hold truer than in periods of market stress. Having assets that “zig” when others “zag” can help increase portfolio stability and may help you lose less in a sharp downturn. Now is a good time to take a look at your portfolio—if your investments all go in the same direction at the same rate, it may be time to look at some diversifying investment options.

3 CASH HAS ITS PLACE – IN A SAVINGS ACCOUNT

If your retirement savings are invested only in conservative options (like cash or short-term bonds), your savings won't have the opportunity to grow over longer time periods—and you run the risk that inflation will actually reduce the value of your portfolio. Of course, it may make sense to have cash readily available outside your retirement plan to meet a few months' expenses, whether in an FDIC insured account or a money market. Having a cash cushion may make it easier to ride out volatility.

4 VOLATILITY IS NOT ALWAYS A BAD THING

No one enjoys volatility, but riding out the ups and downs in the stock market is a price investors pay for potentially higher returns – returns you may need on the path toward retirement readiness. The best way to look at volatility is that it is generally short-term. If you look at the stock market every day, it is likely going to appear very volatile. If you look at it quarterly, it's likely going to look a bit less volatile. Yearly? Maybe even less volatile. The further the horizon for your investment objectives, the less you may need to worry about this.

We believe sticking with your long term retirement plan is critical. Investing can be driven by emotions, especially fear, but be mindful about letting it lead you astray.

1. Source: BlackRock, Bloomberg, Morningstar as of 2/28/20.

Investing involves risk, including loss of principal.