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FINANCIAL VIEWPOINT

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Investing • Retirement • Insurance

April 2020

Five Common Investment Mistakes When **Planning for Retirement**

Only about 17% of American workers say they are "very confident" they will have enough money to live comfortably throughout retirement.[1] To help reduce such uncertainty in your life, consider these five common investment pitfalls – and how you might avoid them.

Mistake #1: Waiting to Maximize Your. Contributions

The sooner you start contributing the maximum amount allowed by your employer-sponsored retirement plan, the better your chances for building a significant savings cushion. By starting early, you allow more time for your contributions – and potential earnings – to compound, or build upon themselves, on a tax-deferred basis.

Mistake #2: Ignoring Specific Financial Goals

It is difficult to create an effective investment plan without first targeting a specific dollar amount and recognizing how much time you have to pursue that goal. To enjoy the same quality of life in retirement that you have become accustomed to during your prime earning years, you may need the equivalent of up to 80% of your final working year's salary for each year of retirement.

Mistake #3: Fearing Stock Volatility

It is true that stock investments face a greater risk of short-term price swings than fixed-income investments. However, stocks have historically produced stronger earnings over the long term.[2] In general, the longer your investment time horizon, the more you might consider adding stock funds to your portfolio.

Mistake #4: Timing the Market

Some investors try to base investment decisions on daily price swings. But unless you have a crystal ball, "timing the market" could be very risky. A better idea might be to buy and hold investments for several years.

Mistake #5: Failing to Diversify

Investing in just one fund or asset class could subject your investment portfolio to unnecessary risk. Spreading your money over a well-chosen mix of investments may help reduce the potential for loss during periods of market volatility. Diversification may offset losses in any one investment or asset category by taking advantage of possible gains elsewhere.[3]

Now that you are aware of these five common investment errors, consider yourself lucky: You are ready to potentially benefit from other people's experiences – without making the same mistakes.

Source/Disclaimer:

[1]Source: Employee Benefit Research Institute, "The 2018 Retirement Confidence Survey," March 2018.

[2]Source: DST Systems, Inc. Stocks are represented by total returns from Standard & Poor's Composite Index of 500 Stocks, an unmanaged index generally considered representative of the U.S. stock market. Fixed-income investments are represented by annual total returns of long-term (10+ years) Treasury bonds. Indexes do not take into account the fees and expenses associated with investing, and individuals cannot invest in any index. Past performance is no guarantee of future results. With any investment, it is possible to lose money.

[3]Diversification does not assure a profit or protect against a loss in any market.

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Does Your Portfolio Reflect Your **Risk Tolerance?**

There are many types of risk associated with investing. Understanding each type and the effect it may have on your portfolio returns is crucial to your long-term investing success. Because all investments entail risk, you may want to review your mix of stocks, bonds, and cash investments with an eye toward creating a risk/return profile that is appropriate for your situation.

When it comes to investing, many people associate risk with losing money. But investing entails different types of risk. Understanding each type – and the potential return associated with your retirement portfolio – can help you determine whether your investments are appropriate for your situation.

Examining Risk and Return

Stocks historically have exhibited the highest level of market risk – or the potential that an investment may lose money in the short term. Over long periods of time, however, stocks have outperformed both bonds and cash investments.[1] This risk/return trade off may influence how you allocate your investments. For instance, consider weighting assets that you intend to keep invested for 10 years or more toward stock investments.

Bonds carry their own risks – credit risk, or the possibility that a bond issuer could default on interest and principal payments; and interest rate risk, the chance that rising interest rates could cause a bond's price to fall. Ascending interest rates historically have influenced the prices of bonds more directly than the prices of stocks.[1] When short-term rates are on the rise, investors may sell older bonds that pay a lower rate of interest – causing their prices to fall – in favor of newly issued bonds that pay higher interest rates. On the plus side, bonds historically have exhibited less short-term volatility that stocks, although past performance is no guarantee of future results.

It's also important to look at cash investments, such as 3-month Treasury bills, from a vantage point of risk and return.1 Although Treasury bills typically experience a low level of volatility, they may be subject to inflation risk – or the possibility that their returns may not keep pace with the rising cost of goods and services. For this reason, you may want to use cash investments for short-term situations when you expect to access your money within 12 months or less.

Putting Risk in Perspective

Because all investments entail risk, you may want to review your mix of stocks, bonds, and cash investments with an eye toward creating a risk/return profile that is appropriate for your situation. Owning different types of assets may increase your chances of experiencing the benefits associated with each, while mitigating the corresponding risk. Your retirement portfolio won't be risk free, but you will have the confidence of knowing that you've done what you can to manage a potential downside.

This article offers only an outline; it is not a definitive guide to all possible consequences and implications of any specific investment strategy. For this reason, be sure to seek advice from knowledgeable financial professionals.

Source/Disclaimer:

[1]Source: DST Systems, Inc. For the 30-year period ended December 31, 2018. Stocks are represented by the Standard & Poor's Composite Index of 500 Stocks, an unmanaged index that is generally considered representative of the U.S. stock market. Investing in stocks involves risks, including loss of principal. Bonds are represented by the Bloomberg Barclays U.S. Aggregate Bond index. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. Cash is represented by the Bloomberg Barclays 3-Month Treasury Bills index. It is not possible to invest directly in an index. Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest, and, if held to maturity, offer a fixed rate of return and fixed principal value. Past performance is not a guarantee of future performance.

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Need Help With Your Investments?

Call to schedule a free, no-obligation consultation with Dwayne or Chuck to discuss your options!

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