AIG Retirement Services

Rough stock market?

Don’t make these mistakes

What is your long-term financial plan? Investors who get distracted by short-term volatility may be in danger of altering course and losing sight of their long-range goals. It’s a common mistake that can derail an otherwise healthy plan to reach retirement.

If you’re a member of Generation X, you may be entering the height of your earning power. This is a time to invest as much as possible in retirement accounts while finding other ways to sock away money. It’s also important to avoid mistakes common among investors who experience a shaky stock market such as:

- Cutting back on saving and investing
- Selling after a market drop
- Changing investing strategies

Take the long view

It’s not easy preparing for an event like retirement that is decades away—especially when markets are volatile — but we all know that day will come. It is critical to avoid making rash moves in response to the current market environment.

Seeing account balances drop in step with market fluctuations is disconcerting, to say the least. Human nature is to avoid risk; you may be gravitating toward ultra-conservative assets to safeguard your savings instead of “taking a chance” in stock-based investments.

While it is unnerving to see investment values drop, it’s important to take a deep breath, step back and put your situation into perspective. The stock market has been fluctuating up and down since day one, so a drop in value is nothing new.

Buy low and sell high

It’s the oldest investing advice in the world. But when investors are left to make their own decisions, it can turn worse when driven by greed and fear. As stocks rise, greed motivates investors to jump in, hoping to ride the markets higher. When stocks take a hit, these same emotionally driven investors fear greater losses and cash out after the market bottoms. In effect, they have bought high and sold low.

Getting out of a rough market may mean avoiding volatility. But that’s not all investors miss when they cash out of stocks: Sure, volatility means stocks drop, but stocks can also rise—sometimes quickly and dramatically. Staying invested means you can benefit if and when a recovery occurs. Remember past performance does not guarantee future results.

Volatility can potentially mean opportunity

A down market offers some compelling potential opportunities, especially for someone with a couple of decades before retirement. By contributing to a stock-based retirement plan now, you are buying more shares than you could have with the same amount of money a couple of years ago, because stock prices have dropped. If you continue contributing a consistent amount monthly, as you would in a typical retirement plan, you potentially benefit from fluctuating markets: As stock prices rise, you buy fewer shares; as stock prices drop, you buy more. This is called dollar-cost averaging.

Dollar-cost averaging does not assure a profit and does not protect against market loss. This type of plan involves continuous investment in securities regardless of fluctuating price levels, so investors should consider their financial ability to continue their purchases through periods of both high and low price levels.

Workers should also consider saving money outside of a retirement account. Set up automatic contributions and direct some pay into an investment or savings account. As elementary as it may seem, an automatic plan works well for most people.

Help when you need it

Don’t feel like you have to go it alone. We can help you cope with an uncertain market, and you can always talk things over with a licensed financial professional.

Your Future is Calling. Meet It with Confidence.

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