

Debunking three myths on volatility

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When the market has a downturn, you might be tempted to switch to a more conservative investment approach. Be careful though – you may be surprised to learn that seemingly ‘low-risk’ strategies might actually put your retirement at risk.

1

“Investing conservatively protects my savings”

It’s true that conservative investments can weather the market’s downside better than many aggressive strategies. But going too conservative or taking your money out of the market entirely can also be risky. While it may limit the downside, it can also limit potential upside. In other words, you may be curbing potential growth and missing out on decades of compounding.

2

“Volatility is a bad thing”

Let’s face it – no one likes volatility. Still, ups and downs in the stock market are often par for the course when seeking higher returns – growth that helps meet your retirement goals. Remember, volatility often feels worse in the short term, and the further away your retirement, the less you may need to worry about the day-to-day, or even month-to-month, balance of your account.

3

“I’m ready to retire, so it’s time to go low-risk to protect my assets”

A 65-year-old with a lifetime of savings should generally have less risk in their portfolio than a 25-year-old with little cash and a lifetime of earnings ahead of them. It’s also likely that you may live for decades after you retire. Investing too conservatively too early could mean giving up the growth needed to meet your long-term spending needs.

Remember to consider

Stick with your retirement plan

Market gains can be made and lost in just a few trading days. If you miss the bounce back from a down market, your return could be much less than someone who stayed invested with a diversified portfolio.

Hold the right mix of investments

A retirement portfolio likely has stocks for growth and bonds to hedge in the event of a downturn. While conservative investments have a role to play, remember that a portfolio heavily weighted in bonds is more common for investors nearing or in retirement.

Consider the costs of staying out of the market

When you think about the decades of retirement spending ahead of you along with the growth you may need, consider the costs of investing too conservatively.

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