

Market Volatility and Your Retirement

Stock prices rise and fall every day. That's perfectly normal. In fact, you've probably noticed periods when the stock market gains for several weeks or even several months. These increases are the reason we invest in stocks in the first place. However, prices can also fall, sometimes for extended periods. Knowing what to do—and what not to do—during difficult times in the stock market may help you manage your retirement investments.

Don't Count Paper Losses

Any losses your investments suffer during market declines are only “paper losses” until you sell the investments to switch with other investments (or to take a cash distribution). As long as you continue holding an investment, you haven't lost money yet. Your portfolio may be able to recover from its paper losses over time.

Don't Be Caught on the Sidelines

Selling your stock investments during down periods could potentially do more harm than good. Past market declines have often been followed by periods of price gains. You won't be able to benefit from potential upswings in the market if you have moved out of stocks and are sitting on the sidelines.

Look at the Long-term Record

Investing for retirement is a long-term goal. Although there are no guarantees, based upon historical stock market performance, no other asset class matches the potential of stocks to provide inflation-beating returns over the long term—despite periodic downturns. This fact may help you maintain a long-term view of investing when the market is falling.

Keep Your Portfolio Diversified

While it's true that stocks have an historical track record of long-term growth, consider the other types of investments your plan offers. Diversification simply means that you invest your plan money in a range of investments in several different asset classes (stocks, bonds, and cash equivalents). Then, if one investment type loses value, the others may gain or hold steady. This time-tested strategy can help you manage investment risk in your portfolio.

Stay Focused on Your Goals

Don't let market ups and downs make you lose sight of why you are investing—for a financially secure retirement. By focusing on your goal, you'll be more likely to make the right moves when the investment climate is stormy.

Source: Alight Solutions