Fear Must Not Inhibit a Financial Strategy

Too often, it persuades investors to make questionable moves.

Fear affects investors in two distinct ways.
Every so often, a bulletin, headline, or sustained economic or market trend will scare them and make them question their investing approach. If they overreact to it, they may sell low now and buy high later — or in the worst-case scenario, they derail their whole investing and retirement planning strategy.

Besides the fear of potential market shocks, there is also another fear worth noting — the fear of being too involved in the market. People with this worry are often superb savers, but reluctant investors. They amass large bank accounts, yet their aversion to investing in equities may hurt them in the long run.

Impulsive investment decisions tend to carry a cost.
People who jump in and out of investment sectors or classes tend to pay a price for it. A statistic hints at how much: across the 20 years ending on December 31, 2015, the S&P 500 returned an average of 8.91 percent per year, but the average equity investor's portfolio returned just 4.67 percent annually. Fixed-income investors also failed to beat a key benchmark: In this same period, the Barclays Aggregate Bond Index advanced an average of 5.34 percent a year, but the average fixed-income investor realized an annual return of only 0.51 percent.[1]

This data was compiled by DALBAR, a highly respected investment research firm, which has studied the behavior of individual investors since the mid-1980s. The numbers partly reflect the behavior of the typical individual investor who loses patience and tries to time the market. A hypothetical **average** investor who merely bought and held, with an equity or fixed-income portfolio merely copying the components of the above benchmarks, would have been better off across those 20 years. In monetary terms, the sustained difference in performance could have meant a difference of hundreds of thousands of dollars in earnings for an investor across a lifetime, given compounding.[1]

Other people are held back by their anxiety about investing.
They become great savers, steadily building six-figure cash positions in enormous savings or checking accounts — but they never sufficiently invest their money.

That confusion comes with a severe potential downside. Just how much interest are their deposit accounts earning? Right now, almost nothing. If they invested more of the money they were saving into equities — or some kind of investment vehicle with the potential to outrun inflation — those invested dollars could grow and compound over time to a degree that idle cash does not.

A large emergency fund is a great thing to have, but it can be argued that a tax-advantaged retirement fund of invested dollars is a better thing to have. After all, who retires on cash savings alone? Tomorrow's retirees will live mainly on the earnings generated from the investment of the dollars they have saved over the decades. Seen one way, a focus on cash is financially nearsighted; it ignores the possibility that even greater abundance may be realized through its sustained investment.

Fear dissuades some people from sticking with a long-term financial strategy and discourages other people from developing one. Patience and knowledge can help investors contend with the fears that may risk hurting their retirement saving prospects.

Contact us for help in financial planning.

Citations.
1 - zacksim.com/heres-investors-underperform-market/ [5/22/17]