Debunking three myths on volatility

When the market has one of its sharp downturns, you might think that switching to a conservative investment approach is the best way to ensure your money is readily available for retirement. But when you think about what's important for retirement savings – inflation protection and continued growth – you may be surprised that to learn that seemingly "low-risk" strategies actually might put your retirement at risk.

MYTH #1: "INVESTING CONSERVATIVELY PROTECTS MY SAVINGS"

It's true that conservative investments may weather the market's downside better than many aggressive strategies. But going too conservative or taking your money out of the market entirely also comes with risks. While it may limit the downside, it may also limit the upside. In other words, younger investors may be limiting their growth potential and missing out on decades of compounding. And if your return is less than the rate of inflation, your purchasing power in retirement could be decreased with the lost relative value of your savings.

MYTH #2: "VOLATILITY IS A BAD THING"

No one likes volatility. Still, ups and downs in the stock market are the price for potentially higher returns – growth you may need to meet your retirement readiness goals. Do keep in mind that 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. If swings feel uncomfortable, consider picking a quality investment with an appropriate balance of growth and downside protection and then try to avoid logging in to your account too often.

MYTH #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. But it's quite likely that you may live for decades after you retire. Investing too conservatively could mean giving up the growth you'll want to meet your long term spending needs. Being too conservative can be just as significant a problem as being too aggressive, causing you to run out of savings later.

HERE ARE THE FACTS >

YOU CAN'T CONTROL THE MARKET, BUT YOU CAN CONTROL YOUR ACTIONS

Your 401(k) or 403(b) plan is one of the most important savings vehicles you have. Saving as much as you can manage, having a plan, and choosing an appropriate investment are all under your control.

Sticking with your retirement plan is critical. Market gains are often made and lost in just a few trading days out of the entire year. If you are transferring your assets into conservative investments and miss the bounce back from a down market, your annual return may be much less than someone who stayed the course with a diversified portfolio. Missing that recovery could have a dramatic impact on your retirement readiness for decades.

In the same way sticking to a plan is critical, holding the right investments is just as important. A retirement portfolio may likely have stocks for growth and some fixed income to hedge in the event of an equity market sell-off. While conservative investments may have a role to play in your retirement, remember that building a portfolio heavily weighted in bonds is a common strategy typically reserved for investors nearing or in retirement.

Ultimately, when you think about the decades of retirement spending ahead of you along with the growth you may need, consider the costs of staying out of the market and investing too conservatively.