Saving for retirement? Wary of stock ups and downs? You're not alone. Consider these tips

NEWS

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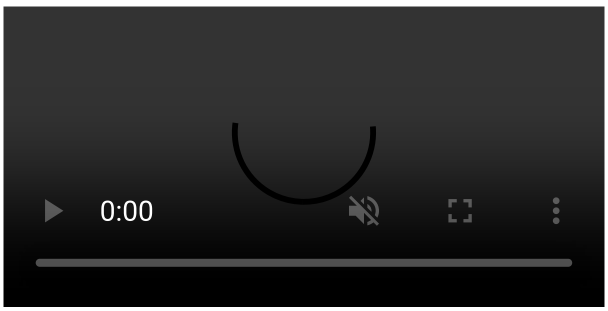
For FLORIDA TODAY



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- Moving savings to cash can lead to a guaranteed loss of purchasing power over time due to inflation and taxes.
- Fixed-income investments like bonds are not entirely safe and may only help your savings keep pace with inflation and taxes.
- Historically, diversified stock investments rarely lose money over long periods, such as 10 years or more.

Q: I am steadily saving for retirement but at the same time very anxious about world events and the stock markets. What can I do?

A: You may not understand your real choices and their consequences for your life savings. You are fearful of a true loss of a significant amount of this money, so you inquired about how to “reduce” the risk of your portfolio. It is truly hard to understand why reducing risk is difficult without a review of some investment facts and history.

Why don’t we go to cash, you ask? This is fine for short periods of time, with the only “risk” being missing out on the periodic sudden upward moves in the stock market. If you miss just a few weeks in some decades, you can miss out on large gains. And neither of us knows when those weeks will be. They can be when the markets look expensive or geopolitical events look scary (I’d argue that this is more often the case). When everything looks rosy it is often the time to worry about investments (think 1999 for tech stocks and 2006 for real estate).

Unless you have much more saved than you will ever spend (and knowing what this amount is will be left to another discussion), leaving your savings in cash is not risky, it is the formula for a certain inexorable loss of purchasing power. Every year, inflation and taxes will reduce the value of your savings, and after a couple of decades your savings could be cut in half. Guaranteed.

Maybe we can just increase the percentage of “safe” fixed income in the portfolio. These investments are “safe”, right? No, they really are not safe now or for the future. The long-term return of fixed income is at best a “keep in place” strategy after taxes and inflation. The expected long-term return of bonds is similar to their initial interest rate -meaning that in 2025 you should expect a return of around 4%. You will pay taxes and what is left over needs to keep up with inflation

I would not take that bet. We buy fixed income to have a buffer for withdrawals when the stock market has its occasional but regular downward volatility. Generally, when the stock market takes a drop in prices, bond prices stay stable or go up a little (although they did not with our recent high inflation and a rise in interest rates). There are fixed income investments that offer higher interest yields, but they carry various risks and don’t necessarily play the role of a buffer for the stock market volatility. For example, a high yield corporate bond fund might suffer at the same time as the stock market.

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So, what is there to do? We know that the historic record of stock investments (best done in low cost diversified funds) is that you almost never lose money over longer periods of time (10 years or more). But that means staying in the investments and understanding that they move up and down in price regularly. It is the long-term regular gains that you will reap for suffering this volatility.

What we cannot do (no one can) is to make a true real return after taxes and inflation any other way. If you do not have the emotional discipline to stay the course with your investments, seek out help.

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