3 reasons to invest in stocks

Not investing in stocks when saving for far-off goals may be risky.

Key takeaways

- Stocks and stock mutual funds or ETFs have offered the most growth potential compared to bonds and short-term investments.
- If you are saving for something years away, you can probably ride out stock market downturns.
- You don't need to invest all of your money in stocks—you can adjust the amount of stocks to reflect your time frame for investing, risk, tolerance, and financial situation.

When you're younger, saving for something that's years away—like retirement—may not seem important. But that is exactly when you should start saving. The more time money is invested, the more time it has to grow. And one of the ways to give money a chance to grow over the long term is by investing in some form of stocks—stock mutual funds, exchange-traded funds (ETFs), or a well-diversified mix of individual stocks. "In general, people can afford to be more aggressive in their investment mix when they are younger—that is, tilt more toward stocks," says Ken Hevert, Fidelity's senior vice president of retirement.

Yet, some younger people appear to be avoiding stocks. More than 4 in 10 millennials, born 1981–1992, may be investing more conservatively than they should, given their young age and the long period of time until retirement, according to our Retirement Savings Assessment.[1] That's not great, because too low an allocation to stocks can limit how much money a person may have when they retire. Earning a lower potential rate of return by investing too conservatively may limit the growth in your portfolio—leading to a lower overall balance by the time you retire.

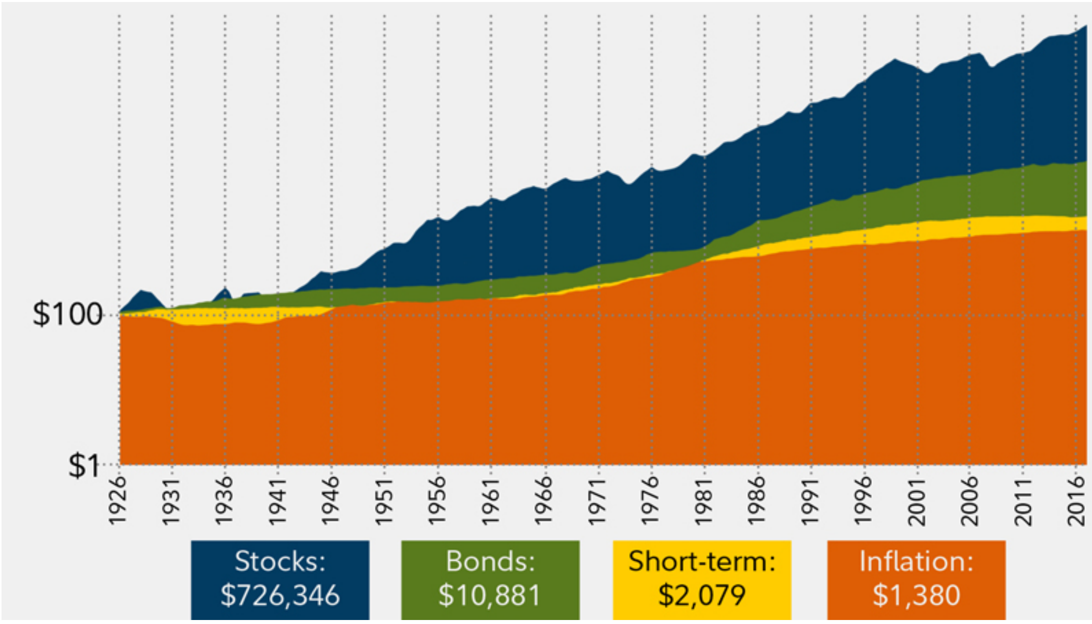
Other Fidelity data, however, suggests a potential bright spot. Many younger investors who have accounts with Fidelity have an appropriate allocation to stocks based on their age. This is because many plan sponsors use a target-date fund as the default investment option. Nearly 8 million of Fidelity’s savers use a "do-it-for-me" managed investment option, including target-date funds, and nearly 70% of millennials hold all of their retirement savings in a target-date fund.[2] With a target-date fund, you choose the fund that is closest to your anticipated year of retirement. The target-date fund manager selects, monitors, and adjusts the mix to match the fund's target retirement date.

If you are among the stock shy, here are 3 reasons to consider stocks when saving for a far-off goal like retirement.

1. Stocks have offered the most potential for growth

US stocks have consistently earned more than investment-grade bonds over the long term, despite regular ups and downs in the market. Take a look at what $100 would be worth over the history of the stock market (S&P began tracking performance in 1926). During this time, stocks returned an average of 10.01% annually, bonds 5.17%, and short-term investments 3.32%, before inflation.[3] Of course, it wasn't a constant straight line up for that whole time, but this shows that stocks have historically offered more potential for growth over the long term. That's why investing in stocks, stock mutual funds, or ETFs, is important when saving for retirement or other far-off goals.

What $100 would be worth over the history of the stock market



Source: Strategic Advisers and Morningstar/Ibbotson Associates 2018 (January 1926–December 2017). Hypothetical value of assets held in untaxed portfolios invested in US stocks, bonds, or short-term investments. Actual historical data were used to compute the growth of $100 invested in these portfolios for the period ending in December 2017. Stocks, bonds, and short-term investments are represented by total returns of the S&P 500® Index from 1/1926–1/1987; the Dow Jones Total Market from 2/1987–12/2017, the U.S. Intermediate -Term Government Bond Index from 1/1926–1/1976; Barclays Aggregate Bond Index from 2/1976–12/2017, and 30-day T-bills. Inflation is represented by the Consumer Price Index. Numbers are rounded for simplicity. Past performance is no guarantee of future results.

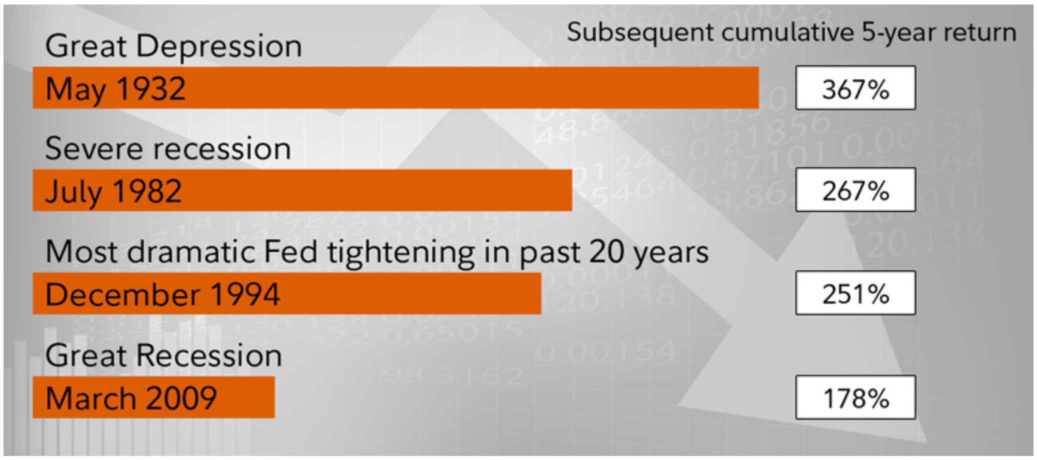
2. You can probably ride out stock market drops

If you're investing for a long period of time, it makes sense to own a significant amount of stocks. But if market drops still make you nervous, remember this: It may be painful for a time, but if the stock market behaves as it has over long periods, you should be able to ride it out. This is why stocks should be owned for the long term. It has taken many years, even multiple decades, to recover from the worst historical declines in the stock market. But, overall, stocks still offer the most growth potential, by far—as long as you can stay the course over the long term.

Thinking of it this way may help too: Losses are just on paper unless you sell your investments. If you are tempted to sell investments when they are down, remind yourself that you are investing for a time far in the future. So why lock in losses when you have time to ride the market back up? Also, if you save regularly and continue to invest during down markets (and the market demonstrates the kind of long-term growth that it has historically), you will be adding to your savings during those market dips, or "buying low." When the market recovers, you may be even better positioned for growth.

In fact, as the chart below shows, what looked like some of the worst times to be in the stock market turned out to be the best times. The best 5-year return in the US stock market began in May 1932—in the midst of the Great Depression. The next best 5-year period began in July 1982, when the US economy was in one of its worst recessions.

It has paid to stay invested in US stocks during troubled times



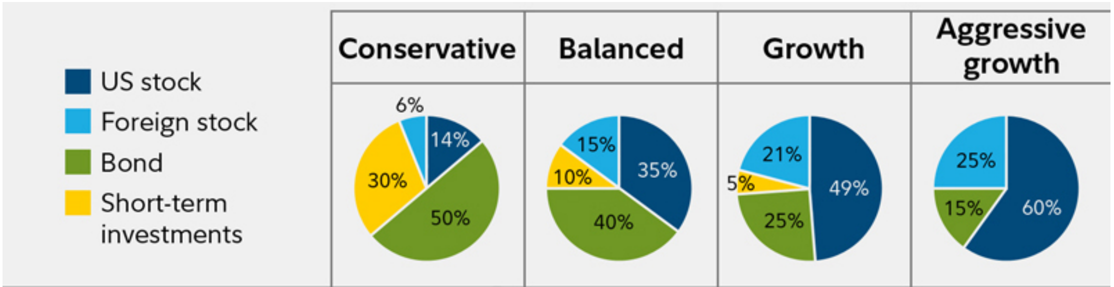
US stock market returns represented by total return of S&P 500® Index. **Past performance is no guarantee of future results.** It is not possible to invest in an index. First 3 dates determined by best 5-year market return subsequent to the month shown. Sources: Ibbotson, Factset, FMRCo, Asset Allocation Research Team as of March 31, 2015.[3]

3. You don't need to put everything in stocks

An appropriate mix of investments should be based on a person's time horizon, financial situation, and tolerance for risk. But, as a general rule, those with longer investment horizons have the capacity to take on the risk associated with a significant, broadly diversified exposure to stocks because there is likely time to recover from any short-term losses.

Take a look at 4 hypothetical investment mixes, to see how they would have performed over a long period of time. As you can see, the conservative mix has historically provided much less growth than a mix with more stocks—but a lot less volatility as well. The highs in the conservative mix weren't as high as those in the more stock-heavy portfolios, the lows weren't as low, and the distance between the extreme ends was much more narrow.

Choose the amount of stocks you are comfortable with



Annual return %	Conservative	Balanced	Growth	Aggressive growth
Average annual return	5.96%	7.96%	8.97%	9.65%
Worst 12-month return	–17.67%	–40.64%	–52.92%	–60.78%
Best 12-month return	31.06%	76.57%	109.55%	136.07%
Worst 20-year return (annualized)	2.92%	3.43%	3.10%	2.66%
Best 20-year return (annualized)	10.98%	13.83%	15.34%	16.49%
Historical volatility	4.50%	9.56%	13.06%	15.75%

Data source: Ibbotson Associates, 2018 (1926-2017). **Past performance is no guarantee of future results.** Returns include the reinvestment of dividends and other earnings. This chart is for illustrative purposes only and does not represent actual or implied performance of any investment option. See footnote 1 for detailed information.

What it all means

No matter your age—and how far away retirement is—you want to enjoy your retirement years and do the things you want without having to worry about money. To help you achieve that, the historical odds favor a diversified mix of investments with a significant exposure to stocks. So, beware of investing too conservatively. Get used to riding the ups and downs of the market. For those investing for the long term and saving regularly, a downturn can even help boost savings—because the same amount of money can buy more shares of a stock, stock mutual fund, or ETF at lower prices.