Monday, March 16, 2020

Staying the Course For Retirement

Investment markets around the world are experiencing unprecedented volatility which may have you asking yourself, what is happening and how concerned should I be? We wanted to share our thoughts on how you may want to view the current short-term environment so that you can make informed decisions.

Winds of Change or Business as Usual?

The novel coronavirus (COVID-19) has brought with it volatility in the stock and bond markets, causing many investors to wonder or worry about their retirement accounts. So, are the first blustery months of the new year a sign of things to come—or just a fleeting storm? No one can say for sure, but times like these are always a good time to reassess your goals, time horizon, short- and long-term capital needs, and level of comfort with the likelihood of continued short-term ups and downs in the financial markets.

Staying aware of your financial goals requires an understanding of where you are on your journey toward retirement. Determining your investment needs involves looking at your current age, your intended retirement age, how much you are saving, and your level of comfort as an investor.

Key Observations of the Markets

- Global Economic Growth: The coronavirus has had—and will continue to have for some time—an impact on the global economy. Already, it has affected everything from electronic parts suppliers in China to the price of oil, and the full effect of its impact has not yet been felt. It will take months—even years—to fully grasp the consequences.
- Low Interest Rates: While interest rates have been low since the financial crisis in the late 2000s, they have ticked even lower as investors have sought safety in less risky investments like bonds, particularly U.S. Treasurys. Low interest rates are a mixed blessing. They are helpful for homeowners as they refinance their mortgages, but hurtful for savers looking for yield to live off

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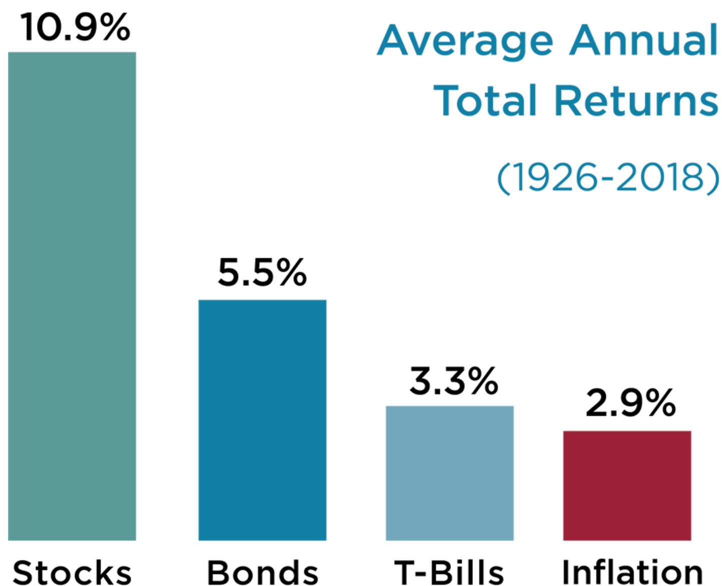
of.

Average Annual Total Returns

As Figure One shows, over time financial markets have generated positive returns. That being said, markets do not move higher every year. During some years, markets may move up and down.

Figure One: Stocks for the Long Haul



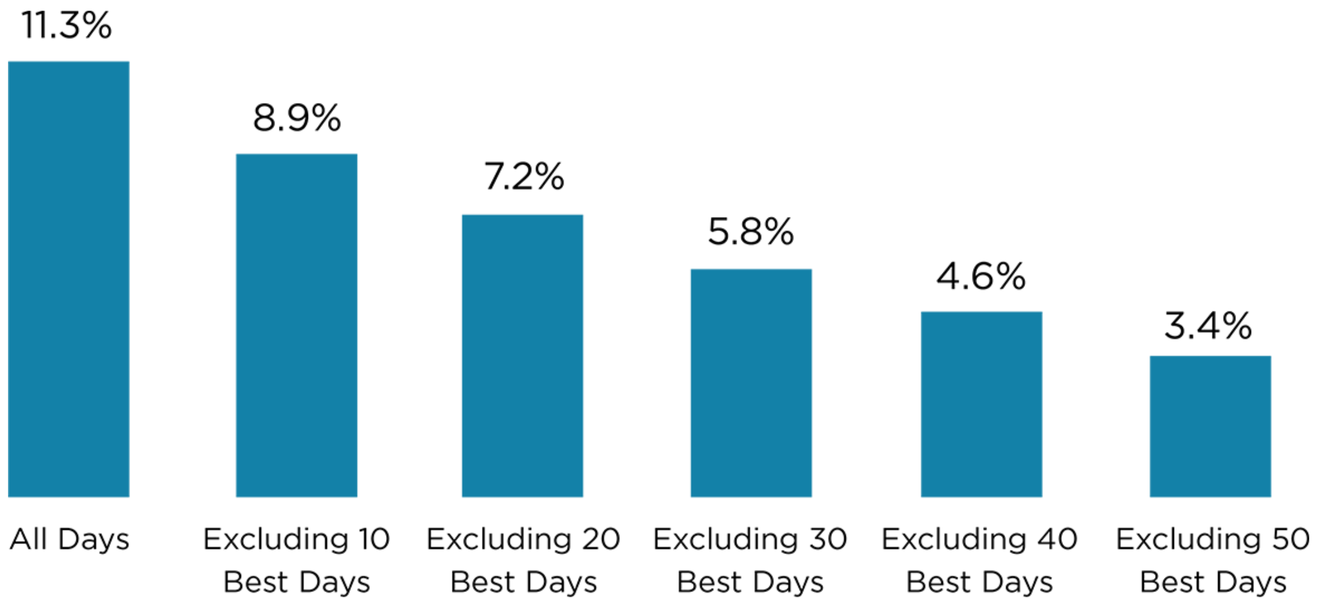
Source: Ibbotson

For example, between January 2010 and December 2019, there were three years when stocks (as measured by the S&P 500 Index) did not appreciate and calendar-year returns ranged from down 6 percent to up 30 percent. Despite these intra-year fluctuations, over the long term—from 1926 to 2018—stocks generated an average annualized return of about 11 percent—although investors only received an 11 percent return once over the past 40 years!

Plan for the Long Term

Keeping a long-term perspective amid daily financial market noise is essential. Recent stock market performance could cause some to wonder if they should wait it out and move to the sidelines. History tells us that attempts to time the market are usually met with poor results and missed opportunities. Figure Two demonstrates the folly of market timing. Investors who recognize that markets do not move in a straight line higher can benefit from staying in the market rather than trying to time short-term directional changes.

Figure Two: Time in the Market (1987 to 2019)



Source: BHB (1986) Determinants of Portfolio Performance

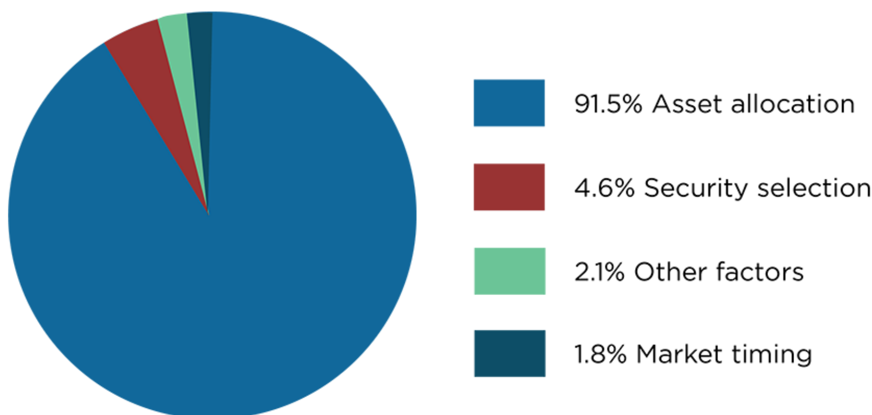
Looking at the S&P 500 Index (not including dividends), the annualized return from 1987 through 2019 was 11.3 percent. If you missed the ten best return days, your returns would have fallen to 8.9 percent. Missing the 30 best return days, your annualized returns would have fallen to 5.8 percent.

Finally, missing the best fifty days over this time period would bring the annualized return down to 3.4 percent, a full 7.9 percentage points lower than if you had remained in the market throughout this period.

Asset Allocation Matters

A concept commonly referred to as asset allocation is a powerful tool that enables you to spread your investments among the various options in your plan based on your risk tolerance and time horizon. Studies have shown that asset allocation is the single largest driver of your portfolio's return, significantly more important than security selection and market timing. As Figure Three shows, asset allocation, along with adequate savings, is a key to meeting your long-term retirement goals. Proper diversification among your plan's investment options is a critical investment concept.

Figure Three: The Power of Asset Allocation



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Source: CAPTRUST Research

Weathering the Winds of Volatility

The retirement journey can be challenging and you may occasionally feel like you need to pull up your collar and hold onto your hat. You should expect markets to fluctuate as long as economic growth remains uneven, but do not let short-term anxiety distract you from your long-term goals and objectives fostered through savings and retirement preparation.

Market performance illustrated here depicts historical performance by asset class using indices as a proxy and is not meant to predict future results. The information and statistics in this material are from sources believed to be reliable but are not warranted by CAPTRUST Financial Advisors to be accurate or complete.

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