BUILDING BLOCKS FOR RETIREMENT

Risk Tolerance

Considering Taking a Vacation from Stocks?

In today's hectic world, getting away from it all for a little while can be a wonderful thing. That's what a relaxing vacation is all about.

Should you apply the same logic when it comes to your investments? After all, the stock market can be really volatile at times. When the market gets jumpy, you may be very tempted to take a break and move your money into more stable investments. But taking even a short vacation from stocks could prove costly.

Hang On During a Bumpy Ride

Sudden drops in stock prices are not easy to stomach. But, if you move your money out of stock funds into less volatile investments whenever the market dips, you may miss out on future recoveries. Although past history is no guarantee of future performance, the market has eventually recovered after every downturn.

Don't Miss the Boat

Even if you plan to get back into the market when stock prices start to rise, you may lose out. It's impossible to know exactly when the stock market has reached bottom and is starting to recover. If you're late moving back into stocks, you could miss out on a lot of the comeback. Depending on one's risk tolerance and time horizon, staying the course with stocks may be a wise choice. Instead of leaving the stock market completely during periods of volatility, you can reduce your risk by increasing your diversification. Bond and cash equivalent investments, along with a mix of stock investments, can help keep your plan on track when stocks are declining.

In It for the Long Haul

Waiting out periods of short-term volatility will be easier if you focus on the fact that you are likely a long-term investor. Bear in mind that your goal is a comfortable retirement. Your best strategy may be to choose a mix of investments that has a good chance of growing and outpacing inflation — and stick with that plan.

701 Westchester Ave, Suite 320E, White Plains, New York, 10604

Historically, stocks have produced higher long-term returns than bonds or cash equivalent investments. So, unless there has been a major shift in your goals or your financial situation, you may not want to leave stocks because of short-term market volatility. When you're in it for the long haul, staying with an asset allocation that includes stocks may be the best way to reach your destination — a financially secure retirement.

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701 Westchester Ave, Suite 320E, White Plains, New York, 10604