BUILDING BLOCKS FOR RETIREMENT

Investment Strategy

How to Stay Cool in a Tough Market? Keep a Long Term Perspective

Over the last few weeks, we have seen significant changes to the financial system, with several major firms facing a financial crisis that has led to extraordinary intervention by the federal government—accompanied by large swings in the markets. While recent turmoil can easily shake the confidence investors have in the markets, it is important to put these events into perspective.

So What Should You, As A Retirement Plan Investor, Do?

It is important to have an investment strategy—and just as important to be able to stick to that strategy during good and bad markets. Unless your goals, circumstances, or reasons for investing in a particular fund have changed, then you should consider not making changes to your portfolio.

History shows us that the markets have always recovered.

Remember the stock market crash of 1987? What was once considered the largest single-day drop in stock market history now barely even registers on the stock charts 21 years later. In fact, over the past 60 years, there have been 12 bear markets, lasting an average of 14 months and declining by a total of 22.4% before recovering. In contrast, the 12 bull markets since 1948 have lasted an average of 45 months, each growing an average of 123.9%.[1] There has never been a 20-year period in which investments in the stock market yielded negative returns.[2]

Bull Markets Vs. Bear Markets (12/31/48-6/30/08)

	Bull	Bear
Occurrences	12	12
% of time in economic recessions	72%	28%
% of time in economic expansions	78%	22%
Average length (months)	45	14
Average annual return	23.5%	-20.0%
Average cumulative return	123.9	-22.4%

[1] Source: Putnam Research
[2] Jeremy Siegel, "Investing for the Long Run"

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

Having a long-term perspective can help investors get through this turbulent time.
Industry research demonstrates that over the last 20 years, stock fund investors who held shares for an average of just over 3 years before selling earned less than half the return of the S&P 500 Index—4.5% vs. 11.8%.[3] Market gains have more than made up for losses for those investors who stayed invested over time. Stocks are among the most risky investments over the short term and can have wide swings in volatility, but offer the potential for the highest returns over the long term.

Diversification is key.
While time horizon is essential in building an investment strategy, so too is being a well-diversified investor. If one type of investment suited all of your needs all of the time, investing would be simple. Unfortunately, no investment does well all the time, for anyone. Diversification can help you lessen your dependence on being in the right place at the right time. Diversification takes advantage of the fact that different investments react differently to changes in the economy and the financial markets. The more diversified a portfolio—and the greater the variety of investments—the less likely it is that you will be negatively affected by the poor performance of a single investment.

Your retirement savings plan offers a number of different investment options. They range from low-risk, money-market funds to stocks (or equities), which involve more risk. In between are the fixed-income funds and asset allocation funds. Asset allocation funds blend stocks and bonds and other fixed income investments. In each case, the tradeoff is the same: more secure investments offer lower potential returns than higher-risk investments. Of course, all investments carry some level of risk. The right mix of investments for you will depend on a number of factors, including the number of years you have until retirement, your lifestyle and financial situation, and whether you have the temperament to withstand volatile market swings.

Take some comfort in dollar cost averaging
Through your employer's 401(k) plan, you can dollar cost average—invest your money at regular intervals in the same investment. Because you invest the same amount each time under dollar cost averaging, you automatically buy less of this investment when its price is higher and more when its price is lower. Though dollar cost averaging doesn't guarantee a profit or guard against a loss in declining markets, the average cost of each share is usually lower than if you buy at random times.

Rebalance your account
Because the market is always fluctuating, taking a look at your investment elections periodically is important to make sure that no one investment category or type of fund has grown to dominate

[3] Source: DALBAR, Inc. Quantitative Analysis of Investor Behavior, 2008

your portfolio. At least annually, consider rebalancing your account to make sure that it continues to reflect the allocation you have mapped out to meet your retirement goals.

Continue to save.

Stock market losses can have a more significant impact if you are close to retirement because you will need that much more time or a market rebound to bring your portfolio back to where it needs to be for you to retire comfortably. While no one knows how much further the markets will decline or how long they will take to recover, keep in mind that investors who move their savings to ultrasafe investments after a market decline and then leave them there usually miss out on the early gains when the markets come back. While short term investments generally carry less risk of volatility, you run the less obvious risk that your assets won't earn enough to stay ahead of inflation, or inflation risk.

As you make investment decisions, it is important to note that your ability to accept risk will likely change as the years pass. While your investments can change as your needs change, market timing in reaction to the latest financial news is difficult even for the most seasoned investors. You should exercise care if you are considering making any changes to your retirement plan investments because of the current market volatility. Your 401(k) plan will deliver retirement security to you if you take full advantage of both the power of compounding and the benefits of long-term investing. Remember, to do this you should consider taking the following steps:

- Invest for the long term, considering how long you have before you to need to use your savings
- Diversify your investments
- Rebalance at least annually

Remember, a long term perspective is key.

This material is provided solely for informational purposes and does not constitute investment, tax, legal or accounting advice on the matters addressed. Neither Pentegra Services, Inc., its subsidiaries, nor any of their respective employees intend that this material should be relied on as investment advice, which should be sought from a professional advisor. Performance information shown reflects past performance and does not indicate or guarantee future investment results. Current and future results may be lower or higher than those shown. ©2019 Pentegra Retirement Services

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