



by Christopher L. Jones
Chief Investment Officer

Why Should You Invest in the Stock Market?

The last few weeks have seen much higher than normal volatility in the stock market. Thursday saw yet another downward move of more than 4% as investors reacted to more signs of a slowing economy.

Nobody likes to lose money. We are hardwired to dislike losses far more than we enjoy gains—it is part of our human nature. On days like today, you may wonder why you are investing in the market at all. But losing money when the market goes down is an unavoidable consequence of investing for growth in the long run. If you want your account to grow significantly, you have to be willing to experience losses some of the time.

The stock market tends to go up over time—a little less than 10% per year over the last 100 years in the United States. This is why investing in stocks is attractive for retirement investors. But the returns from stocks vary tremendously from year to year. Sometimes you do much better than expected; other times you lose money.

There is no way to avoid this risk/return tradeoff. You can avoid losses by investing in very conservative assets, but if you do, your account is not going to grow much. For instance, the yields on cash and short-term U.S. bonds are very close to zero right now. If you invest in assets with very low returns, you will have to save much more of your current income to enjoy a successful retirement.

If you want higher growth rates for your portfolio, you must take on the risk of losing money when markets are poor. A properly diversified portfolio can help reduce the losses in a market downturn, but it will not eliminate them. We might like to believe that we can sidestep the losses by moving in and out of the market. But the reality is that almost no one can do this consistently. There is no free lunch. Higher expected returns come with a higher risk of loss.

So What Can You Do?

You can reduce the pain of losing money by making regular contributions to your 401(k) account, and making sure you have a diversified portfolio at a risk level that is appropriate for your time horizon. Focus on the long-term goal of a successful retirement, not the day-to-day market news and volatility. Markets will go up and down each day, but in the long run they go up more often than they go down. Don't let the pain of short-term losses prevent you from enjoying a successful retirement strategy.

If you have concerns about your account, feel free to call our Investment Advisor Representatives. We are here to help you make the most of your retirement savings, no matter what the future may hold.