PAID ADVERTISEMENT

Investing for Retirement:

Stay the Course for Long-Term Success

Stock market volatility can hamper even the best laid plans. And when it comes to retirement savings, we're all at risk of losing faith in our goals and objectives. In fact, the standard SEC disclaimer that past performance does not guarantee (or predict) future results exists because one of the more common approaches for choosing mutual funds is to rely on prior-period performance, despite decades of academic research showing that such behavior has consistently produced below-benchmark returns.

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The culprit is a cognitive bias known as the recency effect, which is the inclination to focus on returns over the recent past and project them into the future. The result is a tendency to "chase" positive results, jumping into funds that have done well recently (often at high prices, after the great performance is known) and out of funds that have done poorly recently (often at low prices, after the loss already has occurred).

Unfortunately, buying high and selling low isn't exactly a recipe for success. And doing so is precisely how you end up earning lower returns than the very funds in which you invest.

The solution, while it may appear counterintuitive, is to follow a disciplined rebalancing strategy that systematically sells what has performed relatively well recently and buys what has performed relatively poorly recently pursuant to the asset allocation set out in your financial plan, which in turn is guided by your retirement goals and risk tolerance.

That way you make investment decisions based on your goals and what's most important in your life, not from fear of losses (or fear of missing out) and the whims of the market. Circumstances may require you to reassess your objectives, but don't abandon a sound, long-term financial plan simply because of short-term market fluctuations. If you don't have a financial plan, create one now, before the next market correction begins and you're tempted to make a knee-jerk reaction. While no one can reliably predict when such corrections will occur, it is a virtual certainty they will. Ask yourself: Have my circumstances or my retirement objectives changed? If not, stay the course and try to enjoy the ride.

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