Second Quarter 2019

Too Conservative an Investment Stance Can Also Be Risky

Many investors viewed November and December of 2018 as a precursor of worse things to come. Rather than take a chance on losing more money, they've opted to sit out the current market volatility in cash.

But sitting it out can end up costing you far more than being invested. Markets are volatile and investing will always have some element of risk but money that is not invested and earning returns is also at risk. Very few people can afford to retire on just their savings without having those savings earning money. Inflation eats away at the value of a dollar every day. At today's 12-month average 2.5% inflation rate, $100,000 will lose 39% of its value in 20 years.

Sometimes it helps to step back and think about what investing really is. Investing is very different from speculating. Equity investing is purchasing ownership in a business with the expectation that the business will grow and produce profits, increasing the value of your ownership. Over the short-term, stock markets are not necessarily logical. Share prices will be volatile and may not reflect the value of the company, but rather the emotional reactions of millions of investors to domestic and global news, economics, political factors, and much more. Over the long term, the realities of the company's performance are more consistently reflected in stock prices.

When you invest in an index, you are investing in the overall market segment the index represents. While an index is less dependent on individual company performance, its long-term prospects will still reflect the growth of the underlying market.

It's one thing to move to cash when markets are falling, but to stubbornly remain in cash when the market's trend turns back up needs a better reason than fear of a future loss. For retirees it can be very tempting to not take chances. Cash as a safe harbor is comforting. But without a salary to bring in additional funds, spending principal combined with the impact of inflation can quickly deplete your savings.

Active investment approaches accept that markets are volatile, but strive to turn that volatility into opportunity, taking advantage of the fact that financial markets have historically spent far more time moving up than they have falling. While there is never a guarantee that an investment approach will prove profitable and there is always the potential for loss, by having a plan, one is less likely to sit out rising markets in cash for fear of what the future might bring.

Unless you have all the money you will ever need, you need the income potential investments can offer. Your goal should be to avoid excessive or irrational risks, diversify the risks you do take and stay the course.

TOP