Preparing for retirement:

The risks of not investing

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While we know there are risks in investing, are there risks in not investing? In December 2020, households were holding about $16 trillion in cash – more than three times as much as at the beginning of 2000.* Having this much cash on the sidelines can be risky too. By not investing, you may not achieve your long-term goals. Ultimately, it's important to remember why you're investing and to understand the risks of not investing.

Reason for investing

To provide for your future income in retirement

Potential risk of not investing

Not retiring on your terms – either later than you planned or with a potentially reduced lifestyle

*Source: Federal Reserve, Financial Accounts of the United States.

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It's all about income

Whether it is 10 years or 40 years away, retirement is probably one of your long-term financial goals. And your investments will need to provide income when a job no longer provides you a regular paycheck. So, how much money do you need? The "Rule of 25" is a quick rule of thumb. Take the amount of money you need from your portfolio for income each year (remember to account for inflation) and multiply by 25. That's a rough estimate of how much you need your portfolio to be worth when you retire.

You can't meet long-term goals with short-term investments

Taking an appropriate amount of market risk may be necessary because it's difficult to meet long-term goals with only short-term investments. The most quoted "rule" of investing – the "Rule of 72" – illustrates this point. Take 72 and divide it by your expected return, and that's about how long it will take your money to double. Therefore, earning a 7% return will take just over 10 years to double, a 3% return will take nearly 24 years, and a 1% return will take more than 70 years to double.

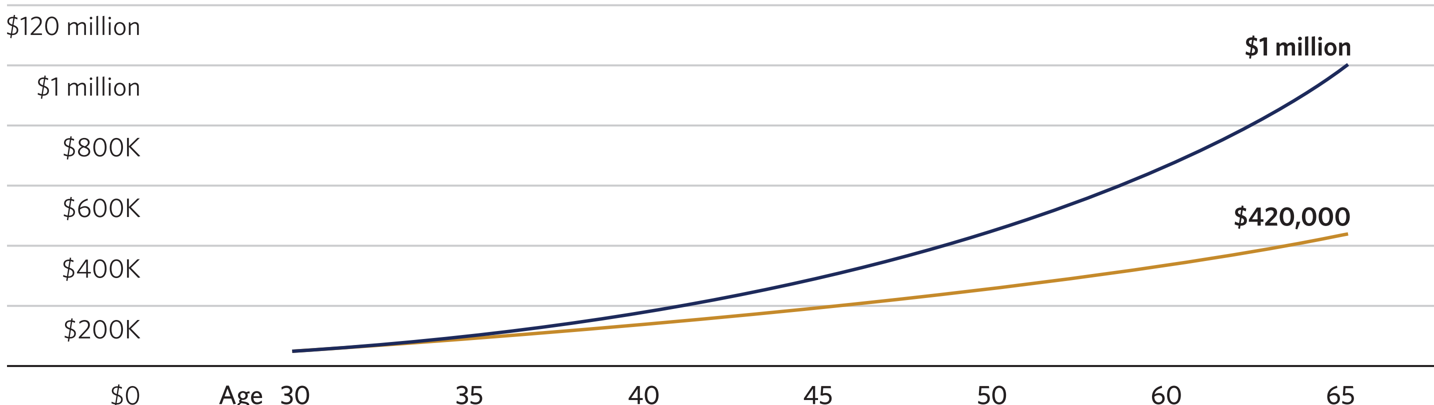
Rule of 72

Average annual return	Years to double investment
7%	~10
3%	~24
1%	~72

Source: Edward Jones estimates. The Rule of 72 is a general rule of thumb that is for illustrative purposes only. It assumes a constant rate of return.

The different effects of the Rule of 72 can be dramatic when you're saving for retirement. As you can see, the difference between a 7% return and a 3% return isn't simply 4%: It could be nearly $600,000 for your retirement, depending on your contributions and your time horizon. By not investing, you could be risking the potential size of your portfolio, the future income provided from your portfolio and, therefore, your potential lifestyle in retirement.

Same contributions, different returns, different results



Source: Edward Jones. Assumes saving $550 per month, rounded to the nearest $5,000. Hypothetical example for illustrative purposes only and does not reflect the performance of a specific investment.

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Actions for investors

Focus on the long term: Typically, the declines aren't what derail our strategies; it's our reactions to those declines. While stocks certainly can be volatile short term, the long-term trend for stocks has been positive – the longer your time horizon, the higher the likelihood of achieving a positive annual return.

But we still recommend having some of your portfolio invested in fixed-income and international investments, because historically a more balanced portfolio experienced a higher likelihood of a positive return over time and helped reduce any potential declines, as shown in the table below. Ultimately, your specific mix of stocks and bonds will be driven primarily by your goals, your risk tolerance and the time until you need the income in retirement.

The importance of a long-term focus

	100% U.S. stocks		Balanced toward growth (65% stocks/33% bonds/2% cash)	
Rolling period	Odds of positive return	Lowest return over period	Odds of positive return	Lowest return over period
1 month	64.7%	-21.5%	67.2%	-12.4%
1 year	82.1%	-43.3%	86.0%	-31.5%
3 years	88.5%	-40.9%	90.6%	-22.7%
5 years	89.9%	-29.1%	99.2%	-9.9%
10 years	93.7%	-29.5%	100%	4.6%

Source: Morningstar Direct, 1/1/1976–7/31/2021. The hypothetical portfolios are for illustrative purposes only. The portfolio of 100% U.S. stocks is represented by the S&P 500 Index. Balanced toward growth consists of the following indexes: Barclays U.S. Trsy Bellwethers 3Mon (2%), Barclays U.S. Agg Bond (26%), Barclays U.S. HY 2% Issuer Cap (3%), Barclays Global HY USD (2%), Barclays Gbl Agg Ex U.S. (2%), S&P 500 (31%), FTSE NAREIT All Equity REITs (2%), MSCI EAFE (13%), Russell Mid Cap (8%), Russell 2000 (3%), MSCI EAFE SMID (3%), MSCI EM (5%) and Bloomberg Commodity (0%). Indexes are unmanaged and are not available for direct investment. Investing in stocks involves risk. The value of your shares will fluctuate, and you may lose principal. The prices of bonds can fluctuate, and an investor may lose principal value if the investment is sold prior to maturity. Special risks are inherent in international investing, including those related to currency fluctuations and foreign political and economic events. Past performance of the markets is not a guarantee of what will happen in the future

Be disciplined: It's easy to fall into the trap of buying when you feel good and selling when you feel bad, which often means buying high and selling low. To reach your goals, it's important to remain focused and adhere to your long-term strategy.

As the example on Page 4 shows, you'd be well above your starting point if you stayed invested during the downturn in 2008. Investors who abandoned their strategies, however, could still be well below where they started and further from their goals.

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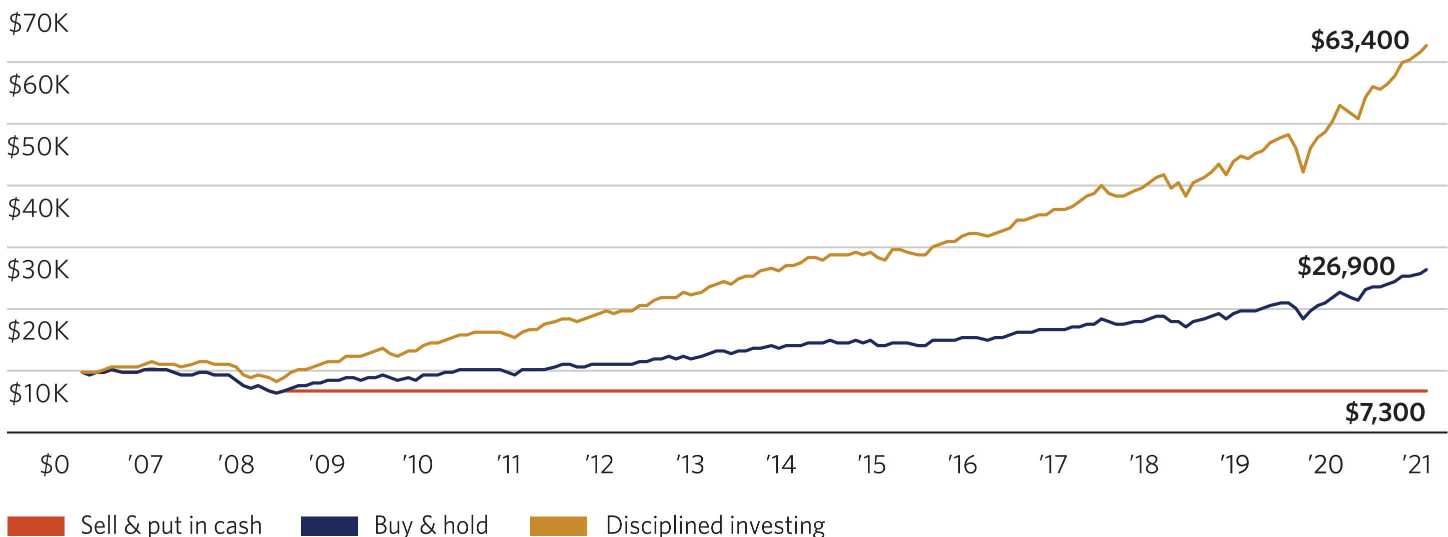
Use declines to your advantage: We also recommend a disciplined approach. Consider investing a set amount every month, regardless of what the market is doing, to help take emotions out of the equation. Interestingly, this strategy can help turn market declines into opportunities. Since they will be investing through these declines, disciplined investors have the opportunity to "buy low." Note: Systematic investing does not guarantee a profit or protect against loss. Investors should consider their willingness to keep investing when share prices are declining.

Investing through volatility

$10,000 invested in 65% stocks/35% bonds



Source: Morningstar Direct, 1/1/2007-7/31/2021. The hypothetical portfolios are for illustrative purposes only. Results may vary for a portfolio with similar holdings. Stocks represented by the S&P 500 Total Return Index. Bonds represented by the Barclays U.S. Aggregate Bond Index. "Sell" is selling the initial investment and investing in cash in February 2009. Return on cash is assumed to be zero. "Buy and hold" is maintaining the initial investment during the entire time frame. "Disciplined investing" is maintaining the initial investment and investing $100 a month into the portfolio during the entire time frame. Rounded to nearest hundred. Indexes are unmanaged and are not available for direct investment. Investing in stocks involves risk. The value of your shares will fluctuate, and you may lose principal. The prices of bonds can fluctuate, and an investor may lose principal value if the investment is sold prior to maturity.

Remember *why* you're investing

Any time you go through periods of market fluctuations, it's important to remember why you're investing – to reach a financial goal. And if retirement is that goal, the bottom line is one word: income.

Although investing poses risks, such as market declines, not investing can also be a risk to your financial future. The key is finding balance – not too much investment risk, while ensuring you have enough growth potential to reach your long-term goals. Talk to your financial advisor today to ensure your strategy is best positioned to help you reach your goals.

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