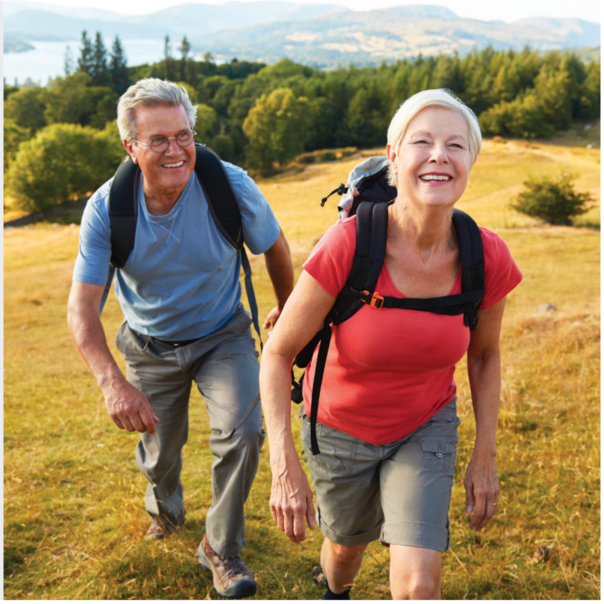
Preparing for retirement

The risks of not investing

Katherine Tierney, CFA®, CFP® • Senior Strategist
Client Needs Research



While we know there are risks in investing, are there risks in not investing? In December 2023, households were holding about $17 trillion in cash — even when adjusting for the effects of inflation, this represents about twice 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.

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 taxes) and multiply it 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 6% return will take just about 12 years to double, a 3% return will take nearly 24 years, and a 1% return will take more than 70 years to double.

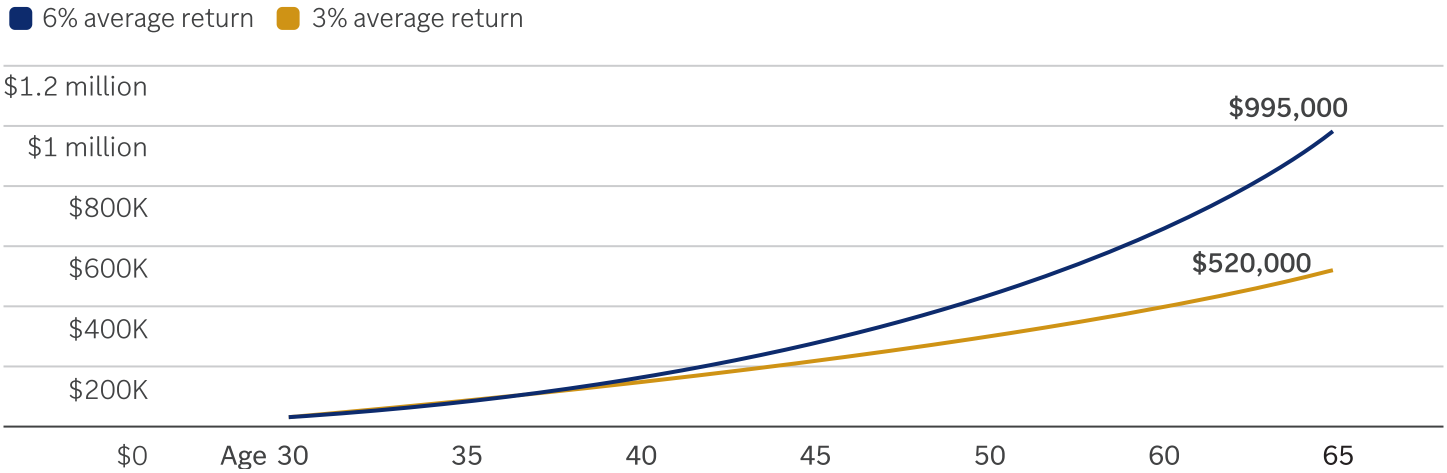
Rule of 72

Average annual return	Years to double investment
6%	~12
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 6% return and a 3% return isn't simply 3%: It could be nearly $500,000 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 estimates. Assumes saving $700 per month. This hypothetical example is for illustrative purposes only and does not reflect the performance of a specific investment. Values rounded to the nearest $5,000.

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, 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 following table. 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% stocks		65% stocks/35% bonds	
Rolling period	Odds of positive return	Lowest return over period	Odds of positive return	Lowest return over period
1 month	65%	-22%	67%	-15%
1 year	81%	-43%	83%	-28%
3 years	88%	-16%	91%	-7%
5 years	90%	-7%	99%	-2%
10 years	94%	-3%	100%	-0%

Source: Morningstar Direct, 1/1/1980–12/31/2023. Stocks are represented by the S&P 500 TR USD Index. Bonds are represented by the Bloomberg US Aggregate TR USD Index. An index is unmanaged and is not available for direct investment. We assume reinvestment of interest and dividends back into the indexes. The 65% stocks/35% bonds portfolio is rebalanced at the beginning of each year. For illustrative purposes only, not a portfolio available for investment. Historic average annual returns incorporate the impact of compounding over time. Calculations do not include the impacts of trading, liquidity, costs, fees or taxes a client can experience when investing, which would lower performance results. Diversification and rebalancing do not ensure a profit or protect against a loss in a declining market. Past performance does not guarantee future results.

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.

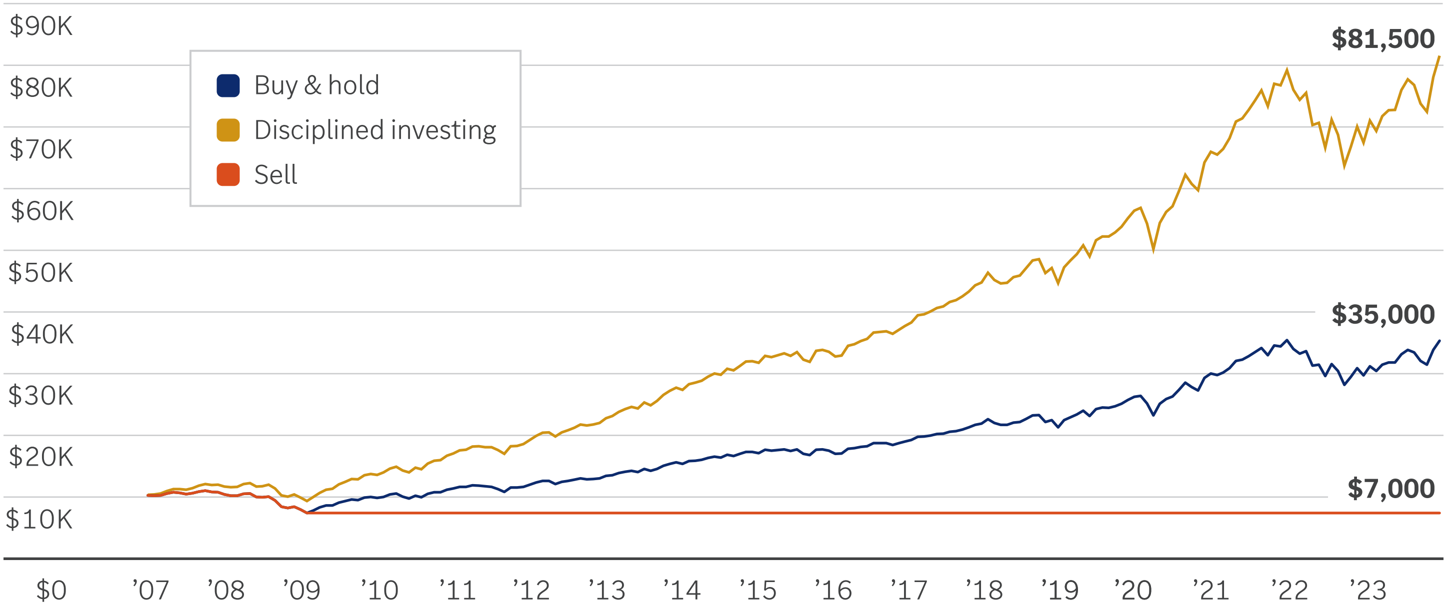
As the example on Page 4 shows, you'd be well above your starting point if you stayed invested during the downturn in 2008. Investors who abandoned their strategies, however, could still be well below where they started and further from reaching their goals.

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.

By following a disciplined approach, you'll be able to invest through these declines and 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, 1/1/2007-12/31/2023. Stocks represented by the S&P 500 TR USD Index. Bonds represented by the Bloomberg US Aggregate TR USD Index. An index is unmanaged and is not available for direct investment. We assume reinvestment of interest and dividends back into the indexes. "Sell" assumes keeping the initial allocation until February 2009, when the portfolio is sold and invested in cash. Return on cash is assumed to be zero. "Buy and hold" assumes maintaining the initial allocation during the entire time frame. "Disciplined investing" assumes maintaining the initial allocation and investing $100 a month into the portfolio during the entire time frame. Historic average annual returns incorporate the impact of compounding over time. For illustrative purposes only, not a portfolio available for investment. Calculations do not include the impacts of trading, liquidity, costs, fees or taxes a client can experience when investing, which would lower performance results. Diversification and rebalancing do not ensure a profit or protect against a loss in a declining market. Past performance does not guarantee future results. Values rounded to the nearest $500.

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.

