Retirement Point

NEWS FOR PLAN SPONSORS AND PARTICIPANTS

November 2018

Investing Means Tolerating Some Risk

That truth must always be recognized

THE MONTH IN BRIEF

October certainly lived up to its reputation for volatility. The S&P 500 suffered its second correction of the year as investors wondered if they were seeing early signs of the peak of the current business cycle, absorbing news of moderating corporate earnings, while also considering the potential impact of higher interest rates and tariffs. Real estate indicators, for the most part, left much to be desired; labor, manufacturing, and consumer spending and confidence indicators were in better shape. Overseas, major and minor reductions in economic growth were forecast for various nations. In the commodities sector, oil and gasoline posted major losses.[1]

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	1.60	7.44	12.31	16.93
NASDAQ	5.83	8.59	17.28	32.45
S&P 500	1.43	5.30	10.88	17.99
REAL YIELD	**10/31 RATE**	**1 YR AGO**	**5 YRS AGO**	**10 YRS AGO**
10 YR TIPS	1.10	0.50	0.40	3.14

Sources: wsj.com, bigcharts.com, treasury.gov - 10/31/18[19,20,21,22]

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

MONTHLY QUOTE

"I have learned that to be with those I like is enough."

– *Walt Whitman*

MONTHLY TIP

Some travelers routinely buy car rental insurance. That may not be necessary, because most personal auto insurance policies and some credit cards provide rental car coverage. Consumers should ask their insurer or card issuer just what is covered before they arrange a rental vehicle.

MONTHLY RIDDLE

It is as old as the world, and yet new each month. What is it?

Last month's riddle:

A thief steals $100 from a cash register at a store. An hour later, he returns with the same $100 and buys $70 worth of goods, receiving $30 back in change. How much does the store ultimately lose to the thief?

Last month's answer:

$100. The store loses $70 of goods, plus the $30 in cash it returns to the thief as change.

Investing Means Tolerating Some Risk

That truth must always be recognized

When financial markets have a bad day, week, or month, discomforting headlines and data can swiftly communicate a message to retirees and retirement savers alike: equity investments are risky things, and Wall Street is a risky place.

All true. If you want to accumulate significant retirement savings or try and grow your wealth through the opportunities in the markets, this is a reality you cannot avoid.

Regularly, your investments contend with assorted market risks. They never go away. At times, they may seem dangerous to your net worth or your retirement savings, so much so that you think about getting out of equities entirely.

If you are having such thoughts, think about this: in the big picture, the real danger to your retirement could be being too risk averse.

Is it possible to hold too much in cash? Yes. Some pre-retirees do. (Even some retirees, in fact.) They have six-figure savings accounts, built up since the Great Recession and the last bear market. It is a prudent move. A dollar will always be worth a dollar in America, and that money is out of the market and backed by deposit insurance.

This is all well and good, but the problem is what that money is earning. Even with interest rates rising, many high-balance savings accounts are currently yielding less than 0.5% a year. The latest inflation data shows consumer prices advancing 2.3% a year. That money in the bank is not outrunning inflation, not even close. It will lose purchasing power over time.[1,2]

Consider some of the recent yearly advances of the S&P 500. In 2016, it gained 9.54%; in 2017, it gained 19.42%. Those were the price returns; the 2016 and 2017 total returns (with dividends reinvested) were a respective 11.96% and 21.83%.[3,4]

Yes, the broad benchmark for U.S. equities has bad years as well. Historically, it has had about one negative year for every three positive years. Looking through relatively recent historical windows, the positives have mostly outweighed the negatives for investors. From 1973-2016, for example, the S&P gained an average of 11.69% per year. (The last 3-year losing streak the S&P had was in 2000-02.)[5]

Your portfolio may not return as well as the S&P does in a given year, but when equities rally, your household may see its invested assets grow noticeably. When you bring in equity investment account factors like compounding and tax deferral, the growth of those invested assets over decades may dwarf the growth that could result from mere checking or savings account interest.

At some point, putting too little into investments and too much in the bank may become a risk – a risk to your retirement savings potential. At today's interest rates, the money you are saving may end up growing faster if it is invested in some vehicle offering potentially greater reward and comparatively greater degrees of risk to tolerate.

Having a big emergency fund is good. You can dip into that liquid pool of cash to address sudden financial issues that pose risks to your financial equilibrium in the present.

Having a big retirement fund is even better. When you have one of those, you may confidently address the biggest financial risk you will ever face: the risk of outliving your money in the future.

For more information on investment choices for your retirement plan, please call our plan's advisor at 703-595-4444 or email at info@pointoak.com

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ACR#301161 11/12

