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Buying Low

A market downturn can have a potential upside for retirement savers.

You wake up, and markets are down. Wall Street has turned pessimistic, and the gloom seems pervasive. The good news is, if you are saving for retirement and invested in equities, there may be an upside for you – not necessarily today, but in the future.

Market cycles may herald opportunities. If you are the typical retirement saver who directs a set amount of money per month into your retirement accounts, a market drop may let you acquire a greater number of these shares – at a cheaper price.

If you contribute to your retirement accounts monthly, you do not need to adjust your saving strategy to accomplish this. It just happens – you are suddenly picking up more shares than you normally would for the same amount of money.

Perhaps most importantly, this happens automatically and without emotion. Emotion is one of the biggest threats to a retirement saving strategy. Abrupt and emotional decisions can lead to retirement saving regrets – if only you hadn't done this, if only you had done that.

Keep in mind that dollar-cost averaging does not protect against a loss in a declining market or guarantee a profit in a rising market. Dollar-cost averaging is the process of investing a fixed amount of money in an investment vehicle at regular intervals, usually monthly, for an extended period of time regardless of price. Investors should evaluate their financial ability to continue making purchases through periods of declining and rising prices.

The return and principal value of stock prices will fluctuate as market conditions change. Shares, when sold, may be worth more or less than their original cost.

What kind of potential are we talking about? Since the future is always a question mark, it is hard to say. For some encouragement, consider this example.

If a young retirement saver had opened an investment simply tracking the S&P 500 index in 1980, things would have seemed grim initially. The index sank 27% between the fall of 1980 and the summer of 1982, entering a bear market. A skittish retirement saver might have emptied the account and walked away – and in fact, six more bear markets would follow over the four decades to come. The patient retirement saver who rode through the highs and lows, however, would have seen their initial 1980 investment grow steadily from 1980-2020 – and consistently contributing to such an account each month would imply an even greater compounded return.[1]

The S&P 500 Composite Index is an unmanaged index that is considered representative of the overall U.S. stock market. Index performance is not indicative of the past performance of a particular investment. Past performance does not guarantee future results. Individuals cannot invest directly in an index. The return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.

Time in the market is often more important than trying to time the market. Patience and consistency in your retirement saving effort may position you well for the future, especially if you see the silver lining – the buying opportunities – in market dips.

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> *"The most valuable player is the one that makes the most players valuable."*
>
> \- PEYTON MANNING

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This article is strictly an explanation of a certain approach to retirement saving, and not an endorsement or recommendation of a strategy. If this approach interests you, feel free to explore it by consulting a professional before attempting it.

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Citations
1. New York Times, July 8, 2022

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