Why Now Is The Perfect Time To Make This Smart Retirement Savings Move

Description

One of the most difficult aspects of investing is timing. All investors would love to know how to buy stocks in the FTSE 100 or S&P 500, for example, at their lowest level in order to maximise their gains. Similarly, their retirement savings would probably be much brighter if the top of the stock market was easy to call.

Ultimately, it is near-impossible to accurately predict exactly when the stock market cycle will turn. At the present time, though, it could be a smart move to gradually plan for future challenges. There are a number of threats facing the world economy, while the valuations of defensive stocks in the FTSE 100 and S&P 500 continues to be relatively appealing.

Defensive stocks

While the world economy is growing at a relatively fast pace, defensive stocks could be worth a closer look. After all, a full-scale trade war between the US and China may be on the cards. Already, tariffs have been placed on exports from both sides, and there is the potential for the situation to quickly ramp-up over the coming months. And while US growth has been strong under President Trump, inflation remains a potential threat over the medium term following tax cuts and proposed higher spending levels.

As a result, focusing on companies that have a track record of performing well in more challenging trading conditions could be a shrewd move. It may be the case that a specific stock has enjoyed a decade of strong growth. However, there has been a bull market that has lasted for nearly ten years. A recession or bear market could lead to highly-indebted companies and those with weak cash flow struggling in future.

Valuations

While stock indices such as the [FTSE 100] and S&P 500 have enjoyed strong gains in recent years, the reality is that a number of stocks within a range of indices are still cheap. They are often defensive stocks which have lacked appeal in the past versus their faster-growing cyclical peers. But with the economic and stock market cycles likely to turn at some point over the coming years, they could offer excellent value for money.

In fact, a mix of low valuations relative to the wider index and the prospect of a more difficult economic outlook could make defensive stocks highly appealing. While they may continue to struggle in the near term if the economic outlook for the global economy remains upbeat, they could provide higher returns in the long run.

Since calling the top of the stock market is notoriously difficult, focusing on valuations could be a good means of determining the right moment to switch from defensives to cyclicals and vice-versa. With defensive shares being relatively cheap, and cyclicals being somewhat expensive, the present time could be the perfect time to begin the gradual reallocation of capital to more resilient businesses. Doing so could improve a portfolio's long-term prospects, given the risks facing the world economy.

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