Are You Making These 3 Retirement Mistakes?

Description

Investing for retirement does not need to be a complicated process. The growth potential of the stock market means that it provides the opportunity for anyone to enhance their prospects of retiring early, and of enjoying financial freedom in older age.

Many investors, though, hurt their chances of achieving their retirement goals through a variety of mistakes. Overcoming the following common errors could, therefore, boost your retirement prospects and lead to an improving financial future.

Start today

Since retirement feels like a very distant event until it is just around the corner, many people fail to start planning for it at a young age. However, the impact of compounding and the historic performance of the stock market show that starting to invest for retirement as early as possible can have a huge impact on your financial situation in older age.

For example, assuming an annual return of 8%, an investment made today in the stock market could increase seven-fold over a 50-year time period. Even though a 30-year time period may still seem to be an adequate length of time to build a retirement portfolio, the same investment would increase in value by just 3.3 times in that time.

As such, starting to invest today for your retirement could be a sound move that has a tremendous impact on your income level in older age.

Diversify

Many investors seek to capitalise on the growth prospects of the stock market through owning a relatively limited number of companies. This may mean that they have high potential returns, but it also leads to a significant amount of risk. For example, should one holding within a concentrated portfolio report disappointing results, it could have a major impact on an investor's retirement prospects.

Therefore, diversifying could be a shrewd move. This not only means holding a larger number of stocks, but also seeking to own companies that operate in different regions and in a variety of industries. The end result may not only be smoother returns that are less volatile, but also higher capital growth as an investor is able to capitalise on the performance of a wider range of businesses, sectors and countries.

Long-term view

For many people, investing for retirement provides the opportunity to take a long-term view on their investments. In other words, they can be patient when it comes to allowing their holdings to deliver on their strategies and competitive positions within specific markets.

However, some investors seek to buy and sell in quick succession. This not only increases their commission costs, but also threatens their retirement prospects through potentially missing out on extended bull markets when they are invested in cash or other assets that provide lower returns than the stock market.

Certainly, there are times when the stock market's valuation is high. But it can remain so over a relatively long period of time. As such, holding on to your best-performing stocks and allowing your portfolio to benefit from improving investor sentiment can be a sound long-term move that improves your prospects of retiring early.

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