Millennials: The Biggest Retirement Savings Mistake You Can Ever Make

Description

While planning for retirement may not be a priority for everyone, doing so can be a worthwhile move. It could lead to early retirement, as well as a high degree of financial freedom in older age.

However, when planning for retirement, many individuals make a common mistake that could limit their long-term financial prospects. They focus on low-risk assets, such as cash, rather than higher-risk assets such as stocks. In doing so, they accept lower potential returns which, given their long-term time horizon, may not prove to be the most logical use of their capital.

Low-risk investments

For many people, planning for retirement means putting money into a savings account on a regular basis. Although this may build a sizeable sum over the long run, the reality is that it is unlikely to provide a nest egg that is large enough from which a generous passive income can be drawn in retirement.

The key reasons for this are that interest rates on cash savings are likely to remain low over the medium term. Fears surrounding the prospects for the global economy may mean that policymakers adopt a cautious stance on monetary policy. In addition, the impact of inflation means that the interest generated on cash savings may be insufficient to improve the spending power of your capital over the long run.

Higher-risk investments

Therefore, it could be a good idea to take greater risks with your capital. This could entail buying a range of stocks that together provide an appealing risk/reward opportunity.

Over the long run, they could offer a significantly higher level of return than lower-risk investments such as cash. For example, major indices such as the S&P 500 and FTSE 100 have historically offered high-single digit annualised total returns that are likely to be many multiples of the returns that cash holdings can offer.

In addition, accessing the returns from the stock market is now easier than ever. Online sharedealing accounts can be opened in a matter of minutes, with their charges being significantly lower than in previous decades. This makes the stock market highly accessible to a range of investors, with only modest sums of capital required to benefit from the high potential returns that equities offer.

Potential losses

Clearly, there is scope to lose a larger proportion of your capital from investing in the stock market when compared to holding cash. The reality for most investors, however, is that they have many years, and even many decades, until they are likely to retire.

Since no bear market has ever lasted in perpetuity, and major indices such as the S&P 500 and FTSE 100 have always recovered from their downturns to post higher highs, most investors have time for their retirement portfolios to recover from challenging periods.

As such, taking a long-term view, investing in stocks and accepting there will be volatility ahead could be a good idea when it comes to planning for retirement. Ultimately, it is likely to lead to higher returns, and help to bring retirement a step closer.

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