1 Simple Retirement Mistake That Could Cost You Dearly

Description

Planning for retirement is a difficult process that includes a number of potential pitfalls. Among them is focusing on short-term challenges, rather than long-term buying opportunities.

Of course, it is easy to listen to market 'noise' and to fail to consider company fundamentals during uncertain periods for the economy. However, by focusing on company fundamentals, you may be able to build a portfolio that can generate high returns in the long run.

By capitalising on the cyclicality of the stock market, as opposed to fearing its short-term volatility, you could boost your retirement prospects.

Short-term considerations

The outlook for the world economy is currently relatively uncertain. Risks to its growth rate include the ongoing trade war between the US and China, as well as geopolitical challenges in a variety of regions. Any one of them could prompt a major recession which would be likely to cause a downturn in the stock market.

As a result, many investors are demanding wider margins of safety in stock prices. This has led to a period of volatility over recent months, with many investors becoming increasingly cautious about the outlook for their portfolios.

While this situation may persist over the coming months, long-term investors should view it as a buying opportunity. The stock market has always experienced bull markets and bear markets. Neither ever last in perpetuity. Therefore, buying during downturns can maximise your chances of generating high returns in the long run.

Company fundamentals

Instead of worrying about the prospect of short-term paper losses, it may be more effective to consider company fundamentals. At the present time, for example, there are a wide range of businesses that have solid balance sheets, strong cash flow and successful track records of growth. Yet, since the outlook for the world economy is uncertain, they trade on wide margins of safety.

This could present a buying opportunity for long-term investors. They may be able to purchase high-quality businesses while they trade on low valuations, and in doing so mirror the strategy that has been highly successful for investors such as Warren Buffett. He, and other value investors, have capitalised on the cyclicality of the stock market through buying stocks during uncertain periods for the world economy. Although this can lead to short-term paper losses, it may generate a sizeable portfolio in the long run.

Time horizon

Most people who invest in shares have a long time horizon. They are likely to be net buyers over the next few years. Therefore, it is logical for them to desire lower share prices to obtain a more appealing risk/reward ratio.

For share prices to trade at low levels, there must be risks to the economy's growth outlook. As such, accepting short-term volatility in return for long-term growth potential could be a worthwhile move. It could help you to avoid the common mistake of listening to market 'noise', and may improve your retirement prospects.

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