Planning for Retirement? Don’t Make This Simple Mistake After a Stock Market Crash

Description

Severe declines in stock prices can lead many investors to seek safety in lower-risk assets. They may determine that after a stock market crash it is better to avoid potential declines in the short run through purchasing bonds or holding cash.

However, that may not be a logical move for investors who have a long-term time horizon. Buying stocks while they offer wide margins of safety and when you have time for them to recover before retirement could improve your prospects of building a sizeable nest egg. As such, now could be the right time to put together a diverse portfolio of stocks and hold them for the long run.

Uncertain outlook

The performance of the stock market since the start of 2020 has been highly volatile. Investors have experienced significant paper losses at times, which may continue over the coming months. As a result, the safe havens of cash and bonds may seem to be highly attractive. After all, there is a far lower chance of losing money.

However, those assets are unlikely to provide a high return in the long run. Interest rates are relatively low at the present time and may be reduced to provide support to the economy. This may mean that the returns on your capital struggle to beat inflation over the coming years, which ultimately reduces your spending power. This could even push your retirement date back as you fail to benefit from the long-term return potential of the stock market.

Long-term horizon

If you have a long-term time horizon, there is likely to be time for the stock market to recover from its recent challenges. Certainly, this may take a number of years. However, stocks have always been able to overcome the risks they have faced, and in doing so have provided an annualised return over the long run which is in excess of other mainstream assets.

At the present time, there appear to be a number of high-quality businesses trading on low valuations. History has shown that buying them can be a successful means of generating relatively high returns. While they may not provide an instant recovery that boosts your retirement prospects, over time the past performance of the stock market and the world economy suggests that a turnaround is highly likely.

Starting today

As such, now could be the right time to avoid the common mistake of investing in low-risk assets when the stock market may be at a highly attractive level. Doing so could limit your return prospects over the long run, and may harm your retirement plans.

By contrast, buying a diverse range of stocks while they trade at discounts to their intrinsic values could enhance your long-term financial prospects. Although paper losses may be ahead should the stock market experience yet more volatility, the potential rewards on offer in the coming years seem to be substantial.

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