Save the emotion when retirement planning

Q: The news worries me. My husband and I are both 45 and plan to work until we are 67. We are currently invested in balanced mutual funds, but the market is high. Should we switch both of our 401(k) investments to cash? Please advise us.

A: It’s not good for long term investors to make decisions based on news or market highs. The best investment decisions are made when the focus is on the investor’s personal situation. Since you have 22 years before you plan to retire and withdraw funds from your retirement accounts, stay the course. You have enough time for markets to correct – and rebound – without affecting your retirement goal.

Investments made emotionally, and trading using technical charts, are market timing. To successfully time the market you have to be lucky enough to know when to get out of the market and also lucky enough to know when to get back in. These strategies are rarely successful without the power of luck or the benefit of hindsight.

Job growth has slowed this year compared to 2014, but construction and commerce continues to click higher. The dollar is stronger. Oil is cheaper. Year over year, consumer sentiment and current economic conditions are up. But those statistics don’t promise a peaceful escalator ride up. Events happen.

Markets defy logic. Don’t try to apply rational thinking to market movements or try to predict. Warren Buffet once said, “I never have the faintest idea what the stock market is going to do in the next six months, or the next year, or the next two."

Here’s my favorite: "No, I don’t believe in market timing. I’ve been around this business darn near a half-century, and I know I can’t do it successfully. In fact, I don’t even know anyone who knows anyone who has ever successfully timed the market over the long term." - John Bogle, Founder of The Vanguard Group.

Check out the big losses for International stock funds last year; these same mutual funds have already posted about 9.5% returns year to date.

Timing Federal interest rate movements have been just as tough. If you switched to short duration bonds in anticipation of interest rate hikes, you probably missed out on some positive long term bond yields in 2014.

You can achieve better results by using your time horizon for investment planning. If you need the money soon, don’t invest it. Keep it in a savings account. If you have a long time, invest it.

If you watch the daily volatility of the markets and get nervous, reduce your exposure to equities or, better yet, stop watching. We all know the value of a good night’s sleep.

Major business news networks run 24 hours a day even when there is no news to report. They amplify small things to appear large. It’s hard not to get worried.

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