Investing

Are you making these investing errors?

Retirement plan investors sometimes make mistakes that can inhibit the growth of their portfolio and possibly result in losses. Many investors may not even be aware that they are making these investing errors. Here's a look at several of these errors as well as some tips that can help you avoid making those same mistakes.

1 Panic selling

It is not a pleasant feeling when an investment you own starts falling in value. You may second guess your reasons for buying that investment in the first case and wonder if it will ever climb back in value again. You may even be tempted to sell and try to cut your losses. Rather than selling in a panic, it is much smarter to take a step back and focus on the fact that many investments experience short-term fluctuations. Try to determine if your investment's price decline is due to general weakness in the overall market and not because of any fundamental underlying problems. Always remember that investing for retirement is a long-term goal.

As someone investing for a financially secure retirement, your best strategy is to choose an asset allocation that matches your time horizon before retirement, your ability to handle investment risk and your investment objectives. Then give your strategy time to work. You always have the option of changing your investments, but reacting to every dip in the stock market can be a mistake.

2 Investing too conservatively

You may be risk-averse and tend to play it safe when it comes to choosing investments to include in your retirement plan portfolio. However, by investing too conservatively, you may not earn investment returns that keep up with the inflation rate. Since inflation reduces the future buying power of your savings, you will need to adjust your investments to earn inflation-beating returns.

Typically, the way to earn returns that outpace the rate of inflation is to take on some investment risk and include stock investments in your retirement portfolio. Doing so will increase its potential for long-term growth. Historically, stock returns have outpaced the annual inflation rate and have produced higher long-term returns than other asset classes, such as bonds and other cash equivalent investments. Of course, past performance is no guarantee of future returns.

3 Contributing too little

If you are not saving enough, it's unlikely that you will reach your retirement goal. All else being equal, the greater the percentage of your income that you contribute to your retirement plan, the greater your chance of attaining retirement security.

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Determining exactly how much to contribute from each paycheck depends on a variety of factors – your salary, your expenses, and other assets you have that are set aside for retirement. However, if your employer offers a matching contribution, you should at least contribute enough to get the full match. You should also commit to boosting your contribution rate whenever you get a bonus or a pay raise. By making saving for the future a financial priority, you will increase the likelihood that you can have the financially secure retirement you hope for.

4 Taking loans from the plan

Plan sponsors often offer a loan feature to their defined-contribution plans. Generally to reassure some plan participants that they can access some of their plan savings in a financial emergency. However, it's best to avoid taking advantage of this option since plan loans can have a negative impact on your retirement security. For starters, you lose growth opportunities while the money you borrow is not in the plan. You will be repaying the loan plus interest over time, so no actual return is earned since you are the one paying interest on the money you borrowed.

In addition, you will have to repay your loan using after-tax dollars. And when the money is distributed to you from the plan at retirement, you will have to pay income tax on the money again. Therefore, you will experience a double taxation on the money.

5 Stay focused on your goals

Investing for retirement can be challenging for most people. However, you can increase your chances of success by avoiding the mistakes that other investors frequently make. Stay focused on your goals, and do not let your emotions get in the way of your progress.

If you have questions about your workplace retirement plan, please contact your Human Resources department or your retirement plan provider's customer service center.