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Wise Choices

No do-overs

Everyone makes mistakes. The little ones are generally not a big deal. Others, however, are more serious—and could have long-lasting consequences. Since there are no do-overs when it comes to saving for retirement, you'll want to make sure you avoid these common mistakes.

Mistake #1: Not contributing enough
The amount you contribute each pay period can make a big difference in the total amount you have in your account at retirement. Contributing a little is better than not contributing at all. If you started small, plan to increase the amount you're contributing gradually until you're saving enough to meet your goal.

Mistake #2: Not setting a goal
Don't have a specific goal? Your next step should be to come up with an estimate of how much you need to save. If you don't set a goal, you can't measure your progress and you could end up without enough savings to fund your retirement.

Mistake #3: Being too conservative
The stock market can be a scary place to invest. But if you focus only on the short-term risks of investing in stock funds or portfolios, you might decide to invest your retirement account too conservatively. Over the long-term, stocks historically have earned inflation-beating returns that have surpassed the returns of bonds and other less risky choices. If too much of your account is in these lower risk investments, you may not earn the long-term returns you need to meet your goal.

Mistake #4: Overreacting to market movements
If volatility causes your account balance to drop sharply, resist the urge to cut your losses and sell all your stock investments. Otherwise, you will have locked in your losses and you'll be watching from the sidelines and not be able to take advantage of a market recovery. Much of the stock market's past growth has occurred during short periods. If you're not invested in stocks during similar periods that may occur in the future, you could miss out on significant growth.

Get it right the first time
Contribute early and often. Set a savings goal. Choose investments that are consistent with your savings goal and investment timeline and review them at least once a year. These fundamental tips can help you avoid mistakes that might jeopardize your retirement.

What's risk got to do with it?

The possibility of losing money on investments affects people in different ways. One investor may cringe at the thought and put everything into cash alternative investments,* another investor might focus instead on the potentially higher returns associated with riskier investments, such as stocks, and invest a significant amount in them.

Risk factors
How you feel about risk can impact your investment choices for your retirement account. Here are some of the risks you may face as an investor depending on your investment choices.

Market risk is the risk of losing money when an investment market declines and is different from company risk, which is risk specific to a particular company. Dividing your investments among different asset classes may help reduce market risk because gains in one asset class may help offset declines in another.

Interest-rate risk is the risk that the value of a debt security like a bond or a note (or a bond fund or portfolio) will decrease as interest rates increase. When interest rates rise, the prices of existing bonds and notes decline because they are less attractive to investors because they pay less interest than newly issued bonds and notes. The longer the duration of a debt security, the more sensitive its price will be to changes in interest-rates.

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Default risk is the chance that a bond issuer may stop making interest payments or fail to repay the principal when the bond matures. Choosing funds and portfolios that hold high-quality bonds from issuers with good credit ratings can help limit default risk.

Inflation risk is the chance that investment earnings won't keep up with increases in the cost of living. Even when the rate of inflation is low, choosing all low-risk investments can reduce the effectiveness of your investments because low-risk investments offer lower potential returns and as a result do not offset the effect of inflation as well as higher return investments.

Find your balance
Only you can decide how much investment risk you can comfortably handle given your investment timeline and your goal of a financially secure retirement. How close you are to retirement can play a role in your decision, since even aggressive investors may become more conservative as they get closer to retirement.

*Note that cash alternative investments may not be federally guaranteed or insured and that it is possible to lose money by investing in cash alternatives. Returns on cash alternative investments may not keep pace with inflation.

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