AIG Retirement Services

Emotions and your money

Your employer's retirement plan could be one of your most valuable benefits.

Work with your financial advisor to create a disciplined strategy that helps you avoid emotional decisions. In financial matters, our famous "fight or flight" reflexes can tell us to do exactly the wrong things for our portfolios.

Don't panic ... you could "lock in your losses"

In the long "bear market" of 2007-09, when the market was down 50%, some people pulled their funds – such as their retirement savings – out of the equity markets and moved their assets to conservative investments like cash ... to prevent further losses.

The problem? If they didn't just happen to move their funds back into the equity markets at exactly the right time, they missed at least the beginning of the recovery, during which the Dow rose from around 7,000 (March 2009) to 27,000 (July 2019).

That's why experts advise against "market timing" – trying to jump out of the market before it goes down, and jump back in right as it heads back up. The path that most advisors support is to ride it out. Investing for retirement is a long-term process, and the one way to be sure you are in the market at the beginning of a rally is never to be out of the market.

In late 2009, Vanguard reported that 60% of their investors were back to pre-downturn values in their portfolios. The exceptions were those who were still on the sidelines.

Go with history ... not emotion

Before you make financial moves, it's often a good idea to do your own research, or consult a professional. But here are the facts. The chart below shows the historical performance of the Standard & Poor's (S&P 500) Composite Index.* You can see that after every "bear" market in the past 50 years, the index has recovered, as has the overall stock market, and gone on to higher levels.

Periods of decline	Market decline	Months until new record high
December 1961-June 1962	-28.0%	14
February 1966-October 1966	-22.2%	7
November 1968-May 1970	-36.1%	21
January 1973-October 1974	-48.2%	70
November 1980-August 1982	-27.1%	3
August 1987-December 1987	-33.5%	20
July 1990-October 1990	-19.9%	4
March 2000-October 2002	-49.2%	56
October 2007-April 2013	-56.8%	66

*"Standard & Poor's®," "S&P 500®," "Standard & Poor's 500" and "500" are trademarks of Standard & Poor's Financial Services LLC. The Standard & Poor's (S&P) 500 includes a representative sample of leading companies in leading industries that reflect the U.S. stock market. Indexes are not managed funds, have no identifiable objectives and cannot be purchased. They do not provide an indication of how individual investments performed in the past or how they will perform in the future. Past performance of an index does not guarantee the future performance of any investment.

Investing requires discipline

One way to prevent emotions from sabotaging your investing is to create a disciplined investment strategy and stick with it. Your financial advisor can help. A strategic approach to allocating your assets can help minimize the effects of the market "roller coaster" on your portfolio, with a strategy that accounts for your time horizon and your tolerance for risk.

Remember past performance is not a guarantee of future results. But history suggests that eventually, even the worst downturns will turn around. Short-term moves can have long-term effects on your saving for the future.

Talk to your financial advisor for more information.

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