Saving Is Not Enough

Shying away from investing can cost you


Avoiding the market is detrimental in the long run

We all want our money to grow over time, which is why we make sacrifices and save for the future instead of spending right away. However, what many people don’t realize is that simply putting money in a savings account every month will do very little to enhance your wealth.

As the stock market’s “lost decade” is drawing to a close, there are still about $2.6 trillion sitting in money-market funds. After two financial crises occurring almost back to back, investors have every right to be risk-averse, hesitant, angry, or distrustful.

The problem with not investing at all, however, is that you may not have sufficient money to achieve your financial goals.

Find the right risk–return combination for you

An individual saving 10% of the average wage, in equal monthly installments, would have put away only $95,045 since 1970 (national average wage for 2011 was $43,341). By taking that money and placing it in five-year fixed-term (relatively low-risk) investments, the investor would have been able to almost triple that amount. And if invested in a diversified portfolio, our investor’s savings would have grown to $688,157.

It’s true that any investment involves some level of risk. For example, look at the dip taken by the diversified portfolio in 2007–2009. But, as the image illustrates, even if you are only willing to tolerate a very low level of risk, you can find a suitable investment for your needs that will still be much better than no investment at all.

Past performance is no guarantee of future results. This hypothetical example is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Holding a portfolio of securities for the long term does not ensure a profitable outcome and investing in securities always involves risk of loss. The diversified portfolio was created for illustrative purposes only; it is neither a recommendation, nor an actual portfolio. Government bonds are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than bonds. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, and differences in accounting and financial standards. Diversification does not eliminate the risk of experiencing investment losses. The data assumes reinvestment of income and does not account for taxes or transaction costs. Annual 10% savings rate is based off the average wage of each year from 1970 to 2011. The 2011 number is an estimate.