You learn lessons as you invest in pursuit of long-run goals. Some of these lessons are conveyed and reinforced when you begin saving for retirement, and others you glean along the way.

First & foremost, you learn to shut out much of the “noise.” News outlets take the temperature of global markets five days a week (and even on the weekends), and fundamental indicators serve as barometers of the economy each month. The longer you invest, the more you learn to ride through the turbulence caused by all the breaking news alerts and short-term statistical variations. While the day trader sells or buys in reaction to immediate economic or market news, the buy-and-hold investor waits for selloffs, corrections and bear markets to pass.

You learn how much volatility you can stomach. Volatility (also known as market risk) is measured in shorthand as the standard deviation for the S&P 500. Across 1926-2014, the yearly total return for the S&P averaged 10.2%. If you want to be very casual about it, you could simply say that stocks go up about 10% a year – but that discounts some pronounced volatility. The S&P had a standard deviation of 20.2 from its mean total return in this time frame, which means that if you add or subtract 20.2 from 10.2, you get the range of the index’s yearly total return that could be expected 67% of the time. So in any given year from 1926-2014, there was a 67% chance that the yearly total return of the S&P might vary from +30.4% to -10.0%. Some investors dislike putting up with that kind of volatility, others more or less embrace it.

You learn why liquidity matters. The older you get, the more you appreciate being able to quickly access your money. A family emergency might require you to tap into your investment accounts. An early retirement might prompt you to withdraw from retirement funds sooner than you anticipate. If you have a fair amount of your savings in illiquid investments, you have a problem – those dollars are “locked up” and you cannot access those assets without paying penalties. In a similar vein, there are some investments that are harder to sell than others. Should you misgauge your need for liquidity, you can end up selling at the wrong time as a consequence. It hurts to let go of an investment when the expected gain is high and the P/E ratio is low.

You learn the merits of rebalancing your portfolio. To the neophyte investor, rebalancing when the market is hot may seem illogical. If your portfolio is disproportionately weighted in equities, is that a problem? It could be.
Across a sustained bull market, it is common to see your level of risk rise parallel to your return. When equities return more than other asset classes, they end up representing an increasingly large percentage of your portfolio’s total assets. Correspondingly, your cash allocation shrinks as well.

The closer you get to retirement, the less risk you will likely want to assume. Even if you are strongly committed to growth investing, approaching retirement while taking on more risk than you feel comfortable with is problematic, as is approaching retirement with an inadequate cash position. Rebalancing a portfolio restores the original asset allocation, realigning it with your long-term risk tolerance and investment strategy. It may seem counterproductive to sell “winners” and buy “losers” as an effect of rebalancing, but as you do so, remember that you are also saying goodbye to some assets that may have peaked while saying hello to others that you may be buying at the right time.

You learn not to get too attached to certain types of investments. Sometimes an investor will succumb to familiarity bias, which is the rejection of diversification for familiar investments. Why does he or she have 13% of the portfolio invested in just two Dow components? The investor just likes what those firms stand for, or has worked for them. The inherent problem is that the performance of those companies exerts a measurable influence on the overall portfolio performance.

Sometimes you see people invest heavily in sectors that include their own industry or career field. An investor works for an oil company, so he or she gets heavily into the energy sector. When energy companies go through a rough patch, that investor’s portfolio may be in for a rough ride. Correspondingly, that investor has less capacity to tolerate stock market risk than a faculty surgeon at a university hospital, a federal prosecutor, or someone else whose career field or industry will be less buffeted by the winds of economic change.

You learn to be patient. Even if you prefer a tactical asset allocation strategy over the standard buy-and-hold approach, time teaches you how quickly the markets rebound from downturns and why you should stay invested even through systemic shocks. The pursuit of your long-term financial objectives should not falter – your future and your quality of life may depend on realizing them.

Craig Sablosky may be reached at 703-871-1335 or craig.sablosky@invpro.com. http://www.accessnationalbank.com/home/investment/brokerage

This material was prepared by MarketingPro, Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. This information has been derived from sources believed to be accurate. Please note - investing involves risk, and past performance is no guarantee of future results. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is neither a solicitation nor recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. All indices are unmanaged and are not illustrative of any particular investment.

Citations.