15 Retirement Investing Mistakes to Avoid

Stay on course, as the road to retirement success has potential potholes and distractions.

By Kira Brecht | Contributor July 19, 2016

The rules for preparing for retirement may be easy. Start saving early. Own stocks. Diversify globally. Rebalance your portfolio. Yet during times of market volatility, many investors get spooked and begin to question their investment strategies.

"I have seen investors destroy their retirement in the blink of an eye with one mistake," says Mark Matson, founder and CEO of Matson Money.

Especially given recent stock market volatility, it is important to prepare your mindset. Stocks go up and down, sometimes dramatically. But volatility is a natural part of investing, says Diane Pearson, a wealth advisor with Legend Financial Advisors.

"It is important to be able to stomach the short-term volatility and plan for long-term volatility," she says.

Here are 15 common ways investors trip themselves up on the road to retirement.

Ignoring the need to plan. Setting milestones is important. Investors cannot expect to reach their retirement goals without hitting some targets along the way, Pearson says.

Putting all your eggs in one basket. Diversification is an essential part of retirement planning. Markets are inherently volatile, which is actually where the returns come from, Matson says.

"Investors can manage volatility with portfolio diversification by taking a long-term view and not make short-term reactions," he says.

Forgetting to rebalance regularly. Down markets are opportunities where wealth is transferred from those who panic to those who keep their heads and buy low, Matson says.

Moving from equities to annuities. Many times investors will panic during market downturns and purchase products like fixed-index annuities thinking that they will receive a market rate of return with little to no risk, Matson says.

"In reality, they have made a very serious investing mistake that can have major consequences for their retirement. They have effectively sold when the market was low,

locked in those losses, made their money illiquid for a lengthy period of time and given themselves a very poor probability to achieve a true market rate of return," Matson says.

"Guarantee can be one of the most costly words in investing."

Loading up on junk bonds. They aren't worth the risk, Matson says.

"Junk bonds historically have a very high default rate and have high risk compared to investment-grade bonds, and those defaults can skyrocket during turbulent times," he says. "In 2009, when many were doing the opposite of what they should have been doing and fleeing equities for 'safety,' the speculative grade default rate was 10 percent."

Keeping too much cash. Saving for retirement is important, but you also need to let your money grow.

"People haven't earned enough on their investments," Matson says. "Over the last 30 years, the average investor, according to Dalbar, has doubled their money roughly just one time versus four times by owning a globally diversified portfolio and rebalancing."

Not saving enough. Save at least 10 percent of your salary if you start in your 20s, says David L. Blain, chief executive officer at BlueSky Wealth Advisors.

"Bump that to 15 percent in your 30s, and if you haven't started by 40, you need to target 20 percent," Blain says. "Investing is not a way to make money, it's a way to grow your savings. Retirement is funded by your savings."

Having too much house in your portfolio. Putting too much money in the house can doom retirement, Blain says.

"People think putting money into a house payment is savings or an investment. A home is place to live, not an investment," he says. "Likewise, assuming they will sell their house to fund their retirement is a bad mistake. In some markets it may work, but it's a bad strategy."

Taking Social Security at age 62. "Unless you know you have a terminal disease or you literally have no other income, delay Social Security until full retirement – better yet, age 70," Blain says. "Despite fears of global calamity where the entire United States collapses, if you're retiring today, [Social Security] will be there in some form or fashion."

Keeping the default fund in your 401(k) plan. Take the time to do some research and understand your options and make a choice. If you're auto enrolled in your plan, sometimes the default fund is the cash option, Blain says.

Assuming your expenses will go down in retirement. Expenses generally don't decrease, Blain says. Plus, health care in retirement could be costly.

"Medicare isn't free. Many people assume their medical costs will be minimal when they get to 65," Blain says. "Medicare doesn't pay for long-term care. Make sure you do a good insurance checkup in your 50s to see what coverages you might need in that area."

Overestimating the return you will get from your portfolio. Over the next 10 to 15 years, an 8 to 10 percent annual return is not realistic, Blaine says. "A diversified portfolio for the intermediate term at best will be 4 to 6 percent," Blaine says.

Trying to time the market. When it comes to your long-term wealth, market timing can be very expensive, Matson says. "Studies show that if you miss just the 10 best performing days in the S&P 500 over the last 20 years, your nest egg gets cut in half. Half of your wealth gone by trying to time the market," Matson says.

Do-it-yourself retirement planning. "Going at this alone can be a very dangerous place, and I don't recommend it. My advice for investors is to hire a coach. A coach will help you navigate choppy markets, resist temptation, develop a game plan and stick to your stated investment philosophy for a lifetime," Matson says.

Using only company retirement accounts. Consider using the Roth IRA or Roth option on your 401(k), Blaine says. "Don't go into retirement with 100 percent of your money in a 401(k) or regular tax deferred IRA," he says. "Have some savings in a regular brokerage account. Diversify not only your investments but the type of investment accounts you use."