Don't Go It Alone: Why an Investment Advisor Can Be Essential to Achieving Retirement Goals

The amount of impact on the performance of an account based on market timing or going it alone in related costs may be as high as 3% of return.

Most employees have similar questions and concerns about investing in their company's 401K or retirement plan. Some of those questions are based on myths of investing. And, those myths lead to poor investment decisions. Watching markets rise and fall, without relying on solid investment advice can led to panic and overconfidence. But the myths, and the panic they encourage, are driven by a common goal: certainty. Panic and overconfidence lead employees to think they can go it alone and in the end, the employee's long-term goals fall short.

Going it alone, through strategies like "timing the market" are not only lonely, they can be illogical. Timing the market refers to trying to use past movements of the stock market to predict future movements, like looking at tea leaves to decide whether to go on a second date. It's a myth that harms employees as the data usually used is flawed and making multiple trades costs administrative fees.

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When employees try to use market data to predict trends they may be looking towards valuation measures like price to earnings ratios. While those ratios do coincide with peak markets, they also coincide with growth that can be sustained for a longer period. That means as a way to predict the market, valuation measures are about as useful as your grandma's thoughts about the Super Bowl's next winner.

Other future tellers may focus on patterns of the market involving volume of trading or price increases. While those patterns may have been useful a decade ago, they generally lose relevance over time. Those patterns are based on modeling, usually a tool not available to the average, nonprofessional investor, and markets often defeat models because markets involve humans, and humans aren't always predictable.

Recent research shows that even professionals who try to time the markets often get it wrong. In a study by the Center for Retirement Research at Boston College focused on fund managers who tried to time the market found that their performance was statistically less than other funds, though the impact was smaller than when non-professionals try their hand at market timing. For the professionals, the impact was about 3.8% on total returns. For nonprofessionals, it was closer to earning half as much as others not working a market timing approach (2016 Dalbar Quantitative Analysis of Investor Behavior Study).

While the money talk shows may call for frequent moves, and may even seem to get it right often, moving as frequently as they recommend can cost and employee over time. According to investment research source Morningstar, actively managed, frequently traded accounts can make 1.5% less than passively managed, less frequently traded accounts. Others put the amount of impact on the performance of an account based on market timing related costs as high as 3%.

In addition to transaction costs and the loss of free time, market timing can cost you in opportunities lost. Some of the best investment days over the last 10 to 15 years have happened when the markets were uncertain and when some investors jumped ship. Additionally, market timing can create additional tax liability for an investor.

Instead, working with an advisor to understand how to best manage

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risk and outcome is a better approach. Plan sponsors who find that their employees want to "go it alone" may want to encourage the financial advisors to the plan to explain the tools and experience they have that helps them manage funds and prepare employees for retirement. Financial advisors may have their own litany of horror stories of employees who made well-intentioned mistakes. Obviously, playing on a Hallowe'en theme could work for educating employees, but so too could a simple Frequently Asked Questions page on the plan's website.

Some financial advisors have also helped employees understand that their goal in retirement planning is more than "beating the market." Instead, it may involve flexible planning, capturing tax benefits, or helping employees stay the course during volatile markets. Encouraging employees to not go it alone, but to seek assistance can help achieve these non-numeric metrics. ■