

Can the Market Make You Rich?

There was a time, not long ago, when owning a stock portfolio was seen as a ticket to riches. Today, many investors still believe the bulk of their retirement accounts is going to come from market returns.

Here's the reality: The returns from stocks, bonds, commodities and other assets can help grow your wealth and protect it from inflation, but they alone don't have the power to make you rich. That power is yours.

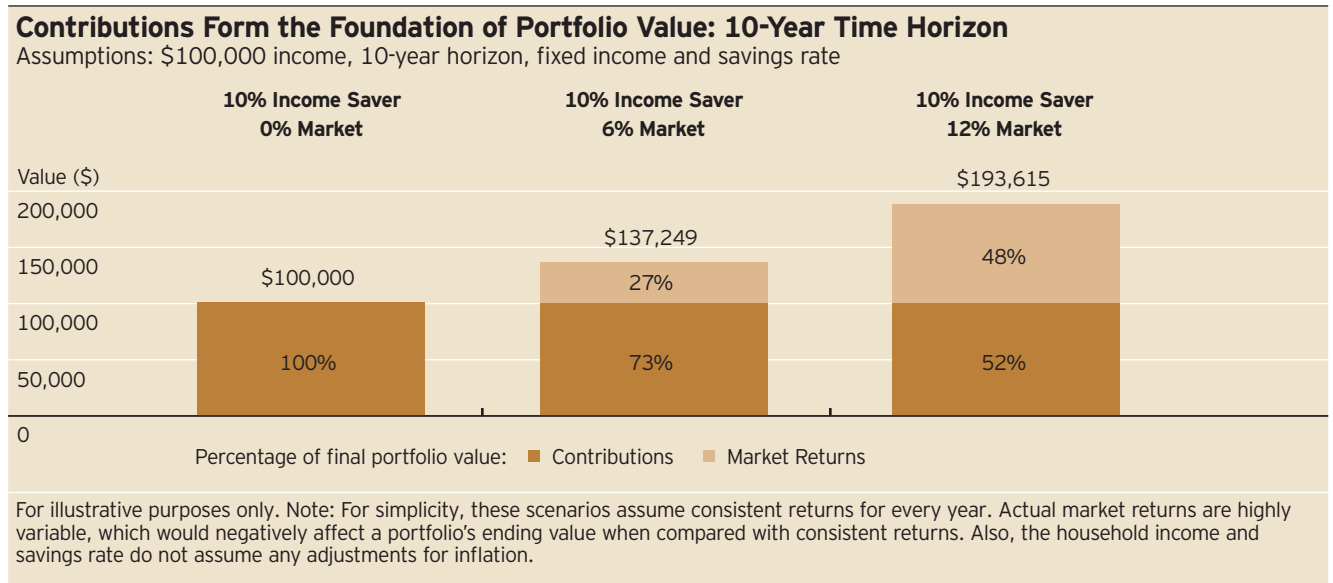
Key points

- 1 Contributions matter.** Over their financial lifetimes, investors should expect the majority of their portfolio value to come from contributions rather than investment returns.
- 2 What can you control?** The idea that returns will be the foundation of investors' portfolios came from the history-making bull market of 1982 to 1999. But your retirement strategy shouldn't depend on the arrival of another 20-year bull market. Prudent financial planning calls for basing your portfolio on factors you can control – contributions, withdrawals and asset allocation.
- 3 Intentional InvestingSM.** Your financial advisor can help you create a deliberate, intentional investment strategy that is grounded in risk management and focused on your goals.

1

Contributions matter

The chart below illustrates various scenarios for a household earning \$100,000 a year and investing 10% – or \$10,000 – of that income annually over a decade.



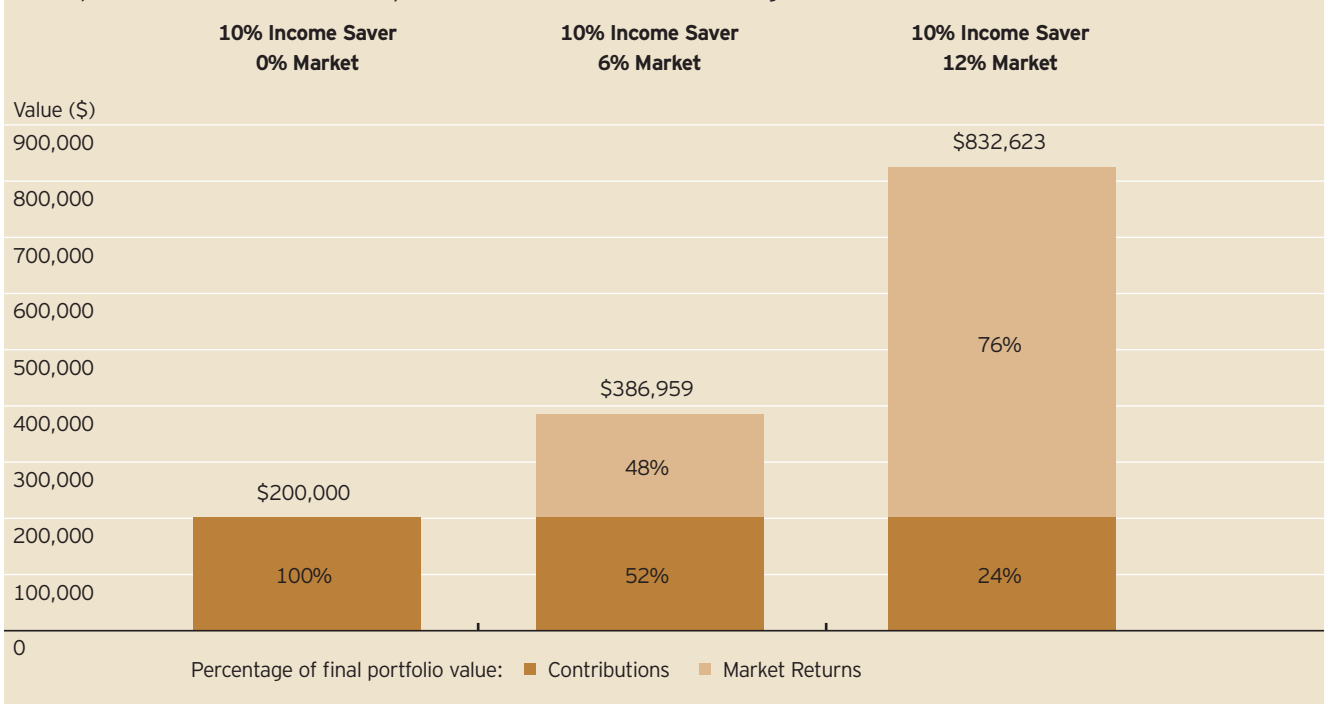
Say the market returns 12% a year for 10 years – which many investors would consider a roaring bull market. This household's investment portfolio would contain \$193,615 at the end of that decade. But despite healthy market returns, less than half of the portfolio – 48% – was earned by the market. Most of that portfolio represents the household's contributions.

In a more modest, but still healthy, market – returning 6% a year for 10 years – contributions become even more important. Some 73% of the household's portfolio comes from contributions in this scenario. And, of course, when the market doesn't gain anything – or if it loses money – contributions count for everything.

What if you have more time on your side? Would a longer investment timeframe make a difference? Yes, but not as much as you might think. Let's stretch out the investment timeframe for this household to 20 years.

Contributions Form the Foundation of Portfolio Value: 20-Year Time Horizon

Assumptions: \$100,000 income, 20-year horizon, fixed income and savings rate



For illustrative purposes only. Note: For simplicity, these scenarios assume consistent returns for every year. Actual market returns are highly variable, which would negatively affect a portfolio's ending value when compared with consistent returns. Also, the household income and savings rate do not assume any adjustments for inflation.

At the end of two decades, these investors will have contributed a total of \$200,000 to their portfolio. If the market returns 6% per year for 20 years, the household's contribution still accounts for more than half of the final portfolio – 52%.

It's only when we devise a once-in-a-lifetime scenario – 12% returns per year for 20 years – that market returns represent the bulk of the portfolio, at 76%. This is a precarious scenario – all it takes is one major market correction to upend the effect of market returns and rebalance the portfolio's value between returns and contributions. We've experienced such major corrections twice since 2000.

Even in healthy market environments, portfolios are built on contributions rather than market returns. This is true in all but the longest, strongest bull markets.

BOTTOM LINE ←

2 What can you control?

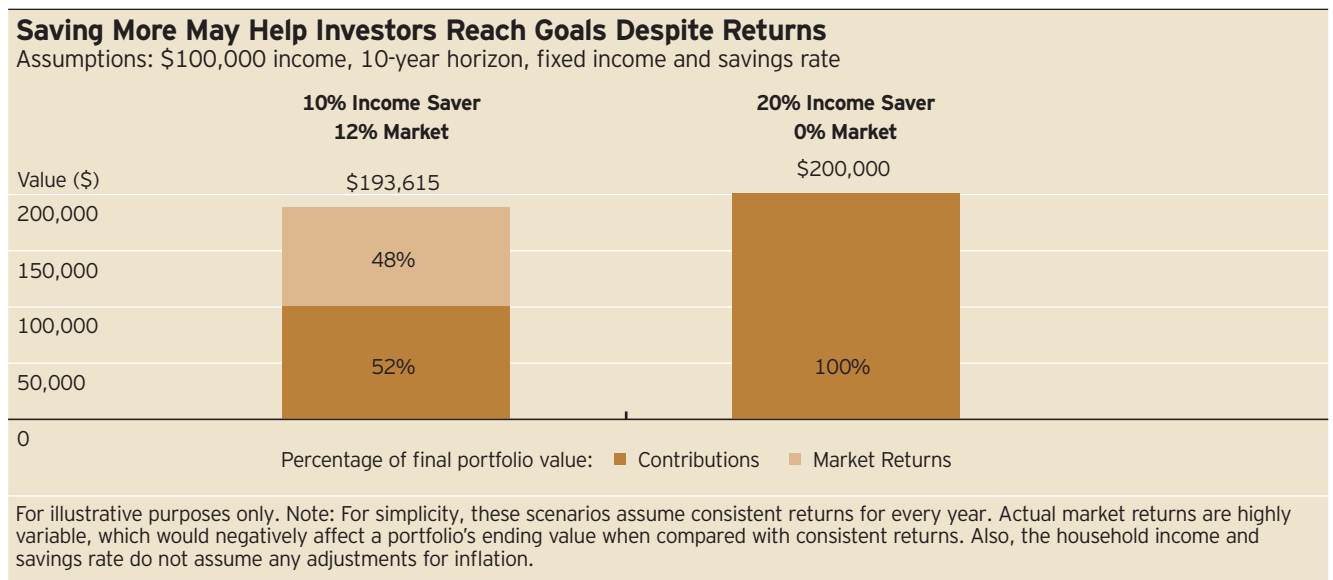
So, if simple math shows us that most portfolios are built from contributions, not market returns, why does the belief persist that returns are the key to retirement?

It's because so many people witnessed the great bull market of 1982 to 1999, which brought incredible stock market returns for almost two solid decades with historically low volatility. Those 18 years returned, on average, 19% a year, as measured by the Dow Jones Industrial Average. But as you've heard before, past performance is no guarantee of comparable future results.

Those years represent one of the greatest bull markets ever recorded. While you may hope to experience another market like that one, you shouldn't base your retirement portfolio on that hope. Prudent financial planning means building your portfolio based on factors you can control. Market returns are out of your hands.

The only way to exert any control over your portfolio's returns is to invest completely in cash such as a bank certificate of deposit (CD) or a money market account. While cash returns can change – for example, when interest rates change – you know what those returns will be. This can help you reduce uncertainty and avoid losses. The trade-off is that you limit your potential for growth and risk a reduction in purchasing power if inflation increases.

The primary factor you can control in any portfolio is your contribution level. It can be very difficult to save money, especially when unemployment is an issue for so many people. But as we've seen, contributions are crucial. In fact, as the chart below illustrates, if our hypothetical household bumped its savings rate to 20%, it would have a greater chance of reaching its financial goals despite market volatility. Over 10 years, saving 20% and earning 0% would result in a larger portfolio than saving 10% and earning 12%.



Unlike securities, CDs are insured by the Federal Deposit Insurance Corp., and money market accounts are generally managed to maintain a \$1 net asset value.

If you can't find a way to save more for retirement, you may need to consider working a bit longer and delaying your withdrawals from your investment account. That said, many life events are unexpected, such as illness, so keep in mind that your investment time horizon is not completely in your control.

The final element to consider is your asset allocation – how much of your portfolio is in stocks, bonds, commodities, cash and other asset classes. Your asset allocation and underlying investments are the primary means by which you can control portfolio risk.

It's important to note that the previous chart is not intended to advocate that investors simply accept a 0% market and allocate all of their assets to cash. Doing so would leave your portfolio vulnerable to the effects of inflation and erode your future buying power. However, by making the decision to save more, you can give yourself the option to adopt a more conservative asset allocation and be less dependent on the whims of the market.

While there is no asset allocation formula that can guarantee a profit or eliminate the risk of loss, your financial advisor can help you find the appropriate balance of return potential and risk exposure for your unique situation and financial goals.

You can't control market returns, and your time horizon can change unexpectedly. You can control your contributions, withdrawals and asset allocation.

BOTTOM LINE ←

3 Intentional Investing

Basing your financial strategy on the arrival of another historic bull market is extremely risky. You need to make sure you have a plan that you can live with if market returns turn out worse than expected.

Intentional Investing is the science and art of investing with purpose, prudence and diligence. It's about thinking carefully, planning thoughtfully and acting deliberately.

Some investors may be tempted to ramp up their market risk to compensate for a lack of savings – but this strategy simply increases the risk that you won't achieve your financial goals. Rather, your advisor can help you construct a deliberate, intentional plan that allows for maximum contributions, schedules appropriate withdrawals and includes an asset allocation that is tailored for you.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

Note: Not all products, materials or services available at all firms. Advisors, please contact your home office.

The Dow Jones Industrial Average is the price-weighted average of 30 actively traded blue chip stocks.

This information does not reflect the performance of any specific Invesco fund.

All data provided by Invesco unless otherwise noted.