

# PERSPECTIVES ON RETIREMENT

## Why young investors should start saving early and invest in equities

Some young investors believe if they begin saving as much as they can they'll have plenty of money when it comes time to retire. That's a good start, but many of today's youngest investors are at risk of not having enough assets at retirement because they are not starting early enough or are too conservative with their investments.

### THE CHALLENGE OF GETTING FROM HERE TO THERE

Saving for retirement is getting progressively harder for each generation. A study by Prudential found that millennials, investors in their 20s and early 30s, are confident in their ability to save (84%)<sup>1</sup>, yet only 38% are currently enrolled in an employer-sponsored retirement account. Equally as troubling, according to the survey, is that nearly half of millennials say they have no idea how much they will need to save for retirement (49%), about 30% expect to retire around age 62<sup>2</sup>, and 18% haven't yet started to save for retirement at all.

This generation, which has been hit hard by heavy student loan debt and reduced incomes due to lackluster employment and economic conditions, has been hard pressed to set aside the assets they'll need to meet their retirement goals. But there appears to be a major disconnect between getting from here to there.

### ARE MILLENNIALS TOO RISK AVERSE?

Whether turned off by the financial crisis of 2008 or lacking an understanding of the long-term track record of stock investments, many young investors tend to be risk averse and sensitive to market volatility. And those who have started saving may not be making the most advantageous investment choices. The Prudential survey found that millennials are far less likely to invest in equities than other generations, allocating 32% to equities compared to 48% for Gen X and 45% for Boomers<sup>3</sup>.

But if younger investors hope to reach their retirement savings goals, most of them will have to begin tilting their portfolios more heavily toward equities. Younger investors might learn a thing or two from retirees who, not surprisingly, advise to start saving early and put away more. Fifteen percent of retirees surveyed also wished they had invested more aggressively.

Source: Prudential Retirement Preparedness Study, 2016. <sup>1</sup>Base: Among millennials who selected 'Saving for retirement' as one of their top 5 financial priorities. <sup>2</sup>Age 62 reflects the mean (30% of millennial respondents expect to retire between ages 61–65). <sup>3</sup>Respondents who have at least a little knowledge of their investment allocation. Note: 33% of respondents selected 'I am not at all sure'.

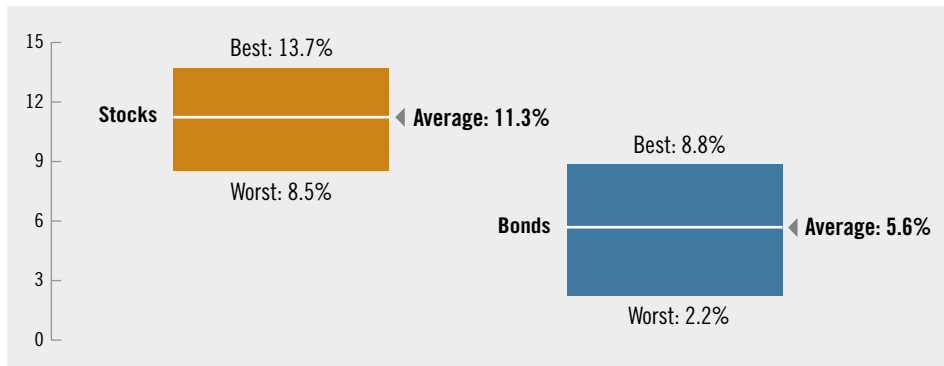


“ Millennials are far less likely to invest in equities than other generations. ”

## TIME IS ON THEIR SIDE

Since young investors have the benefit of 30-plus years until retirement, they shouldn't be as concerned with equity market volatility. Historically, equities have outperformed bonds and have generated strong returns over rolling 30-year periods. In fact, the average equity return is double that of the average bond return. Even going back to 1926, the lowest 30-year equity market return was still very competitive at 8.5%, and in line with the highest bond market return period.

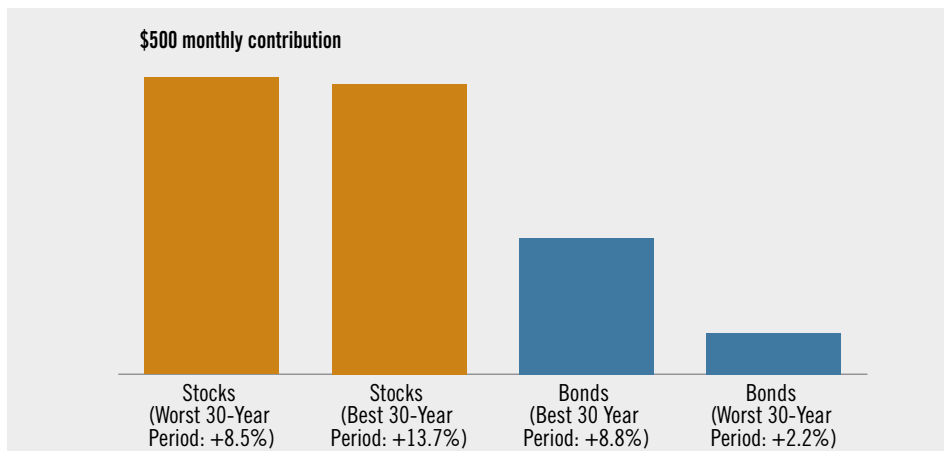
## EQUITIES HAVE OUTPERFORMED BONDS



Source: Calculated by Prudential Investments LLC using data from Morningstar. 30-year rolling returns (1926-2015). Stocks are represented by the Ibbotson US Large Stock Index. Bonds are represented by the Ibbotson US Intermediate Gov't Bond Index. You cannot invest directly in an index.

When your investment horizon stretches well into the future as it does for millennials, equity market fluctuations can work in your favor. Regardless of market conditions, as long as an investor keeps making contributions, the growth in a stock portfolio can be substantial compared with bonds, due to the benefits of dollar cost averaging and the compounding of returns.

## UP AND DOWN MARKETS CAN CREATE OPPORTUNITY



Source: Calculated by Prudential Investments LLC using data from Morningstar. Represents \$500 monthly contribution over rolling 30-year annualized periods (60 total periods) from 1926 through 2015. Stocks are represented by the Ibbotson US Large Stock Index. Bonds are represented by the Ibbotson US Intermediate Gov't Bond Index. You cannot invest directly in an index. **Stocks:** High 1/75-12/04, Low 1/29-12/58. **Bonds:** High 1/73-12/02. Low 1/40-12/69.



“Regardless of market conditions, as long as an investor keeps making contributions, the growth in a stock portfolio can be substantial compared with bonds, due to the benefits of dollar cost averaging and the compounding of returns.”

## TAKING THE EMOTION OUT OF INVESTING

“It’s not surprising that many millennials are investing too conservatively,” said Jeremy Stempien, product specialist on QMA’s Asset Allocation team. “They tend to make investment decisions based on emotions and experiences rather than on their actual capacity or ability to take on risk.”

One way to address this situation is to allow professionals to assume the role of allocating assets. Target date funds aim to accomplish just that. “Target date funds can potentially help bridge the gap between the willingness and ability of young investors to take on risk,” noted Mr. Stempien. “Target date funds automatically adjust the asset mix for an investor. They’re heavily weighted toward stocks early in the investor’s life when he or she has the capacity to take on more risk, and they become more conservative as the investor approaches retirement.”

Millennials face significant financial challenges, but they have the advantage of time on their side and by starting now, saving more—and allocating a higher percentage to equities early on—they stand a better chance of accumulating the assets they’ll need for retirement.

“Target date funds can potentially help bridge the gap between the willingness and ability of young investors to take on risk.”

– Jeremy Stempien  
QMA



## DEFINITIONS

**Dollar cost averaging** is the investing technique of purchasing an investment on a regular basis, regardless of price, enabling an investor to purchase more shares when prices are low, and fewer shares when prices are high.

**Ibbotson US Intermediate Gov't Bond Index** is an unweighted index which measures the performance of five-year maturity US Treasury Bonds.

**Ibbotson US Large Stock Index** is an unweighted index which measures the performance of large cap stocks.

## RISKS

Investing in equities involves risk. Some stocks are riskier than others. The investment return and principal value will fluctuate, and shares, when sold, may be worth more or less than the original cost, and it is possible to lose money. Past performance does not guarantee future results. Asset allocation and diversification do not assure a profit or protect against loss in declining markets.

The target date is the approximate date when investors plan to retire and may begin withdrawing their money. The asset allocation of the target date funds will become more conservative as the target date approaches by lessening the equity exposure and increasing the exposure in fixed income-type investments. The principal value of an investment in a target date fund is not guaranteed at any time, including the target date. There is no guarantee that the fund will provide adequate retirement income. A target date fund should not be selected based solely on age or retirement date. Participants should carefully consider the investment objectives, risks, charges, and expenses of any Fund before investing. Funds are not guaranteed investments and the stated asset allocation may be subject to change. It is possible to lose money by investing in securities, including losses near and following retirement.

## PRUDENTIAL INVESTMENTS

Prudential Investments® strives to be a leader in a broad range of investments to help you stay on course to the future you envision. Our investment professionals also manage money for major corporations and pension funds around the world, which means you benefit from the same expertise, innovation, and attention to risk demanded by today's most sophisticated investors. We are part of Prudential Financial, a company America has been bringing its challenges to for more than 140 years. **Bring us yours.**

**QMA** Since 1975, QMA has served investors by combining experienced judgment with detailed investment research in an attempt to capture repeatable long-term outperformance. As of June 2015, we manage approximately \$117 billion in assets globally for institutions, subadvisory clients, and individual investors through a broad mix of asset allocation, core equity, value equity, and indexing solutions.

► **FOR MORE INFORMATION, contact your financial professional or plan administrator.**