

Don't lock down your pension savings



Volatility is part and parcel of investing, but when it strikes, it can often generate uncertainty for investors and might mean that financial decisions are made in haste. The urge to move money from the 'riskier' funds when they start to plummet is understandable and natural - after all, we've been conditioned to avoid risk as a survival technique. But moving your pension savings lock, stock and barrel into those 'safer' cash funds may be one of the worst thing you can do - particularly if you want to recover from any of losses.

Why cash is no longer king

Seeking shelter in cash is one way to reduce your exposure to market volatility in turbulent times. Although this may seem a low-risk approach, it also means your money is in funds that offer little in the way of growth potential. If you're one of the many investors who have moved your investments into cash, you will have to contend with low returns thanks to lower interest rates.

While it's always sensible to have some allocation to cash because it's an important part of a diversified portfolio, be wary of moving large portions of your investments into a low interest rate environment. In March, due to the Coronavirus pandemic, the Bank of England cut the interest rate to record lows. There is currently speculation that the UK's central bank may be considering implementing negative interest rates in Britain for the first time. The base rate is currently just 0.1%, its lowest ever. Compare that with the pre-2008 rate of 5.5% and you can see that interest rates have been in steady decline for over a decade.

Cash is no longer king. It pays to be an investor rather than merely a saver. In a volatile market, making your money work in the right way is the key to weathering the storm and starting the process of rebuilding your pension savings.

Managing risk

Seasoned investors accept that loss can, and does, happen. They understand that risk is an accepted part of investing and that sensible risk, along with a robust diversified portfolio, can make up for any losses encountered. While investing in equity-based funds may be riskier than keeping your money in 'safer' options like cash, that risk is usually rewarded with higher returns.

It's important not to panic: long-term investors are usually rewarded for embracing risk. Although past performance is not an indication of future success, if a fund's price drops, the unit price of that fund reduces. That means the money you invest in that fund buys more units - you are 'buying low'. More units mean more growth potential when that fund starts to increase in value again. If you were to move your money out of that fund, you could be 'selling low'. You would be locking in those losses and removing the potential for recovery when the market begins to pick up.

Remember that market ups and downs are perfectly normal, and historically equities have outperformed cash funds over the long-term. Keeping that perspective should help you look at short-term fluctuations as nothing more than minor bumps in the road on a much longer journey.

Diversify, diversify, diversify

Being diversified - having a mixture of funds in different asset classes, sectors and geographies - is essential in countering the effects of volatility. The best days in the market regularly follow the worst and it's about being ready for both. If the environment changes swiftly, it often leaves little time to change strategy. Review your diversification and make sure your financial bases are covered.

Understand it's a long haul

Saving for your retirement is a long-term investment. There will be ups and downs, highs and lows, gains and losses. It's important to understand that staying invested, and maintaining regular contributions are vital to rebuilding retirement savings that may have suffered from the effects of poor market performance.

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