

8 Common Long-term Investment Mistakes that Jeopardize Your Retirement

A painful part of being human is making mistakes. It's truly how we learn, right? However, when it comes to your retirement, making even the smallest unintentional mistakes can cost you—literally.

When taking all the right steps in planning your retirement, you should also make sure you are avoiding taking all the wrong ones. But, the good news is with the proper guidance you can avoid those common investment mistakes and reach your retirement goals.

We are here to provide you with that guidance by outlining some common investment mistakes and also how you can combat them.

Not Starting Early Enough

Topping the list of common investment mistakes is simply not starting early enough. Delaying the start of your retirement is the financial equivalent of telling yourself “five more minutes” when you snooze your alarm clock. You tell yourself in a half-awake daze that you need that extra sleep now more than you need to be on time that morning.

It may seem like an obsolete analogy, but snoozing your alarm clock is like choosing to delay your retirement savings because you feel you need the money more in the present. In fact, “living in the now” financially is actually trending

amongst the younger generations according to recent studies. People often justify the decision to wait to invest because they feel they will have the time in the future to start prioritizing retirement. However, telling yourself you have time to catch up is, in hindsight, a big mistake...especially if you want to retire “on time.”

If you do not want to delay or phase your retirement and retire on the “traditional schedule,” don’t wait to start your retirement because you will have more time later. This will result in you falling severely behind due to the potential savings you lose. The two reasons for this are the fact you will need to make higher contributions in the future and the fact that you will miss out on the magic of compounding interest.

Compounding interest has some massive power over your retirement growth. A dollar saved today will see significant growth by the time you retire. Because of compounding interest, your money grows on top of other growth—compounding is more powerful when you get an early start.

You will also have to allocate more money and make higher contributions the longer you wait to start to reach your retirement goals. So, in summary, the longer your money sits in your account, the more time it will have to grow, and the bigger of a payout you will see come retirement time. Isn’t the age-old saying, “Time in the market is more important than timing the market?” Start now!

Failing to Diversify

The next retirement investment slip-up you may have is failing to diversify your accounts. Diversification is the simple act of spreading your investments across a variety of assets. This is usually done for risk management and to achieve growth. Having your money in different stocks and markets allows for a

cushion if an individual stock isn't performing the best. You never want to put all of your eggs into one basket.

Diversifying your retirement account is key to that big retirement door at the end of the hall. And taking into account how important Diversification is for growth, it makes sense that failing to Diversify your portfolio can lead to some shortcomings in your retirement account.

Because a big reason to diversify your portfolio is to mitigate risk, choosing not to diversify your investments could hurt you in the long run. This also hurts your return, ultimately affecting the amount of money you will have in your golden years.

If you feel overwhelmed with how to diversify, there are many ways you can diversify your portfolio, and the internet can help you with that. It's also a great idea to frequently rebalance your portfolio and take a peek into the performance of certain assets. If one isn't doing so well, reallocate some of your contributions to a different and better-performing asset.

Being Too Conservative or Aggressive

According to a recent article by Forbes, many Americans are finding significant shortcomings of nearly \$500,000 in their retirement accounts. Having the wrong level of risk tolerance can definitely cause you to be included in that statistic. Therefore, being either too conservative *or* too aggressive is a retirement no-no.

Sometimes, we like to play it safe. But, we would suggest you maybe rethink that decision with investing for retirement. Unfortunately playing it safe, or as we say in retirement

talk, being conservative, can have negative implications. That is at least when you choose to be *too* conservative.

Conservative investing is the act of “conserving” your capital (or money) over the potential growth or returns you could have. It’s essentially holding back the decision to make riskier decisions with your portfolio. By being too conservative, you miss out on gains that you may only see by allocating more money to a more aggressive asset.

In general, the more time you have left in the market, the more you can afford to be aggressive. You have more time to make up losses and such. All the more reason to start early, right?

As much as being too conservative can be a retirement mistake, It’s important also to mention the flip side. Being too aggressive can also have negative implications. If you have less time in the market (meaning you are closer to retirement), making overly aggressive investment decisions can cause you to see losses. You don’t have the advantage of the time to recover those losses, so this can negatively impact your retirement.

Being overly aggressive can also yield losses in general. Specific sectors and even types of assets can feature high degrees of risk. Penny stocks, for example, are affordable—but highly speculative. And naked calls used in options trading can feature *infinite risk*—that’s right, you can actually owe more than you initially invested. That’s why many individuals equate such investing to mere gambling.

It’s very important to find the right balance based on your individual risk tolerance and time horizon. There isn’t ‘one size’ that ‘fits all’ when it comes to retirement, so take the time to figure out your unique plan.

Overlooking Fees and Costs

No one, and I mean absolutely no one, likes to pay fees—on anything. Investment bankers and brokers have to make money somehow, and they make this money by charging fees. So, brace yourself: the sad truth is you will likely have to pay unescapable fees on your retirement. Overlooking the impact of these fees makes our list of retirement investment mistakes.

Even though the government has recently proposed measures to reduce the fees in retirement plans, you will likely still have to pay fees in some form. With many brokers/retirement administrators, there will be some costs associated with using the service. Additionally, you may find yourself having to pay fees, such as fund management fees, depending on which type of assets you've purchased.

Over time, these fees have the potential to chip into your returns. Paying higher fees can negatively impact your gains and affect your retirement's overall growth and performance. Let's consider where your retirement plan may take a small annual percentage. It may not seem like much initially, but when you look at that percentage and that total cost over time, you'll likely see how quickly it adds up.

Expense Ratios on mutual funds are an example of the aforementioned fees on certain types of assets. Not only do you lose that money, but you also lose out on the compounding interest that could have been.

Having an awareness of this and the high costs of certain funds can help reduce the costs. You have the power to control the funds you choose to invest in, so consider the fees when making these decisions. Try to select investment options with lost costs, such as index funds, mutual funds, or EFTs.

It's also worth noting that if you participate in an employer's plan, they must disclose the costs and fees with

you. The same goes if you are in your own private IRA account—the broker is responsible for disclosing the fees to you.

Falling for Scams and Fraud

Scams and fraud are constantly on the rise, and scams seem to be an ever-so-prevalent problem in our society. Something that is even more sad is that the elderly are often times the biggest target of online and digital scams. This is unfortunate as people in this age category are usually retirees or nearing retirement.

Many scams facing this community are usually financial scams in nature. According to the credit reporting agency Experian, some of the most common scams include the grandparent scam (where someone impersonates the grandchild or other loved one of the victims), government impersonation scams, medicare scams, and online romance scams.

Sweepstakes and charity scams are also prevalent on the internet, but not all scams occur online. There is a large amount of scams that occur over the phone or in the form of robocalls. And with the rise of Artificial Intelligence software, these scams are becoming more and more convincing.

Retirees live on a fixed income, so losing some of your income to these scams can be a major setback or can result in a financial burden. There are steps you can take to protect yourself, and that starts with making yourself aware of some of these common scams.

Always question everything, especially when someone is requesting money from you. If it's too good to be true, it probably is. If someone is claiming to be a loved one calling you and presenting you with a bizarre scenario or request, hang up and contact them back directly. Also, do not be afraid to ask for help or to run the situation by a trusted loved

one. At the end of the day, it is always better to be safe than sorry. If it protects your hard-earned money, then it is worth it to take a step back and assess.

Ignoring Tax Implications

Much like the dislike you may have for paying fees, it's also likely you dislike paying taxes. That said, it's imperative not to ignore the impact of taxes and how they can affect the income you will receive in your golden years.

In some cases (depending on your account type) you will have to pay taxes on your retirement income. While the taxes you will pay on your retirement may be different than taxes on ordinary income, it is something you should plan for. You do not want to run into any unexpected surprises that may affect your budget.

Also included in the list of tax implications you should be aware of includes cashing out your retirement early, before the traditional retirement age of 59 $\frac{1}{2}$. Distributions taken out early are generally taxed as ordinary income, dodging the tax advantages of retirement accounts. You also will incur a 10% penalty, according to the IRS.

Another tax implication you may face is double taxation in the event you decide to take out a 401(k) loan. This double taxation happens because your retirement withdrawals will be taxed in the future. And since you have to repay the money you borrowed from your account with after-tax dollars, you are being double-taxed.

Consider investing in a Roth IRA or 401(k) plan, where plan contributions are made after taxes have been withheld. This means you only have to pay taxes on your money one time. Your future self will likely thank you for this when you no longer have a tax obligation. This is especially true if you think you will be in a higher tax bracket in your retirement years

as opposed to your working years.

A Roth plan can also reduce your tax obligation in the event that taxes go up or are higher in the future. Taxes are currently scheduled to increase in 2026, and this is likely not the last increase you will see between now and retirement.

Conversely, a Traditional IRA is an excellent route to go if you feel you will have the opposite situation. If you feel you will be in a higher tax bracket in your working years as opposed to retirement (and you don't think taxes will go up as much to make a difference), you can go this route. Just make sure you prepare and plan for the payment of these taxes!

Passing on the Employer Match

Not taking advantage of the employer match is another common retirement investment mistake you may not even realize you are making. If your employer offers you a 401(k) plan, specifically with an employer match, make it a priority to take full advantage of this.

Employer matching contributions are when your employer contributes a certain amount (usually a percentage) into your retirement savings on your behalf. This amount is typically based on the amount you decide to contribute and the total contribution limit.

For example, let's say your employer offers to match a percentage of your contributions up to a certain percentage. You may decide to contribute 6% of your income, and your employer may match 100% of your contributions up to 4%. In this scenario, they will match dollar for dollar what you contribute up to 4%. Anything above 4%, in this case 2%, is not subject to the full match. It's possible they will match a lower percentage (like 50%) or nothing beyond that. This is dependent on the employer and their plan.

The total contribution limit as defined by the IRS is also factored into how much your employer will contribute. These contribution limits change, typically annually, and are the guidelines on the total amount that can be contributed to your plan. Recent news is stating that these contribution limits are expected to go up once again in 2024 to attempt to keep pace with inflation.

It's essential to familiarize yourself with your employer's plan, if they offer any sort of match and the vesting schedules of their contributions. This money is literally free, risk-free money and can make all the difference in the total balance of your retirement account!

Forgetting About Inflation

The final retirement mistake we want to help you avoid is that pesky periodic increase in goods and services known as Inflation. The United States has seen recent inflation surges for the past two years due to some rough post-pandemic economic conditions. Inflation is also very likely one of the most painful (and annoying) things to deal with when it comes to a consumer's financial well-being in current times.

Inflation also unfortunately impacts your retirement savings, for the simple fact that it causes money to lose value over time. This means the purchasing power of your dollars at retirement age will be worth less than they are today as expenses will likely be more significant.

The good news is you can combat inflation's impact on your retirement account in a few simple ways. Amongst these ways include increasing your retirement contributions, diversifying your portfolio, and properly fitting yourself into the most appropriate retirement account.

You can also look at other funds and assets to invest in, such as real estate. Real estate is one asset that is virtually

guaranteed to increase in value as the real estate market will trend upward over time. After all, Real Estate prices have recently hit a new high, despite the current rising interest rates. So, investing in real estate allows you both a passive income in the present times and a security blanket for the future.

Conclusion

Just as it is easy to make mistakes in life, it is easy to make mistakes when it concerns your retirement account. At the end of it all, remember you are human, and mistakes are bound to happen.

Knowing the mistakes and the precautions and steps you can take to avoid these mistakes, though is the true key to living out your golden years to the best of your ability. And by the best of your ability, we mean with the most money possible—the most bang for your retirement buck.

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