

Should I Save More in My 401(k)?

“I've got all the money I'll ever need, if I die by four o'clock.” – Henny Youngman

Common sense reader mailbag: I would like to increase the percentage of my salary that I put into my 401(k) but I'm nervous with the stock market trading at all-time highs? Should I wait for a pullback in the market before making this increase?

First of all, I think that it's great that you would like to increase the amount you are saving. With such a low savings rate in this country more people need to ramp up the amount they are saving to be able to gain financial freedom.

There are a few things that you need to realize when making a decision like this. One is that the savings decision is different than the investing decision. The two should not even be in the same discussion. First you figure out [how much you are going to save](#) and then you figure out how to make an [investment plan](#) based on those savings.

The amount that you save can have a much larger impact on your ending balance than the investment decisions you make. From his book *Abnormal Returns*, Tadas Viskanta had this to say on the subject:

“In one respect, a focus on saving diminishes the importance of investing. A dollar saved through a more conscious spending plan is a far more certain return than the uncertain return on an investment. Said another way, savings is the best investment an individual can make.”

The other factor to consider here is if you are worried about putting money in at the high end of the stock market you could find yourself disappointed if you continue to wait for a pullback in the market. Many investors have been waiting since late 2012 and it still hasn't happened.

Since 1928, the S&P 500 has closed at a new all-time high 1,024 times (and counting) or almost 5.0% of all trading days. Hard to believe, but true. The general direction of the market is usually up. I can't predict what's going to happen from here but over the long-term investors have historically been rewarded by investing in stocks.

[Stock losses](#) do happen periodically as we have seen in the past and they will continue to occur going forward, but they are next to impossible to predict.

Waiting for an entry point doesn't make sense especially since you will be utilizing dollar cost averaging by investing periodically through your 401(k). Actually you should welcome losses in the market if you are still in the savings phase of your life.

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You will be putting your savings to work at lower prices which will actually insure that you have higher returns in the future on those savings. It's a fact that the lower the stock market trades the better value it turns out to be for future performance.

If you have 10, 20 maybe even 30 years until retirement you shouldn't let the short-term level of the stock market make you nervous. You will still have to grow your portfolio for the 30-40 years of actual retirement as well.

If you are too worried about the level of the stock market then you could use this as a learning experience for your investment [risk tolerance](#). It sounds like your willingness to take risk is lower than your current allocation to stocks.

One of the benefits from increasing the amount you save is that it allows you invest in a more conservative nature. If you are worried about stocks this much then maybe you need to re-examine the role that they play in your investment portfolio.

Stocks have been shown to have higher risks and returns over the long-term but if your emotions and behavior cause you to make impulsive decisions with your investments you should reconsider how much you have in stocks.

My advice is to save as much as you can and then move on to worrying about your [investments](#). Let the magic of [compound interest](#) work in your favor and increase your odds of success by continuing to save and increase that amount when you are capable.

Sources:

[100 Facts About the Economy That Will Blow Your Mind](#)
[Abnormal Returns](#)

And now my weekly reads:

- When Smart investors Do Stupid Things ([Motley Fool](#))
- The Buffett Formula - How to Get Smarter ([Farnam Street](#))
- Seinfeld Investment Advice ([Abnormal Returns](#))
- Markets Can Predict People ([Rick Ferri](#))
- Advice for a Day Trader ([The Reformed Broker](#))
- Why the News Media is Even Worse Than You Think ([MarketWatch](#))
- Soccer and investing ([NY Times](#))
- You Just Can't Change Some People ([Rick Ferri](#))
- The Biggest Retirement Myth Ever Told ([Motley Fool](#))
- Buy and Hold, Don't Trade ETFs ([Morningstar](#))
- 15 Greatest Sports Moments from Seinfeld ([Sports Illustrated](#))

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