Can the Market Make You Rich?

Not long ago, owning a stock portfolio was seen as a ticket to riches: Flush retirement accounts could be built on a foundation of stock market returns. Here's the reality: Returns from stocks, bonds 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.

Even if the market returned 12% annually for 10 years, contributions would account for more of your final market value than earnings.

Contributions matter much more than investment returns

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

Regardless of the market environment, contributions matter more

Flat Market

+ 0% annual return
+ $10,000 annual contribution
+ 10-year time horizon

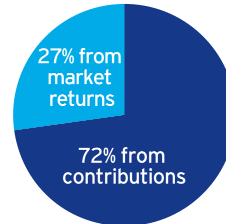
Ending balance: $193,615

When the market doesn't gain anything or if it loses money – contributions count for everything.

Modest Market

+ 6% annual return
+ $10,000 annual contribution
+ 10-year time horizon

Ending balance: $193,615

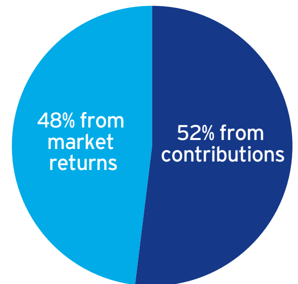


Contributions become even more important in a modest market, accounting for 73% of the investor's portfolio.

Bull Market

+ 12% annual return
+ $10,000 annual contribution
+ 10-year time horizon

Ending balance: $193,615



The market earned just 48% of the final market value in this bull market, while contributions comprised 52%.

For illustrative purposes only. Note: For simplicity, these scenarios assume consistent returns for every year and are based on a $100,000 annual salary and a 10% ($10,000) annual savings contribution. 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.

Focus on what you can control

Prudent financial planning means building your portfolio based on factors you can control. Market returns are out of your hands, but these factors aren't.

Contribution Level

The primary factor you can control in your portfolio is how much you invest. For example, if you up your savings rate from 10% to 20%, you have a greater chance of reaching your financial goals, despite market volatility. Even if the market returned 12% annually for 10 years, contributions would account for more of your final market value than earnings.

Time Horizon

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. But keep in mind that many life events, such as illness, are unexpected, so your investment time horizon isn't completely in your control.

Asset Allocation

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

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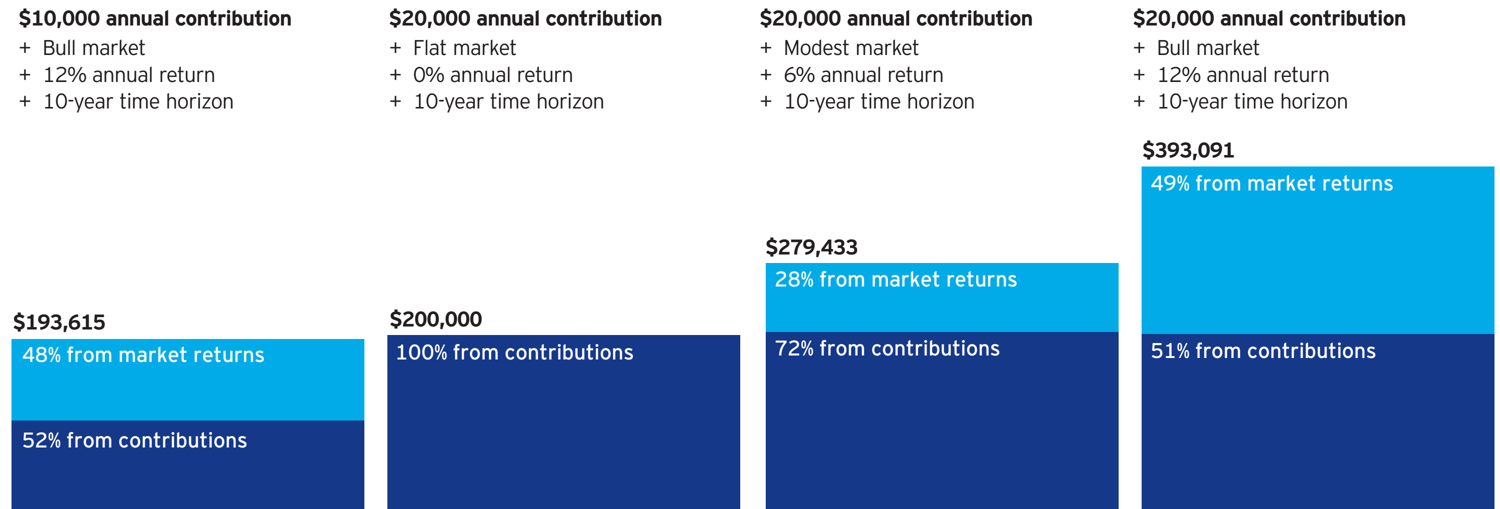

For illustrative purposes only. Note: For simplicity, these scenarios assume consistent returns for every year and are based on $100,000 annual salary with a 10% ($10,000) and 20% ($20,000) annual savings contribution. Actual market returns are highly variable, which would negatively affect a portfolio's ending value when compared with consistent returns. Also, the household income and savings rate do not assume any adjustments for inflation.

It's important to note that the chart above isn't intended to advocate that you simply accept 0% market returns and allocate all your assets to cash. While investing in only cash can help you reduce uncertainty and avoid losses, you limit your potential for growth and risk a reduction in purchasing power if inflation increases.

While there is no asset allocation formula that can guarantee a profit or eliminate the risk of loss, making the decision to save more gives you the option to adopt a more conservative asset allocation and be less dependent on the whims of the market.

Talk to your financial advisor

When you're sitting down with your financial professional to discuss your financial goals, make sure that you're taking into account realistic savings expectations instead of unrealistic market assumptions.

NOT FDIC INSURED MAY LOSE VALUE NO BANK GUARANTEE

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial advisor/financial consultant before making any investment decisions.

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