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Memo to stock market skeptics: You can't 'save' your way to retirement

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You have lots of company if your confidence as an investor has hit bottom.

A little more than half of Canadians believe investing is like gambling, and just 44 per cent believe investing is for people like them. These alarming nuggets of negativity are found in a survey of 2,000 people conducted over the summer by the global investing giant BlackRock Inc. To quickly summarize, many investors in the country are anxiety-ridden to the point of dysfunction.

Most important, they're holding too much cash to get any traction in building their assets. Cash is safe against the kind of losses we see in the stock market, but it's close to useless as a way of building funds for retirement. When the new Liberal government gets around to considering an expansion of the Canada Pension Plan, this investing behaviour should be part of the conversation.

BlackRock's 2015 Global Investor Pulse Survey finds a big disconnect between the financial goals of Canadians and what they're actually doing to achieve them. There's nothing new in this – as long as I've been writing this column, financial companies have been issuing survey results showing people need to be more engaged with their finances. What stands out in the survey is an accumulation of details showing how frightened investors are.

Sixty per cent of all savings and investments are in cash, the survey found. Asked to identify themselves as savers or investors, 28 per cent said investors and 72 per cent said savers. Let's clarify what these two terms mean. Saving means putting safety first while gathering money for short- to medium-term goals. Investing means taking on more risk in exchange for the potential to make higher returns in the long run. You save for a vacation or a house down payment. You invest for retirement.

Think you can save your way to a secure retirement? Good luck to you. Savings accounts and similarly safe vehicles pay 1 per cent to 1.8 per cent at best, and there are billions sitting in accounts at less than 1 per cent. You're not keeping up with inflation at these rates, and that means you're getting poorer over time.

The stock market – no, not the housing market – is the best way for the most investors to build wealth over the long term. But people resist. You can see this in the survey findings that half of participants see investing as gambling, and that a majority don't think of investing as being something for people like them.

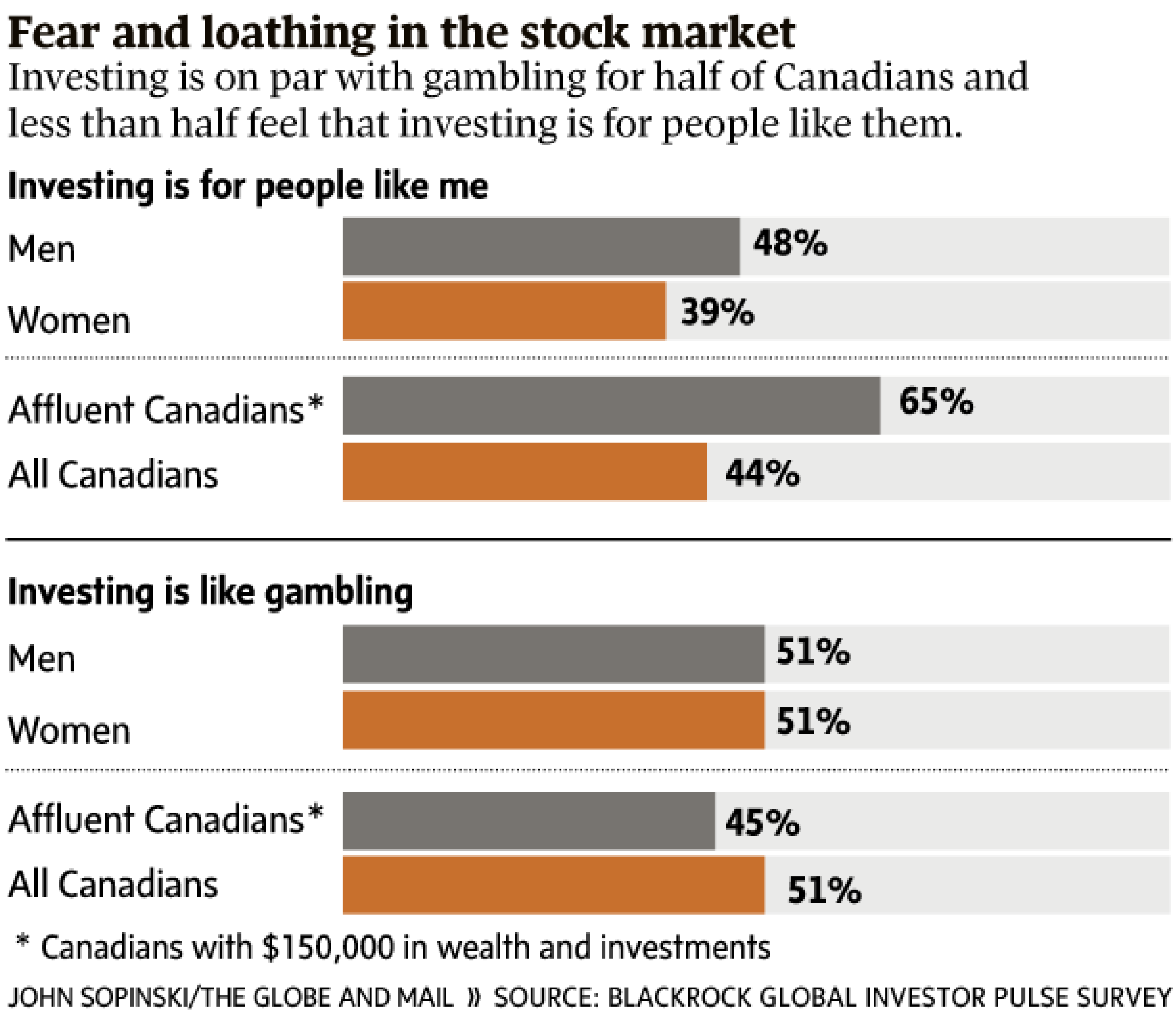
Partly, this is an understandable reaction to the stock-market drama of the past eight years. People feel a trapdoor opened underneath them and they still haven't regained their trust that committing to stocks, even with the risk of losses, is in their long-term best interest.

It also appears that the state of the economy is hurting confidence levels. BlackRock found that just 52 per cent of Canadians have a positive outlook on their financial future, the same rate as last year. Dig down into these numbers and you find that 73 per cent of affluent people ($150,000 or more in wealth and investments) and 43 per cent of everyone else felt positively about their financial future.

There's some insight in these numbers for those who thought the federal Conservatives were good stewards of the economy, and that giving the Liberals or NDP power was too risky. The economy is certainly working fine for some people, but many feel left out. In fact, survey participants ranked the high cost of living as the main threat to their future financial well-being, followed by the state of the Canadian economy, taxes, inflation and health-care costs.

BlackRock's conclusion from its survey results is that we need a renewed commitment to financial literacy. There's no arguing against this point, but let's recognize that making people smarter about money is a long-term project. For now, we need to start asking whether our nervous ways as investors will have an impact on our ability to accumulate money for retirement.

A conservatively diversified portfolio can reasonably be expected to make 3 per cent to 4 per cent after fees in the years ahead. Prefer to chug along in a savings account? Then expect to end up with a lot less in the end unless you massively increase the amount you save. Expanded CPP anyone?



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