Accumulating Funds for Short-Term Goals

Stock market volatility in 2020 has clearly reinforced at least one important investing principle: Short-term goals typically require a conservative investment approach. If your portfolio loses 20% of its value due to a temporary event, it would require a 25% gain just to regain that loss. This could take months or even years to achieve.

So how should you strive to accumulate funds for a short-term goal, such as a wedding or a down payment on a home? First, you'll need to define "short term," and then select appropriate vehicles for your money.

Investing time periods are usually expressed in general terms. Long term is typically considered 15 years or longer; mid term is between five and 15 years; and short term is generally five or fewer years.

The basic guidelines of investing apply to short-term goals just as they do for longer-term goals. When determining your investment mix, three factors come into play — your goals, time horizon, and risk tolerance. While all three factors are important, your risk tolerance — or ability to withstand losses while pursuing your goals — may warrant careful consideration.

Example: *Say you're trying to save $50,000 for a down payment on your first home. You'd like to achieve that goal in three years. As you're approaching your target, the market suddenly drops and your portfolio loses 10% of its value. How concerned would you feel? Would you be able to make up that loss from another source without risking other financial goals? Or might you be able to delay buying your new home until you could recoup your loss?*

These are the types of questions you should consider before you decide where to put those short-term dollars. If your time frame is not flexible or you would not be able to make up a loss, an appropriate choice may be lower-risk, conservative vehicles. Examples include standard savings accounts, certificates of deposit, and conservative mutual funds. Although these vehicles typically earn lower returns than higher-risk investments, a disciplined (and automated) saving habit combined with a realistic goal and time horizon can help you stay on course.

The FDIC insures CDs and savings accounts, which generally provide a fixed rate of return, up to $250,000 per depositor, per insured institution.

All investments are subject to market fluctuation, risk, and loss of principal. When sold, investments may be worth more or less than their original cost.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.