Scared of stocks? Most investors are too conservative with their retirement plans.

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A healthy mix of equities can be vital for a portfolio, even in retirement.

Many investors are too conservative with their retirement plans, one recent study found.
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Investing conservatively is understandable, especially considering the uncertainty around the stock market and worrying about making your money stretch through a period of high inflation, but many investors are falling below the recommended amount of stocks in their portfolios, which could hurt their savings prospects later in life.

The market is giving everyone a roller-coaster ride—for investments and emotions—and some of us may just not have the stomachs for it. Still, investors need to strike a balance between the amount of risk they're comfortable with and the amount they may need to attain their retirement goals.

A recent study from John Hancock on workplace plan participant behaviors found that's not often the case.

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Investors 30 and younger are told they should have 80% to 100% of their portfolios in equities, since they are decades away from retiring and their assets can handle the market volatility to come. As investors get older, and closer to retirement, that allocation changes, but there should still be a healthy percentage of stocks, also referred to as equities, in a portfolio. For example, investors 60 and older, many of whom may be near or in retirement, are still encouraged to have between 40% and 50% in equities, according to the report.

Most participants are not following those targets, however, the study found. For self-directed investors of defined-contribution plans who are 30 and under, only 16% were holding that recommended range of stocks, and 84% were below it. For investors 40 to 49 years old, who are told to have between 65% and 85% in equities, 15% hit those marks, 30% were over the range, and 55% were below it. In total, only 20% of participants were investing within the recommendations for their age groups, the study said.

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A closer look at personal and economic figures—goals, timeline, return and inflation rates, for example—help investors obtain a better understanding of the type of risk they should take, financial advisers said.

“Most clients have no idea how much risk they should take, but looking at the numbers and projections about returns are a good place to start,” said Catherine Valega, a certified financial planner at Green Bee Advisory. Having equities in a portfolio helps keep pace with inflation, she said.

There is no one-size-fits-all formula when it comes to risk and investors need to sleep easy at night over their portfolios. For those who simply can’t handle the idea of losing any amount to stocks, they should speak with a financial adviser about alternatives that will preserve their assets while also stretching them out over their life expectancies.

Keeping the big picture in mind—the investor’s ultimate retirement goals—also helps. “Those investors that rely on growth can’t or don’t always get growth. We teach that ‘growth is gravy,’” said Jay Spector, a certified financial planner and partner at Barton Spector Wealth Strategies.“ You have to sell shares in good markets and bad to generate income.” Dividend-paying investments are one reliable way to continue an income stream, even when the market itself isn’t doing so hot.

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Two of the primary risks investors face include inflation, which is currently on the rise, and sequence of return, said Derek Tuz, a certified financial planner and partner at Aegis Financial Partners. Inflation can erode a person's assets if they're not properly invested because spending power will be diminished. The sequence of return risk is withdrawing too much from a portfolio when the market is trending down, which hurts future potential growth of the assets.

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Some advisers, like Tuz, use a bucket approach to minimize those two risks. With this approach, the client's money is divided into a few types of portfolios—from conservative to riskier. The conservative bucket would be used for short-term needs, while the riskier one would have a higher allocation for equities so that it can generate the most potential growth. As time goes on, returns from the riskier portfolio will pour into the more conservative buckets, so that each bucket is always meeting its purpose.

Keeping all assets in cash may seem like a way to protect it, but is counterproductive, said Charles Sachs, a certified financial planner and chief investment officer of Kaufman Rossin Wealth. "Unfortunately, many people think they are being conservative with cash or fixed income investments in retirement accounts when in fact they are taking a huge risk that future funds won't be adequate to support their lifestyle," he said.

Having equities in a retirement portfolio isn't just for the year someone retires—but the years thereafter, said Vida Jatulis, a certified financial planner at MainStreet Planning. "I always like to remind clients that they don't need all of their money the day they retire," she said. "Retirement can be 30+ years, even a retired client can have a long time horizon. So allocating a portion of retirement accounts to stocks is putting the money you don't need for 10+ years to work for you."