Lessons From The Financial Crisis

Posted: 11/9/2017 by Fidelity Viewpoints

People have been saving more and getting disciplined about investing.

Key Takeaways

- The 2007-2009 financial crisis gave investors a harsh reminder about the potential consequences of taking on too much risk.
- Today, workplace savers are less extreme in their investing approach, and many are saving more.
- But other data suggests some investors may once again be taking on too much risk and debt.
- With the bull market in its 9th year, it's a good time to revisit your investment plan.

Ten years after the 2007 market peak, some investors may have forgotten the lessons of the financial crisis, when the stock market plummeted 40% and the economy lurched into the Great Recession. History shows that, on average, those who stuck to their saving and investing plans during those tumultuous times have prospered. Not so much for those who ditched stocks and went to cash or stopped saving altogether.[1]

"The financial crisis and ensuing recession were painful for many Americans, with high unemployment and big losses on investments," says Ann Dowd, CFP,® a Fidelity vice president. "But looking back a decade later, investors who were able to stay the course saw much better results."
In fact, a Fidelity comparison of retirement plan savers who stuck with stocks grew their balances by an average of about 240%; that was about 50% more than investors who bailed out of stocks at any point in 2008 or the beginning of 2009.[2]

What have investors learned 10 years after the worst financial crisis since the Great Depression? To answer that question Fidelity surveyed some 2,000 Americans who had begun investing before the crisis, and analyzed the behavior of nearly 1.5 million participants in Fidelity workplace retirement plans, and more than 5 million clients with individual retirement accounts (IRAs).

Here's what we found.

The crisis convinced many investors of the value of professional advice—and having and sticking to a plan. In our survey[3] of American investors, about 1 in 4 had sought out the services of a financial advisor as a result of the crisis. Roughly half of those say they now feel more confident about their plan and approach. For those who continued to go it alone, just 30% feel more confident today.
But has investor behavior changed? The evidence is mixed.

Investors said the biggest changes they made in the wake of the crisis were reducing debt and increasing savings.[4]About a quarter also said the crisis caused them to reassess how much risk they could handle and shift to a more conservative investment strategy.
A Fidelity analysis finds that savers who have been in their workplace retirement savings plans since before the crisis are saving significantly more.[5] That's likely due to a combination of individual decisions, and account features that automatically set and raise savings rates over time.
But the picture nationally shows some cause for concern. While national debt levels decreased and savings rates increased shortly after the crisis, they have since reversed. The personal savings rate, after climbing from 2007 to 2012, has fallen to 3.6%. Meanwhile, household debt levels hit an all-time high in June, surpassing the record set in 2008.[6]
Over the last decade, many plans have begun defaulting employees into target date funds and managed accounts, where professional portfolio managers set and maintain an investment mix based on a target retirement date. But there are some warning signs that the changes seen in workplace retirement plan asset mixes aren't being shared by other investors. For instance, in IRAs the stock allocation is near 70%, a level similar to those seen in 2007.[7]
"Given that we are now in the 9th year of a bull market, it's a good time to make sure your investment plan still makes sense, and that your portfolio hasn't drifted away from your strategy," says Dowd. "No one knows when the next correction will hit, but we haven't had a 10% pullback in almost 2 years. So, it makes sense to take a look at your investments."

Here are 5 lessons from the last big crisis to keep in mind.

1. Keep a long-term view

What looks like a huge loss on a short-term stock chart can look like a blip over a full business cycle.

Consider this: From late 2007 through early 2009, the S&P 500 lost about 40% of its value. For many at the time, it felt like stocks would never recover. Not so. Over the past 10 years, stocks have climbed a wall of worries to record highs. From the 10 years from June 2007 to now, the S&P is up 97%.[8]
Now let's look at the average baby boomer in a Fidelity workplace savings plan in 2007, who was still in their plan in 2017. The downturn reduced their account balance from an average $115,000 in June of 2007 to $85,000 at the start of 2009. But the market recovery and continued savings have driven that balance up to $315,000—a near tripling of wealth in 10 years.

Retirement savings balances have grown

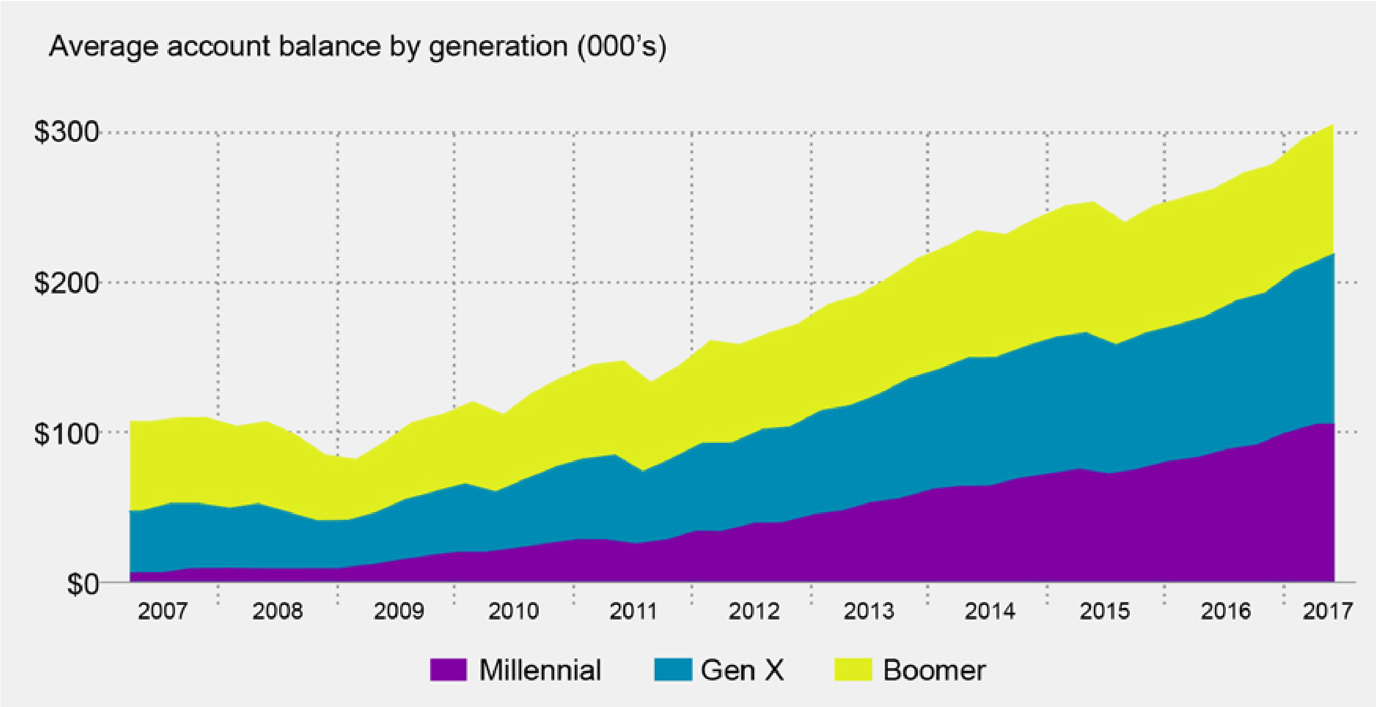

Chart is for illustration only. Data shows the average account balance for continuous participants in Fidelity workplace savings plans for the 10 years from June 2007 through June 2017. Past performance is not a guarantee of future results. See footnote 1 for additional details.

2. Don't panic

The vast majority of people in Fidelity workplace savings plans stuck to their long-term saving and investing plans during the financial crisis. But a small percentage panicked and went to cash during 2008 or the first quarter of 2009, or stopped contributing to their retirement plan. For many, it took years before they returned to their pre-crisis savings rates or stock mix. In fact, 5 years after the crisis, a quarter of those who sold out of stocks still hadn't reinvested in them.

By the time those who bailed started saving and investing again, it was too late to overcome the effects of lost savings and growth opportunities. For those who went to cash at any point in 2008 or the first quarter of 2009, their average balance rose 157% by June 2017. That compares to a 240% increase for those who maintained stocks. Likewise, those who stopped contributing to their retirement accounts saw their balances rise 191%, which is good, but it was far less than the 240% increase for those who kept saving.

For savers who sold out of stocks or stopped contributing, average balances never caught up

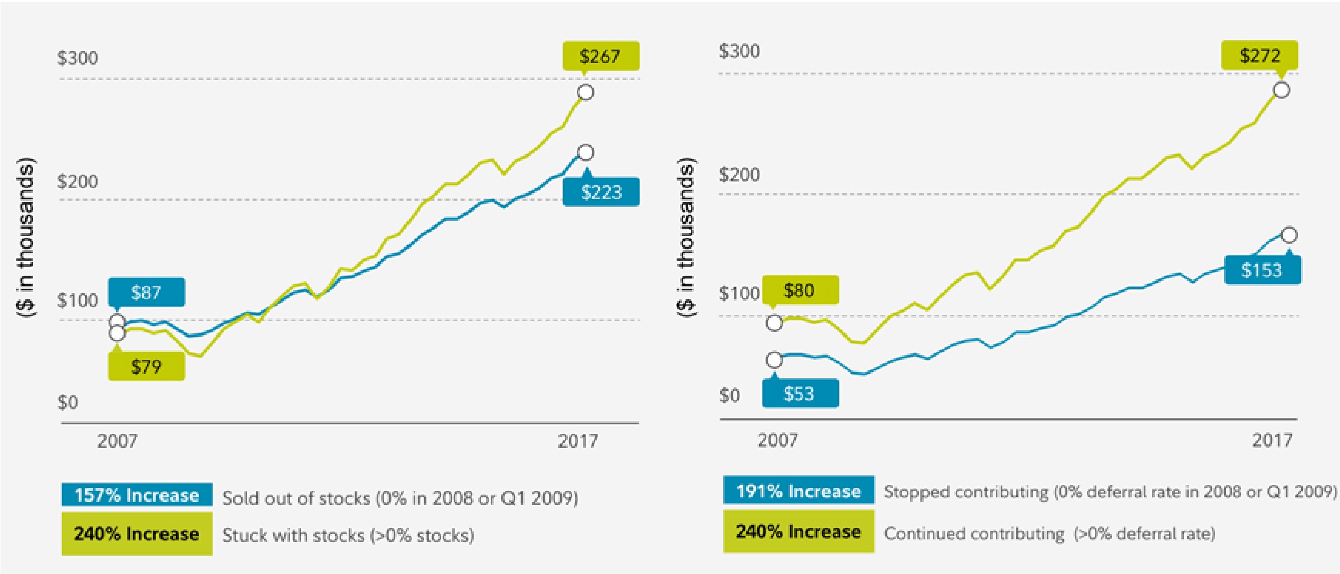

Chart is for illustration only. Data shows the average account balance for continuous participants in Fidelity workplace savings plans for the 10 years from June 2007 through June 2017. "Sold out of stocks" indicates a saver who had equities but moved to 0% equities during 2008 or the first quarter of 2009. "Stopped contributing" indicates a saver who reduced their contribution rate to 0% in 2008 or the first quarter of 2009. Past performance is not a guarantee of future results. See footnote 1 for additional details. Source: Fidelity.

3. Manage risk with a mix of investments

Using a mix of stocks, bonds, and cash to help manage the volatility of your portfolio has long been a core tenet of long-term growth. Fidelity research suggests that many workplace savers are better positioned than they were 10 years ago. Today, only 11% of those workplace savers who have been in their plans since before the crisis are holding 100% in stocks or 100% in bonds, versus about 26% in 2007.[9]

Looking at workplace savers overall, including those who joined their plans after the crisis, the trends toward holding a diversified asset mix are even stronger. Thanks to the adoption of target date funds as defaults, nearly half are now invested in target date funds, including almost 70% of millenials.[10]

That improvement has not been universal however. In IRAs, 1 in 3 accounts are still invested 100% in stocks or bonds.[11]

4. Save more

Savers who lived through the financial crisis and are still active in Fidelity workplace plans have, on average, increased their savings rates significantly over the last 10 years, to an average of 9.7% of their pay. That's a really good thing. Fidelity research finds that even increasing savings by 1% is one of the most powerful things you can do to boost the odds that you will be comfortable in retirement.

Savings rates are up

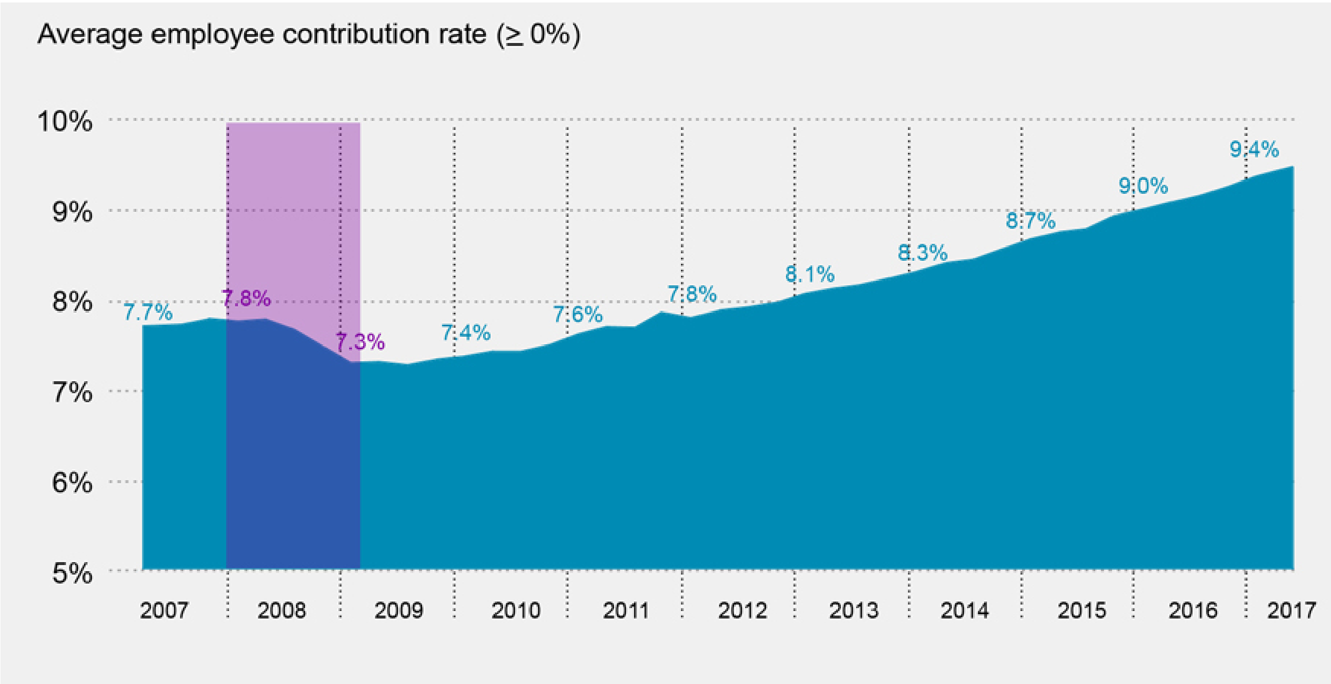

Chart is for illustration only. Data shows the average deferral rate for continuous participants in Fidelity workplace savings plans for the 10 years from June 2007 through June 2017. See footnote 1 for additional details. Source: Fidelity.

5. Consider a partner

Sometimes the hardest part of being a successful investor is controlling your emotions—getting too overconfident at the top of markets and too fearful at the bottom. If you find yourself in that boat, consider talking with your financial advisor.

- **About the data in this story:**
  1, 2, 5, 9.The average savings rates, account balances and asset allocation data in this story are based on a longitudinal study of active participants in Fidelity record-kept corporate defined contribution savings plans. The data looked at a cohort of 1,470,700 participants who were active in workplace savings plans for the entire period from June 2007 through June 2017. Please note that past performance is not a guarantee of future results and the averages can obscure significant variation for individual account results.
- The age bands for the average asset balance were defined using birth years: Baby Boomer 19461964 (723,386 participants), Gen X 1965-1980 (681,688 participants), and Millennial 1981-1997 (59,138 participants).
- 3, 4. All references to survey data in this article refer to the 10 Years After the Financial Crisis survey, an online survey of 2,021 Americans. The results were limited to those who had begun investing prior to the financial crisis in 2007, leaving 1,205 respondents. The survey was conducted in August of 2017 by Caravan ORC International.
- 6. National household debt, Federal Reserve Bank of New York, Personal Savings Rate, Federal Reserve Bank of St. Louis.
- 7, 11. Asset allocation data based on a Fidelity analysis of 5.3 million Personal Investing IRA customer accounts. The analysis looked at year-end data for retail customers and used mutual fund, individual security, and exchange-traded fund (ETF) assets. The data includes managed account and target date fund assets. Data as of 6/30/2017.
- 8. Source: FactSet. Returns based on the S&P 500 Total Return Index.

- 10. Based on Fidelity record-kept corporate defined contribution plans, with 22 million participants, as of June 30, 2017. Data in this presentation exclude tax-exempt plans, nonqualified plans, and the FMR Co. plan. It includes data from the Fidelity Advisor 401(k) program.
- Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments.
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