

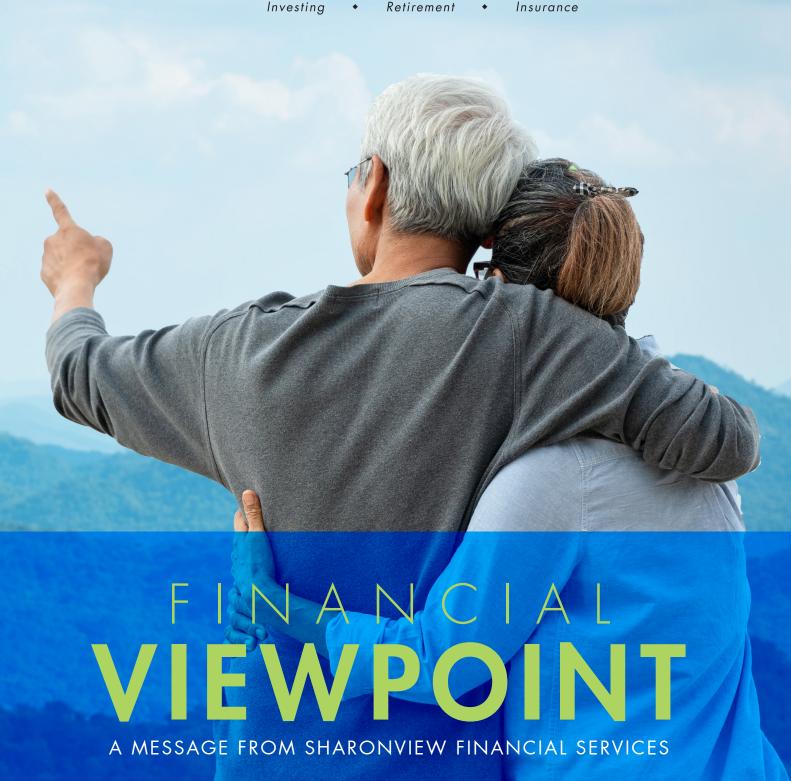
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# Appetite for **Risk**

Many prospective investors eventually shy away from a commitment when they hear the dreaded "R" word: risk. By itself, risk is innocuous, carrying no special meaning or predictive result. But the idea that investing one's money is not foolproof; that there are risks involved, and that a return is speculative — the very idea is enough to burrow one's savings into a secure bank account that earns a predictable interest rate (never mind that the figure is minuscule by any metric).

But not all risk is created equal. There's "letting it all ride" on a long shot; and then there's deliberate, calculated risk that is associated with sustained, long-term growth. Understanding the different types of risk is essential to evaluate whether an investment strategy aligns with your financial goals.

#### Risk and Return: A Closer Look

I'm talking today about three main types of investments: stocks, bonds and cash investments. Let's take a look at each:

Stocks typically carry the great level of market risk, and the highest potential for losing money in the short term. However, when looking at the long-term performance of the stock market, stocks have historically outperformed bonds and other cash investments. With this in mind, consider allocating assets that you intend to invest for 10-plus years into stock investments.

Bonds carry multiple risks: interest rate risk, which impacts a bond's price; and credit risk, which applies to the bond issuer and the possibility of default. Interest rate changes impact bond prices more significantly than they do stock prices. When short-term rates increase, investors can therefore sell older bonds that carry a lower interest rate, which in turn leads to price reductions, favoring investing in newer bonds that pay higher rates. Overall, bonds have historically been more stable over the short-term than stocks.



Finally, cash investments such as 3-month treasury bills are typically less volatile than both stocks and bonds. However, they may not keep pace with inflation. For this reason, you may consider these cash investments for short-term situations, such as those when you intend to access your money within the year.

### A Broader Context, a Clearer Understanding

With the above in mind, assess your investments — stocks, bonds and cash investments — in terms of a risk profile that aligns with your current and future goals. By investing in different types of assets, you minimize the collective risk of each while increasing your chances at reaping any potential benefits.

No investment portfolio will be riskfree, but taking these calculated risks can help you temper your losses.

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# Common Retirement Investment Mistakes

Only one-in-four Americans (27%) feel very confident that they will have enough money to live comfortably when they retire, according to the 2020 Retirement Confidence Survey Summary Report.<sup>1</sup> While the number is up slightly from the 2018 survey (23%), it underscores a pervasive sense of uncertainty among those approaching retirement age.

While there is no single action that can boost the collective confidence of retirees, there are several key investment mistakes that, if avoided, can help maximize retirement savings and provide confidence to those who are entering their Golden Years.

#### Pitfall #1: Failing to Maximize Your Contribution

If you can afford to do so, contributing the maximum amount to your employer-sponsored retirement plan will increase the chances that you'll reach your investment goal. The earlier you start, the better; it will allow your investments, and any potential earnings to grow on a tax-deferred basis.

## Pitfall #2: Failing to Develop a Concrete Plan

Establishing clear goals that incorporate a time element (number of years until retirement) is necessary to create a relevant investment plan. Without such a plan, it is difficult to understand whether your savings will provide you with the living standard to which you've grown accustomed and for each year of your retirement.



#### Pitfall #3: Short-Term Investment Mindset

The stock market fluctuates; that's a fact. And in the short-term they face a relatively high risk of price volatility. But in the long-term stocks have historically delivered relatively stable earnings. So selling off your holdings whenever the market takes a dip is a sure way to incur losses that impact your long-term goals.

#### Pitfall #4: The Quest for Perfection

Buying low and selling high is evergreen advice, but trying to time investment decisions on when the market will be at its lowest or highest is risky business, often leading to missed opportunities. As per #3 above, investing for the long-term can provide a more stable investment mindset.

### Pitfall #5: Eggs All in One Basket

Some investors make the mistake of investing in just one fund or asset type, thereby subjecting it to high risk should the market impact their specific holding. Spreading your investment risk over a mix of assets can help manage potential loss during these sharp market swings. The key here is diversification to offset losses in a particular asset category.

With these pitfalls in mind, you are well-positioned to avoid the common mistakes of other investors and maximize opportunities for your retirement plan.

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There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

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