BUILDING BLOCKS FOR RETIREMENT

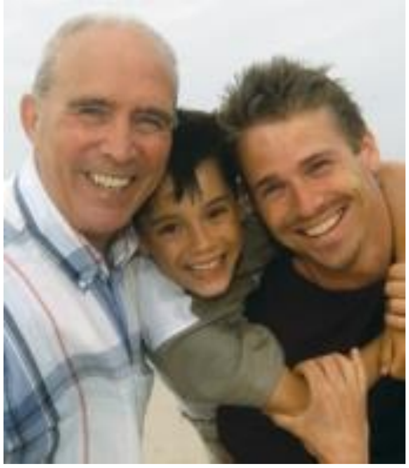
Risk Tolerance

Does Your Portfolio Reflect Your Risk Tolerance?

When it comes to investing, many people associate risk with losing money. But investing entails different types of risk. Understanding each type of risk and the potential return associated with your retirement portfolio can help you determine whether your investments are appropriate for your situation.

Examining Risk And Return

Stocks historically have exhibited the highest level of market risk — the potential that an investment may lose money in the short-term. Over the long-term, however, stocks have outperformed both bonds and cash investments.[1] This risk/return tradeoff may influence how you allocate your investments. For instance, consider weighting assets that you intend to keep invested for 10 years or more toward stock funds. Bond funds carry their own risks — credit risk, the possibility that a bond issuer could default on interest and principal payments; and interest rate risk, the chance that rising interest rates could cause a bond's price to fall. Ascending interest rates historically have influenced the prices of bonds more directly than stocks.[1] When short-term rates are on the rise, investors may sell older bonds that pay a lower rate of interest — causing their prices to fall — in favor of newly issued bonds that pay higher interest rates. On the plus side, bonds historically have exhibited less short-term volatility than stocks.



It's also important to look at cash investments, such as money market funds, from the vantage point of risk and return.[1] Although money market funds typically experience a low level of volatility, they may be subject to inflation risk — the possibility that their returns may not keep pace with the rate of inflation. For this reason, you may want to invest in money market funds in short-term situations when you expect to access your money within 12 months or less.

Putting Risk In Perspective

Because all investments entail risk, you may want to review your mix of stock funds, bond funds, and money market funds with an eye toward creating the risk/return tradeoff that is appropriate for your situation. Owning different types of assets may increase your chances of experiencing the benefits associated with each while mitigating the corresponding risk.

Your retirement portfolio won't be risk free, but you'll have the confidence of knowing you've done what you can to manage a potential downside.

[1] Past performance does not guarantee future results. Investment in a money market fund is neither insured nor guaranteed by the U.S. government, and there can be no guarantee that the fund will maintain a stable $1 share price. The fund's yield will vary.

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