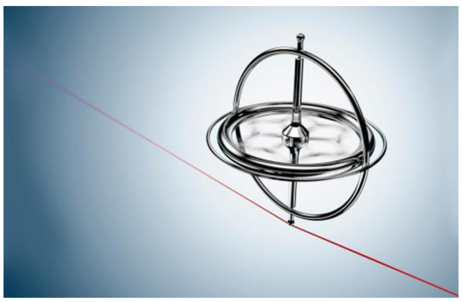
BUILDING BLOCKS FOR RETIREMENT

Risk Tolerance

Balancing Risk And Return

Every asset class has a different level of risk associated with it. And while no one wants to take unnecessary risks with his or her money, thinking only about investment risk can leave you exposed to another, less obvious risk: the risk that inflation can erode your savings.

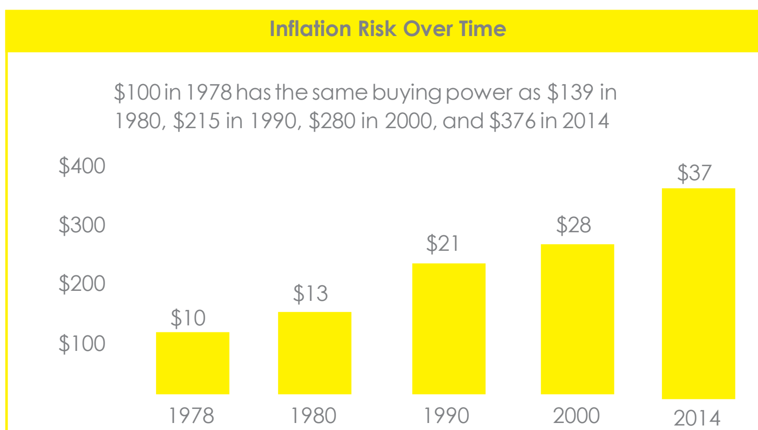


Investment Risk

Investment risk basically means you can't be sure what the results of your investment will be. You might make money, you might lose money. There are no guarantees. "Safe" investments, such as short-term investments, are designed to keep investment risk low. But they can also involve inflation risk.

Inflation: A Hidden Risk Over Time

Can you buy the same amount of groceries today with $20 that you could 10 years ago? Probably not. Inflation refers to the value of a dollar over time. It means that with each passing year, the same amount of money buys less. In fact, inflation has increased approximately 4% each year for the past 20 years! Take a look at this comparison of costs:



With inflation risk, if your money doesn't earn at least enough to stay ahead of inflation, you are actually falling behind. Your dollars are losing value over time- even if you are invested in something you consider "safe".

Inflation isn't generally a problem for money you will use in the near future. You won't lose much buying power over a year or so, and it's probably more important to preserve what you've got. But the longer inflation has a chance to nibble away at your money, the more inflation risk you run.

Things To Remember About Risk

Most investments generally involve some form of risk. To reduce one type of risk, you will generally have to take more of the other. Remember:

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- Generally, the higher the risk, the higher the potential for reward — and vice versa.
- Short-term investments and bonds are generally less risky in the short term, but have historically offered lower returns over the long term.
- Stocks are among the most risky investments in the short term and can have wide swings in volatility, but offer the potential for the highest return over the long term. History suggests that the longer you invest in stocks, the higher your potential return. Remember, past performance is no guarantee of future results.
- The shorter the time frame you have for investing, the more conservative (less risky) your investments should be.

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