BUILDING BLOCKS FOR RETIREMENT

Investment Strategy

Controlling Risk When Investing Near to Retirement

Managing investment risk takes on added importance for retirement investors as the day of their retirement draws ever closer. If you are within a few years of the date you plan to retire, you'll want to pay close attention to the different types of investment risk you face and develop approaches for protecting your retirement nest egg from large losses that would adversely affect your retirement.

As a long-term investor, you likely have an asset allocation strategy and a diversified portfolio. That means that you can potentially weather volatility in the financial markets since stocks and bonds have traditionally delivered positive returns over the long haul. However, the long-term record does not offer much comfort if your retirement plan portfolio declines 15% and you cannot retire on the date you planned. So, your goal should be to find a way to reach your retirement goal with the least amount of risk possible. To do that, you'll need to understand your tolerance for investment risk.

Assess Your Comfort Level

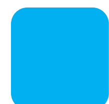
Risk tolerance is the ability to handle the chance of losses from an investment in exchange for the possibility of higher returns. You can gain a fairly good understanding of your comfort level for risk by answering these questions:

When will you need the money?

Making investment decisions based on the number of working years you have ahead of you is a key to successful retirement investing. If you are planning to retire in five years or less and your retirement plan portfolio is heavily invested in stocks, it may make sense to realign your investments. That could mean cutting back on stocks and increasing the percentage of your portfolio allocated to bonds and cash. You are, essentially, moving away from a largely growth-focused strategy to one that seeks to preserve any gains you may have made.

How honest are you about your capacity to handle loss?

Many investors overestimate their capacity to handle portfolio losses. Remember, to recover from an investment loss, you need to earn more than the percentage you lost. And, it may take months or even years to regain a large loss. Keep in mind that the most



recent 2007-2009 bear market lasted almost a year and half (as measured by the S&P 500 index), and some prior bear markets lasted even longer. A bear market is a decline of 20% or more, generally lasting 60 days or longer, in any broad equity index. Recovering a large investment loss could take many years -- possibly longer than you could afford to wait.

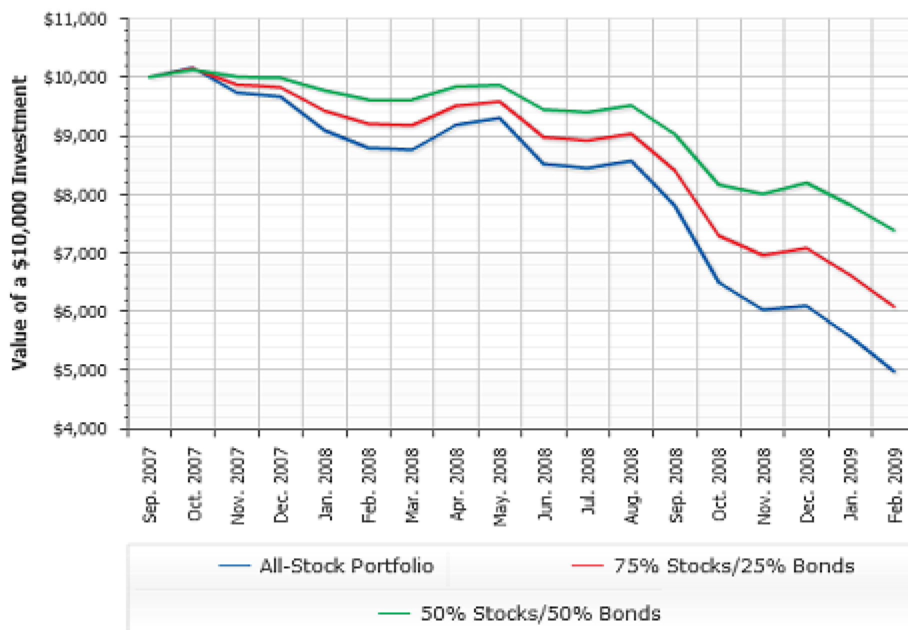
Will a big loss have a big impact on your future plans?

The impact of a loss is greater when that loss affects your future purchasing power. You'll get a better idea of your capacity to absorb losses if you view a loss in concrete terms. For example, would a loss of 15% or 20% force you to postpone plans to move to a new location? Would such a loss mean that you couldn't build that sunroom or redo your kitchen?

Manage Investment Risk

Once you have answered these questions, you will have a better understanding of how you should be investing your retirement plan money at this stage of your life. Aim to invest your plan assets in a way that can help you reach your goal of a financially secure retirement without sacrificing your emotional well-being and your ability to sleep soundly at night. The chart below demonstrates how an allocation to bonds would have reduced losses during the most recent bear market. As you can see, portfolios that were composed of a mix of stocks and bonds might have fared better than all-stock portfolios during that period. Of course, past performance is not a guarantee of future results.

Bonds Might Have Helped



Source: ChartSource®, DST Systems, Inc. For the period from September 30, 2007, through February 28, 2009. Stocks are represented by the S&P 500 index. Bonds are represented by the Bloomberg Barclays U.S. Aggregate bond index. Assumes that the recent bear market ended on March 9, 2009. It is not possible to invest directly in an index. Index performance does not reflect the effects of investing costs and taxes. Actual results would vary from benchmarks and would likely have been lower. Past performance is not a guarantee of future results. © 2020, DST Systems, Inc. Reproduction in whole or in part prohibited, except by permission. All rights reserved. Not responsible for any errors or omissions.

Your financial professional can help you determine an appropriate asset allocation as your retirement nears.

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