



Risk and Investing

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How do you define risk?

Remember the “double dare”? It usually involved some risky feat like jumping from a high place or walking to the door of a “haunted” house. Some kids would take the dare; others watched in amazement at the boldness of their friends. What seemed too risky to one person didn’t seem risky at all to someone else.

There’s some degree of risk in most things we do, and most of us are more comfortable with certain kinds of risk than others. The same holds true for investment risk. No investment is completely without risk, and we all have different comfort levels when it comes to risk and our money.

But *not* investing carries risk, too – especially the risk that you won’t meet your financial goals. The key is understanding risk and investing based on your particular tolerance for it.

Investment risk

The primary types of risks that affect the value of your money are:

- ♦ **Market Risk** – The possibility that your investments will lose value if the securities markets experience a decline. Stock and bond prices are influenced by many things – interest rate changes, the economic outlook, world events, news about the company, tax laws, even the mood of investors.
- ♦ **Inflation Risk** – The risk that the return on your investments won’t be high enough to keep pace with increases in the cost of living. This is an often-overlooked risk of “safe” investments.
- ♦ **Interest Rate Risk** – Because the values of bonds are affected by changes in interest rates, holders of these investments are particularly vulnerable to interest rate risk. When interest rates rise, the prices of existing bonds decline; when interest rates fall,

bond prices and value typically increase.

- ♦ **Liquidity Risk** – This is the chance that you’ll want or need to sell an investment when it’s not advantageous to do so. And, if there’s little activity when you’re ready to sell, there simply may be no buyers.
- ♦ **Economic Risk** – A slow economy can be a real hardship on stock investments. If the economy is sluggish, your stock investments may respond by falling in value.
- ♦ **Industry and Business Risk** – This risk involves events that may affect an investment’s ability to pay a return. The occurrence may be global (such as a war) or specific just to a particular business (such as the discovery of a negative side effect of a drug).

Additionally, the degree of risk varies in certain circumstances among asset classes. Inflation, for example, is more of a danger to bond investors than stock investors. Stocks, on the other hand, face much greater liquidity risk than do money market and short-term bond investments.

What should you do?

In any given year, stocks can fluctuate significantly. No one has a problem earning 30 percent or more on their money, but losing that much isn’t so easy to accept. But that’s part of the risk of investing.

There are three time-proven ways to deal with investment risk – time, asset allocation, and dollar-cost averaging.

- ♦ **Time** – You’ve often heard that investing is for the long-term. That’s partly because risk is reduced by the mere passage of time. While past performance is no guarantee of future performance, history has shown that the impact of short-term market losses diminishes over longer investment timeframes. In fact, the stock market has always recovered from its losses.

What that means is, the longer your timeframe, the greater risk you're probably able to take.

- ♦ **Asset Allocation** – Asset allocation addresses the “personality” of each individual by taking into account your particular time horizon, risk tolerance and needs. The degree to which you're able to remain calm during market ups and downs and accept the risks that come with investing is called your “risk tolerance.” Knowing your risk tolerance helps you determine the mix of stock, bond and cash investments that's right for you.

That mix is commonly known as asset allocation. Its purpose is to reduce your risk while maintaining or even enhancing the rate of return on your investments. So, if interest rates rise and cause the value of your bond allocation to fall, there may be an increase in the stock portion of your portfolio.

Because market volatility is a sure thing, allocating your portfolio to better withstand market ups and downs should be an integral part of your investing strategy.

- ♦ **Dollar-Cost Averaging** – Investing systematically offers another reliable strategy for managing market volatility. You can't know in advance whether the timing of any new investment you make will prove to be a fortunate choice. But if you invest on a regular schedule – in other words, use price averaging – you will be able to take advantage of fluctuating share prices over time.

Sometimes, your regular investment amount will buy more shares and sometimes it will buy fewer, but you will be adding steadily to your portfolio. And your average cost per share over time generally will be lower than it would have been if you were unlucky enough to invest only at peak times¹.

Putting it all together

Creating a plan that combines these three strategies will help you deal with investment risk. The key is to follow that plan once it's established. Straying from your investment strategy because the market is performing poorly and then switching back when the market has recovered often results in selling low and buying high – and it's the exact opposite of sound investing. A better course of action is to build a solid investment plan that suits your goals and prepare yourself to weather periodic market downturns and, of course, enjoy the upswings.

Count on COUNTRY

Investing is an important part of your future financial security. But there are a lot of aspects to achieving overall financial security, and putting it all together can feel overwhelming. It doesn't have to be. In fact, with the right guidance, it's something most families can achieve. No matter where you're starting from, you'll get that guidance with a tangible plan from COUNTRY[®] Financial. Let your COUNTRY Financial representative help you find the best way to build for your family's financial security.

¹Price averaging may lower your average per-share cost, but this investment method will not guarantee a profit or protect you from a loss in declining markets. Effectiveness requires continuous investment, regardless of fluctuating prices. You should consider your ability to continue buying through periods of low prices.



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