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"The Sky is Falling!"

Risks are unavoidable in investing…but, as in life, they create opportunity

Every first grader knows the story of Chicken Little, who, believing the sky was falling after an acorn lands on her head, runs off with her companions to tell the King. There were some falling acorns in 2011 that may have caused retirement investors to pull back from their savings plans, including concerns over rising government debt in the Eurozone, a first-ever ratings agency downgrade of U.S. debt and a lingering jobless "economic recovery" in the U.S.
We all know that Chicken Little was wrong about the sky falling. But how do these present-day financial risks affect your savings?

Almost any human activity carries some level of risk; some are just more obvious than others. People may have a big fear of flying, even though driving is statistically more dangerous than flying (see the chart on this page). The perceived threat of mosquito-borne illness or a large asteroid crashing into the Earth may not be widespread enough to keep children from wanting to play outside, but those risks are out there!

Lifetime Odds of Death for Selected Causes
United States, 2007 Data

CAUSE	ODDS
Heart disease	1 in 6
Motor vehicle accident	1 in 88
Assault by firearm	1 in 306
Accidental drowning	1 in 1,123
Air and space transport accident	1 in 7,032
Contact with hornets, wasps and bees	1 in 71,623
Struck by lightning	1 in 84,079
Earthquake	1 in 148,756
Fireworks discharge	1 in 386,766

Source: National Safety Council, *Injury Facts*, 2011 Edition

In investing, risk can simply mean the likelihood that your actual returns will be different than what you expect. Hundreds of factors can have an effect on risk, from natural disasters, to wars, to rising debt levels. The return you get from stocks and bonds is how you get paid for taking risk. In fact, risk is the source of opportunity, and unfortunately, disappointment, in investing.

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Three major types of investment risk

Fact is, taking on risk when investing is unavoidable. There are three types of financial risks that generally affect your money:

- **Market risk** Financial markets go up, and they down. At any point in that inevitable cycle, investors may get caught in a downturn —that's market risk. Seeing the value of your hard-earned money go down feels like a pit growing in your stomach—and that is what risk is really about.

If you avoid the markets because they are too risky, you are missing out on a historic, time-tested method of building wealth.

- **Individual security risk** A down market can feel like riding on a rollercoaster, but even a healthy "bull" market can produce losing stocks and bonds—that's individual security risk. Lots of companies face intense competition, suffer from poor management decisions or occasionally make mistakes that cause their stock price or bonds to pare back value. On the other hand, lots of companies make money for their shareholders, too.

- **Purchasing power risk** Inflation erodes your buying power—not just in the price of a loaf of bread or gallon of milk, but your investment returns as well. Anxiety over market risk may cause you to keep your money in government bonds and money markets, but the risk to this strategy is that your money will not grow enough over time to meet your retirement income needs. Stocks historically have been the best way for your investments to keep up with inflation, and you should consider maintaining an allocation to them in your retirement account—even after you retire.[1]

As Chicken Little learned, it takes courage to stay the course when life appears less secure. Investing for long-term goals requires that you maintain a long-term perspective. Above all, remaining patient and disciplined in your approach are hugely important to keeping on track financially.

Three Tips That Can Help You Minimize Financial Risk

Here are three strategies that will help you sleep better at night.

You can never eliminate investment risk, but you can take steps to minimize it. Here are three recommended approaches for investors who have enough time to ride out the market's ups and downs:

Tip #1: Diversify, diversify, diversify

Markets rarely crash at the same time. To lower individual security risk, you can diversify by investing in a variety of industries or companies within a single industry, or invest in a mutual fund, which can offer professional management and oversight as well as diversification.[2]

If you are concerned about the health of the U.S. economy, or a specific industry, you can reduce your risk by investing overseas[3] or in baskets of many industries. For example, you may want to consider a mutual fund that invests in large U.S. companies that have operations around the world (today, almost half of the profits of S&P 500® firms come from overseas[4]). Or you might invest in a fund that only buys shares of non-U.S. companies.

To diversify bond risk, you may want to buy a bond fund that invests in securities issued by international companies and foreign governments. Today, there are funds that invest in virtually anything you can think of.

Tip #2: Don't panic

One of the worst things you can do in investing is to sell at the bottom as a result of a market panic. If you're worried about the stock market taking a dive, consider your time horizon. For example, in a one-year period, anything can happen in the stock market (and did, in 2011–both good and bad). Stock investors react almost immediately to any positive or negative news that could potentially affect the value of their holdings, and this causes stock prices to vary over a single day. Over longer time periods, say, in rolling periods of 10 years or more, stocks historically have generated positive returns. The important thing is: don't panic. Don't confuse short-term market gyrations with risk. They are not the same thing.

Tip #3: Keep funding your retirement account

It's not easy to save money. The best way to achieve your long-term goals is not necessarily selecting the best fund or having the best mix of funds— it's saving regularly in your tax-advantaged retirement account, and increasing your contributions whenever you can.

Fill out the Risk Worksheet on the facing page to help determine your tolerance for investing risk.

1 Past performance is not indicative of future results.

2 Diversification does not guarantee a profit or protect against loss.

3 International investing involves certain risks, such as currency fluctuations, economic instability and political developments. Investments in small and/or midsize companies increase the risk of greater price fluctuations. Funds that invest in bonds are subject to certain risks including interest-rate risk, credit risk and inflation risk. As interest rates rise, the prices of bonds fall. Long-term bonds are more exposed to interest-rate risk than short-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. Funds that invest in government securities are not guaranteed.

4 Jeremy J. Siegel, "The Case for Stocks Now," Kiplinger's Personal Finance, August 8, 2011.

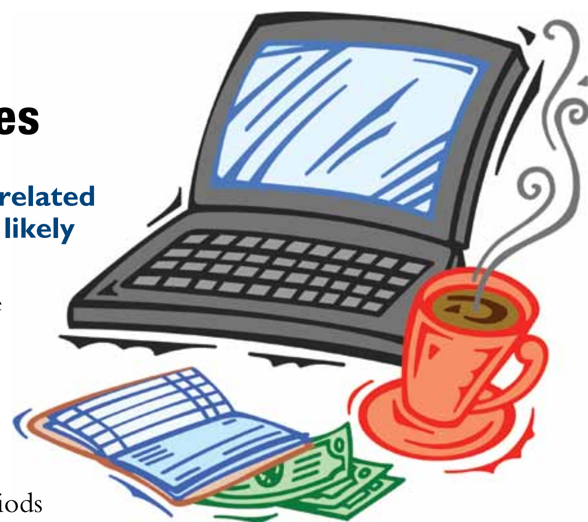
Get the Skinny on Fees & Expenses

We've all heard there's no free lunch, but a recent survey of plan participants revealed a startling fact: most people believe they pay nothing for their 401(k) plan.[5] That misperception should change beginning sometime in 2012, when qualified plan participants will begin to receive detailed information in their quarterly statement about the fees and expenses charged to their plan. This fee disclosure is designed to help employees assess the value they receive by participating in their plan, and to help them compare the investment options offered under the plan on an apples-to-apples basis.[6]

The regulations, which the U.S. Department of Labor is coordinating with the Securities and Exchange Commission, are expected to include the requirement that your plan sponsor issue two types of disclosure—"plan-level" and "investment-level" facts and figures.

Plan-level information likely will include:

- "General plan information," explaining how to give investment instructions, provide a current list of investment options (with any related investment restrictions), and describe any available "brokerage windows" that allow you to select investments beyond those designated by the plan;
- "Administrative expenses information," telling you how general plan expenses are charged to or deducted from your individual account, such as fees and expenses for accounting, legal and recordkeeping services; and
- "Individual expenses information," showing what fees are charged personally to you as a result of actions taken in your account, such as fees for loans or processing of qualified domestic relations orders.



Investment-related information likely will include:

- Performance data, providing returns for one-, five- and ten-year periods for each investment under the plan that does not offer a fixed rate of return;
- Benchmark returns, allowing you to compare investment performance of each option under your plan against broad-based securities indexes; and
- Investment-related fees and expenses, expressing what you pay each quarter, as both a percentage of assets and dollar-and-cents amount for each $1,000 invested.

Easy-to-read comparisons

Making sense of investment documents can be confusing. Under the regulations, investment-related information should be displayed in comparative chart or similar format. This is designed to make it easier for you to "comparison shop" the investment options offered under your plan. Updates regarding your investment options may be posted to a plan Internet website address, and your plan administrator must provide a general glossary of terms to help you understand your investment options.

Risk Worksheet

Use this tool to help determine whether you are a conservative, moderate or aggressive investor.

1. Subtract your current age from 100 ________

2. Check the box that most closely describes your attitude about risk:

a. ☐ I am not at all comfortable with seeing the value of my savings go down.

b. ☐ I can accept some ups and downs in my savings in the short run so long as they potentially grow over time.

c. ☐ I am very comfortable with having greater peaks and valleys in my savings in exchange for potentially reaping big rewards in the future.

3. Check the box that most closely matches your income needs in retirement:

a. ☐ I plan to spend less than what I now make each year.

b. ☐ I plan to spend about the same as what I now make each year.

c. ☐ I plan to spend more than what I now make each year.

SCORE YOUR ANSWERS

Question 1 Give yourself:
2 points if your number falls between 30 and 40.
4 points if your number falls between 40 and 60.
6 points if your number falls between 60 and 80.

Question 2 Give yourself:
1 point if you checked "a."
2 points if you checked "b."
3 points if you checked "c."

Question 3 Give yourself:
1 point if you checked "a."
2 points if you checked "b."
3 points if you checked "c."

IF YOU SCORED: **4-6**, you might be a **conservative** investor.
6-9, you might be a **moderate** investor.
9-12, you might be an **aggressive** investor.

5 DALBAR, *"ERISA 404(a)(5): A Game Changer?" June 2011.*
6 *Source: U.S. Department of Labor, Fact Sheet: Final Rule to Improve Transparency of Fees and Expenses to Workers in 401(k)-type Retirement Plans, October 14, 2010.*

Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Boomers on the Brink

Rising debt loads put retirement plans on hold for many

Four out of five households headed by people in their early 60s had too little savings in 2008 to pay off their mortgages without dipping into retirement accounts.[7] The increasing level of mortgage indebtedness — a problem compounded by decreasing housing values— remains a big problem for pre-retirees. Many in this age group may have to work past the traditional retirement age of 65 or cut expenses, since the typical household nearing retirement has saved less than one-quarter of what it will need, according to the Wall Street Journal.

Q & A

What is a Qualified Default Investment Option (QDIA)?

Although plan participants make their own investment decisions, plan sponsors must act prudently in selecting funds for the plan. Qualified default investment alternatives (or QDIAs), which can include target-date, risk-based, lifestyle or balanced funds, provide "safe harbor" for plan sponsors. Let's say a participant is given the opportunity to direct assets in his or her account but does not do so. In these cases, the plan sponsor can assign the assets to one or more QDIAs.

Tools & Techniques

When markets get choppy, invest for maximum impact — in yourself

The ability to make a living may offer better returns than any other available asset. Look for new ways to learn more about your industry and career. Be a lifelong learner; pick up new skills that keep you at the forefront of your industry and chosen profession. And remember what builds happiness comes from much more than financial wealth—your health, family and friends, and a fulfilling career.

Corner on the Market

Basic financial terms to know

Volatility

Volatility is the tendency of the market price of a given investment to swing to changes in the market. The usual measure of volatility is beta. An investment with a beta of 1.0 indicates a stock or mutual fund that tracks perfectly with a specified index, such as the S&P 500®. A high-beta stock or fund (greater than 1.0) is more volatile and changes more than the index, while a low beta investment (less than 1.0) is less volatile than the index.

Quarterly Reminder

Consolidate your retirement accounts

If your career has spanned several employers, you may be getting handful of 401(k) statements in the mail. Remember that these are your funds; not having them in one location can complicate your efforts to know what you own and how well you are diversified overall. Most 401(k)-type plans are portable—that is, you can take them with you when you retire or change jobs. Your new employer may allow you to transfer your account balance to your new plan, or you can set up an Individual Retirement Account (IRA). Just remember to be careful how you move the money over; it's usually best to do what's known as a "trustee-to-trustee" transfer. This step avoids having to take the funds directly, which is not a good deal. Having your old plan write you a check will slap a tax bill on your distribution, plus a 10 percent IRS early withdrawal penalty if you're under age 59½.[8]

7 E.S. Browning, "Debt Hobbles Older Americans," Wall Street Journal, September 7, 2011.

8 This is a general discussion and is not intended as tax or legal advice. Rules surrounding qualified plan distributions are complex; please consult your tax professional to determine what course of action is best for your financial situation.

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