

Fund Facts: Investment Styles

One quick and easy way to attempt to build a retirement savings portfolio would be to buy a stock or bond fund and hope for the best. But no one investment asset class outperforms all others all the time, so you probably wouldn't want your retirement to depend on the fortunes of just one investment. Because each asset class – growth, fixed-income and cash equivalent – is driven by different sets of economic and financial forces, it's unusual for all three to stumble at the same time. You may want use a more diverse strategy by dividing your money among them. To help you formulate your retirement strategy, here's a brief sketch of each asset class.

Growth

Growth means stock – and dealing with the ups and downs of the stock market. Because the stock market is so volatile, growth investments pose the greatest risk of short-term loss. They also offer the best chance for inflation-beating, long-term returns. The younger you are, the more you can risk short-term loss to potentially win long-term gains. At age 30, you might have 70 percent of your retirement savings invested in growth. At age 60, your stake in growth might be down to 40 percent. Here are a few common fund choices:

Growth funds take substantial risks in search of high returns. These funds vary according to their investment objectives and strategies for achieving growth. Growth-and-income/equity-income funds invest in dividend-paying stocks that promise both moderate prospects for growth and some fixed-income investments to boost total return.

Technology funds invest only in technology stocks – offering all the pluses and minuses technology stocks are known for: high volatility with several years of potentially fat returns, which may be followed by a year or more of steep losses.

International funds invest in stocks outside the United States. Since the world's economies don't move in lockstep, chances are that some foreign markets will be thriving in years when the U.S. stock market is down.

Fixed Income

Fixed income basically means bonds –money borrowed by either corporations or the U.S. Treasury. Bond funds don't have maturity dates like individual bonds do. When one bond in the fund matures, it is replaced with a newer issue. Bond funds don't offer the same inflation protection of stocks, but they are less volatile and often do well in years when stocks are doing poorly.

Cash Equivalent

Cash Equivalent funds are generally money market funds, which invest in short-term securities. Their returns are comparable to what you would get from a bank certificate of deposit (CD). Each share in a money market fund is almost always worth \$1. Investing in a principal/capital preservation fund means you always have a core amount of your retirement savings sheltered from the gyrations of the stock and bond markets.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. While the fund seeks to preserve the value of your investment at \$1 per share, it is possible to lose money while investing in the fund.

The Bottom Line

Once you've decided on an asset mix you're comfortable with – based on your age, years until retirement and tolerance for risk – stick to it. Granted, it's hard to stick with growth when the market is slumping. (Some investors get tempted to dump stocks and seek safety in a cash equivalent.) But history shows that every major stock market decline since 1926 has been followed by a rally.* And the best long-term returns generally go to investors who ride out the bad times with their savings plan strategy intact and are invested for growth when the next rally takes place.

*InvesTech Research, Whitefish, MT