

Risk Happens

Risk-taking is part of our daily lives. In fact, avoiding one risk usually means accepting another one. For example, vigorous exercise makes you vulnerable to short-term aches and pains but a totally sedentary life isn't "safe" either; it may put your heart at long-term risk. The best solution, of course, is to balance these two risks and exercise in moderation.

Balance is also a sensible way to approach investing in your employer's retirement plan. Some people try to avoid investment risk altogether for fear of losing their money. But in investing, as in life...risk happens.

Two important concepts to consider when you think about risk and your retirement plan investments are volatility, a short-term risk, and the long-term risk of inflation. A good way to safeguard your financial health may be to balance these two market forces.

Volatility is the degree to which the value of an investment rises and falls in the short term. A \$100 stock-fund investment may be at risk of being worth only \$80 a month later, for example. Inflation (the phenomenon of rising prices) creates the risk that for some investments, long-term value will shrink: a \$100 stable-value fund may hold its value on paper, but after years of inflation, that \$100 may buy only \$80 worth of goods and services.

Clearly, you can lose money either way. A good way to balance these risks is to consider your investment time frame. The sooner you need your money, the greater your risk from volatility. The later you need it, the more you have to fear from inflation. In fact, for a long-term retirement plan investor, volatile stock-fund investments may offer inflation protection because, historically, these funds have grown in value more than inflation over long periods of time.*

* Source: CDA/Wiesenberger, Rockville, MD

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