

Managing Investment Risk

Don't let fear of risk derail your retirement investing. Use the following four techniques to help increase your confidence while reducing your exposure to risk.

1. Diversification: Investment variety

When you diversify your portfolio, rather than tying it to the success of a single investment, you invest in different asset classes and different categories within the asset classes. This may decrease your risk if a single investment fails. Make sure your investments are spread among and within the asset classes reflecting your risk tolerance, time horizon and financial goals.

2. Systematic saving: Use your retirement plan

Another risk-reducing investment technique is dollar-cost averaging, investing a fixed amount of money in a fund at set intervals over a lengthy period of time. Dollar-cost averaging does not ensure a profit or guarantee against loss in declining markets. To be effective, there must be continuous investment regardless of fluctuating price levels. You should consider your financial ability to continue to make purchases through periods of low price levels. You can do this through your company-sponsored retirement plan by choosing a percentage to be taken out of your paycheck and automatically put in to your plan account to invest, regardless of what's occurring in the financial markets. When prices are lower, your money buys more shares; when prices are higher, it buys fewer shares. Over time, the average cost you pay for the shares may be less than what you'd pay if investing a lump sum.

3. Buy and hold

Holding on to mutual funds and other investments over time may yield more productive results than moving in and out of them.

4. Resist the market-timing urge

Some investors try to time the market (anticipate its ups and downs) to take advantage of rising prices and sidestep falling ones. As financial experts often say, it's time in the market, not market timing.

Use these four techniques to help you stay on track, being careful not to take on so little risk that you lose potential opportunities for the rewards you need to reach your financial goals.