

A FALLING MARKET ISN'T THE ONLY RISK

When you think about the risks you take when you invest, what probably comes to mind first is **market risk**: the risk of losing your money because of a drop in the market. You can try to defend against market risk by diversifying your assets over stock, bond and cash funds to increase your chances of having at least some winning investments each year. But there are other, possibly less obvious risks.

Inflation Risk

Whatever return your money earns will likely be eroded over time by inflation. Yet, even 2.5% inflation, will eat into your retirement nest egg: If that inflation rate persisted, 25 years from now you would need \$185,000 to buy what \$100,000 buys today.

Defense against inflation risk: Invest at least some of your nest egg in stock funds, whose long-term return has the potential to outrun inflation.

Business Risk

This is the risk that a company you invest in will go under, or at least see the value of its stock plunge, reducing the value of your investment.

Defense against business risk: You are already helping to protect yourself from business risk by investing in mutual funds, whose assets are diversified among dozens of companies.

Tax Risk

How much you really make on your investments is greatly affected by how much you have to pay in taxes.

Defense against tax risk: Make maximum use of your tax-deferred retirement savings plan. Your money is allowed to build over time, with no taxes due until you begin withdrawing it at retirement, when your income tax rate may be lower.

Risk of Outliving Your Money

The scariest risk of all is not having enough money to last through your retirement years.

Defense against outliving your money: Contribute the maximum each year to your retirement savings plan. The contribution limit is \$16,500 in 2011. You may be able to contribute another \$5,500 to your plan in 2011 if you are age 50 or older.

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