

Opportunity Knocks

Face it, there's no such thing as a risk-free life. You take chances every time you cross the street. But think how dull your life would be if you stayed home and never went anywhere. No investment is absolutely risk-free, either. But if you didn't take some investment risks, your money probably wouldn't accumulate very fast.

You try to be safe away from traffic before you cross the street. You try to turn investment risk into opportunity by adopting the same risk-management strategies experienced investors put to use.

Stick Around for the Long Haul

Short term, the investment markets are volatile—prices of both stocks and bonds can change by the minute. No matter how hard you tried, you could never stay ahead of the market's ups and downs.

Long term presents opportunities. Smooth out those short-term fluctuations and the stock market has generally trended higher over time. Past performance is no guarantee of future results, but historically, the longer your money stays invested, the greater your opportunity to turn a profit.

Practice Effective Diversification

Some years stocks outperform bonds and some years bonds outperform stocks. If you knew which investments were going to do best next year, that's where you'd invest all your money.

But no one can predict which markets will do best from year to year. So you diversify your investments among stocks and bonds, domestic and foreign—and maybe a little cash, too. Diversification doesn't eliminate risk, of course, but spreading your assets among several investment types broadens your opportunities for gain while helping cushion you against temporary downturns in any one investment.

Investing in some mutual funds can provide additional diversification because certain funds own dozens or even hundreds of different investments; a decline in one investment can be offset by gains in others.

Make the Most of Dollar-Cost Averaging

Ideally, you would invest when prices were cheap and sell when prices were high. In reality, many investors can't resist the temptation to buy after prices have rallied and sell after they have declined.

Instead of waiting for "the right time" to invest, set a schedule for regular investing—which is what dollar-cost averaging is all about. Instead of one big investment, you make smaller investments over regular intervals. You're already dollar-cost averaging when you make regular contributions to your retirement savings plan. Of course, a periodic investment plan such as dollar-cost averaging does not assure a profit or protect against a loss. Investors should consider their ability to continue purchases through periods of low price levels.

Your money buys more shares when prices are low and fewer shares when prices are high. Because you are buying more shares when the price is down, the average price per share you pay could be lower than the investment's average price per-share price over the same period.

Basically, you must take some risks if you want to build a nest egg to support you in retirement. So combine diversification and dollar-cost averaging with long-term investing to turn those risks into money-making opportunities.