



Being Wise with Your Retirement Investments

The choice of investments for your retirement funds is never easy. The funds you have saved for your retirement deserve special attention. How much you save and the returns on those funds may be the difference between being able to have the lifestyle you want during retirement or being forced to accept something less.

Because these funds are so important, many may be tempted to take a very conservative approach and only consider investments that are very low risk. Unfortunately, those options usually produce low returns. Others, that try to earn higher returns, may end up taking too much risk and suffer losses that are hard to recover.

Here are some ideas to help bring some logic to the investment choice process.

First consider the broad alternatives. Investments can generally be classified into three broad categories – equities, longer-term fixed income investments and shorter-term fixed income investments or cash. How you divide your investments into these categories is called “asset allocation.” Here are the average total returns for each of these categories over various periods. You should note that performance is measured by the total return including dividends, interest and changes in market value.

Returns for the periods ending 12/31/2008	Equities – Large capitalization stocks (S&P 500)	Longer-term fixed income – Long-term US Government bonds (20 year maturity)	Short-term fixed income – US Treasury bills (91 day maturity)	Inflation – Consumer Price Index (CPI)
1 year	-37%	25.87%	1.606%	0.09%
5 years	-2.19%	10.36%	3.042%	2.67%
20 years	8.43%	10.03%	4.25%	2.82%
Best year over 20 years	37.4% (1995)	31.7% (1995)	8.4% (1988)	0.09% lowest (2008)
Worst year over 20 years	-37% (2008)	-8.96% (1999)	1.02% (2003)	6.1% highest (1990)

Then consider your time horizon. The longer you have until you need the funds (time until retirement), the more aggressive you can be in making your asset allocation decision. One of the benefits of having a long-term time horizon is that time gives you the ability to recover from one or several bad years’ results.

Many low risk choices, like US Treasury bills, guaranteed insurance contracts and CDs can give you peace of mind knowing that the risk of loss of principal is minimal, but the returns they have produced over time has been relatively low. The category with the highest risk (equities) has produced the best returns over time, but it has also produced the greatest loss in any one year.

The long-term nature of your retirement assets (assuming you have many years until retirement) facilitates taking some risk with those funds. However, remember that historical performance is not a perfect indicator of future results. If your retirement is closer, you may want to consider reducing your risk by allocating more of your funds to lower risk types of investments.

Get the help you need. You will ultimately be responsible for your retirement and the decisions you make on managing your investments are important. Doing your homework and using the services of a qualified professional can make all the difference in the world.