Summer 2015

Wise Choices

No risk? Consider a mix.

Risk and return are linked
Investing for retirement is a big deal. The last thing you want is for your investments to lose value. If you're worried that a drop in the stock market will significantly reduce your retirement savings, you may be tempted to fill your portfolio with low-risk cash alternative investments that can be readily converted to cash as a way to reduce your risk.

When you reduce risk, you also reduce your potential return. So if you were to put your entire account into cash alternative investments, you'd risk not earning enough on your investments to beat inflation. As a result, you could lose purchasing power, and there is the risk that you may not reach your savings goal. If that happens, you might not be able to afford the kind of retirement you want. The table below shows that the 20-year average annual return for cash alternative investments is not much higher than the inflation rate for the same period.

Low risk can be risky*
20-year average annual total return (through Dec 31, 2014):

Inflation[1]	2.28%
Cash alternatives[2]	2.65%

Consider a mix
You can adjust your portfolio's risk-return profile by including some investments with more risk (for example stocks and bonds) that offer higher potential returns than cash alternatives. The percentages of your account that you devote to stocks, bonds, and cash will depend in part on how soon you plan to retire. The further away you are, the more risk you may be willing to take since your long time frame gives you more time to recover from losses. As retirement gets closer, however, it's generally wise to decrease your portfolio's risk exposure.

You can't totally avoid risk when you are investing for a long-term goal. Instead, focus on managing risk by choosing a well-diversified mix of investments.

The power of compounding

Quick quiz. Two investors contribute the same total amount of money to their retirement accounts and earn the same average annual total return on their investments. Will their account balances be the same? Not necessarily.

A tale of two savers
Here's an illustration using two hypothetical retirement plan participants:

- At age 25, Elayna starts contributing $200 a month to her retirement account and continues throughout her 40-year career (a total of $96,000)
- Eddie doesn't get started until he's 45, but he contributes $400 a month for the next 20 years (also a total of $96,000)
- Both earn an average annual total return of 6% on their investments (compounded monthly)
- Elayna's balance at age 65 is **$398,298**
- Eddie's balance at age 65 is **$184,816**

Why the big difference? Time and compounding. Because Elayna started to save so much earlier than Eddie, she was able to put the power of compounding to work for a longer period of time.

What's the secret?
Here's how compounding works. The contributions you make to your retirement account are invested. Any earnings your investments generate are reinvested in your account. You then have a bigger amount of money—contributions plus earnings—which means you have the opportunity to generate even more earnings. Repeat. Compounding is generating earnings on your investment earnings.

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Pick up the pace

It stands to reason that the more you contribute, the more you may potentially benefit from compounding. And, although investment returns are not guaranteed, steady investing gives your retirement plan savings the potential to grow through compounding. Years' worth of regular plan contributions, plus investment earnings, plus compounding can help you build the balance you'll need for retirement.Remember, the power behind compounding is time. Try not to stop making contributions, even for a short period. You may have trouble getting back in the habit of contributing. And, if you're more like Eddie than Elayna, don't worry. You can still put the power of compounding to work. Just don't wait any longer to start saving for your future.

Give compounding a boost

What if Elayna had been able to increase her retirement plan contribution from time to time? Here's an example of how her account would look if she'd found an additional $50 a month to contribute every so often.

Age	Per month	Increase
Age 25 – 35	$200	$0
Age 35 – 45	$200	$250
Age 45 – 55	$200	$300
Age 55 – 65	$200	$350
Account balance at age 65	**$398,298**	**$479,820**

The information is hypothetical and is used for illustrative purposes only. It assumes an average annual total return of 6% (compounded monthly) and is not intended to show the performance of any particular investment. Actual returns cannot be predicted and will vary. Income taxes will be due on accumulated amounts when received from the plan. Source: DST.

[1] Represented by the Consumer Price Index (CPI).
[2] Measured by Barclays U.S. Treasury Bill 1 – 3 month index.

* Past performance does not guarantee future results. Your investment results will be different. This chart is for illustrative purposes only and does not represent the performance of any particular investment. Investments cannot be made in an index. Stocks have greater return potential, but are more volatile than other investment types. Unlike stocks and corporate bonds, government bonds and Treasury bills are guaranteed by the U.S. government and, if held to maturity, offer fixed rates of return and stable principal. Source: DST.

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Cash alternatives are short-term securities that can be readily converted to cash, such as U.S. Treasury bills. They may not be federally guaranteed or insured, and it is possible to lose money by investing in cash alternatives. Returns on cash alternative investments may not keep pace with inflation, so you could lose purchasing power.

The value of investments in equity securities will fluctuate in response to general economic conditions and to changes in the prospects of particular companies and/or sectors in the economy.

The value of the portfolio will fluctuate based on the value of the underlying securities. Equities and fixed income instruments are subject to market risk and will undergo price fluctuations in which downward and upward trends may occur over short or extended periods. Equity securities, historically, have shown greater growth potential than other types of securities, but they have also shown greater volatility.

Two main risks related to fixed income investing are interest rate risk and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and interest payments. Past performance is no guarantee of future results.

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