Fall 2015

Wise Choices

Here are some things you can count on

When it comes to investing, there aren't many things you can be certain of... except for one: Sooner or later, the stock market will be doing the exact opposite of what it's doing today. Stock prices change every day. This fluctuation, known as volatility, is the market's response to factors such as supply and demand, economic news, even political events.

Count on volatility
Volatility matters because it's a measure of investment risk. The more volatile an investment is, the greater its risk of short-term losses. Stocks are the most volatile of the three major asset classes. Bonds are less volatile than stocks, and cash alternatives[1] (short-term securities that can be readily converted into cash, such as U.S. Treasury bills) are the least volatile of all.

So why not just avoid volatile investments? Because riskier investments generally have higher potential returns. (Past performance is no guarantee of future results.)

Counter with diversification
When volatility heats up, the different asset types may react differently. The strategy of diversification,[2] spreading your investments among the various asset classes, can help you manage risk.

Focus on goals
As a retirement investor, you can count on short-term volatility in the stock market. But unless you're close to retiring, don't let it stop you from focusing on your long-term goals by including investments with strong growth potential in your portfolio.

Diversification at work

Investment mix	100% stocks	50% stocks/ 50% bonds	40% stocks/ 35% bonds/ 25% cash alternatives
Amount invested	$1,000	$1,000	$1,000
Value if *stock* prices drop 20%	$800	$900	$920
Value if *bond* prices drop 20%	$1,000	$900	$930

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.

When your nest empties...

Having a child leave home permanently is a significant event. After you've packed away the memorabilia, sit down and revisit your finances. It may be a good time to make some other changes.

From their diapers...
Raising a child is expensive. For a child born in 2012 (the latest figures available), a middle-income family can expect to spend about $241,080 for food, shelter, and other necessities associated with raising a child over the next 17 years.[3] Since 1960, the average annual increase in child-raising costs has been 4.4%.

To your retirement
If you think it's a big change when the kids leave home, the next one—retirement—may be even bigger. Once you no longer have the expenses of raising a family, use the financial "windfall" to beef up your retirement savings. If you haven't been saving as much as you should, this is the time to catch up. Building up your retirement savings should be a priority.

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Save more now, spend more later
Check to see how much you're currently contributing to your retirement account, and consider increasing that amount. If you can sock away an extra $200 a month for 10 years and earn 6% a year (compounded monthly), you'll have added more than $32,000 to your account balance.

	Save an extra $2,400 a year	Save an extra $5,000 a year
For 7 years	$20,815	$43,364
For 10 years	$32,776	$68,283

These are hypothetical examples used for illustrative purposes. They do not represent the results of any particular investment vehicle. Monthly contributions and a 6% average annual total return (compounded monthly) are assumed. Your actual investment results will be different. Tax-deferred amounts accumulated in the plan are subject to ordinary income tax upon withdrawal. Source: DST.

Max it out
If you can, keep increasing the amount you're saving until you reach your plan's maximum contribution amount. Check with your plan administrator if you don't know how much the annual limit is. If you're age 50 or older by the end of the calendar year—and your plan allows for them—you may be able to make additional catch-up contributions.

No procrastinating
It won't take long to adjust to having more money to spend after the kids leave home, so don't wait to reset your financial priorities. Earmark at least *some* of your empty nest "surplus" as retirement savings.

[1]Prices of fixed income securities may fluctuate due to interest rate changes. Investors may lose money if bonds are sold before maturity. Cash alternative investments may not be federally guaranteed or insured, and it is possible to lose money by investing in them. Returns on cash alternative investments may not keep pace with inflation, so you could lose purchasing power.
[2]Diversification does not ensure a profit or protect against loss in a declining market.
[3]Expenditures on Children by Families, *U.S. Department of Agriculture, August 14, 2013.*

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