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Achieving Financial Success™

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Practical Wealth Creation Ideas

...for Simplified Financial Success™

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Lowering INVESTMENT RISK

By holding an investment over the long term—-10 years or longer—any losses in equity funds or bond funds, due to stormy markets, are generally regained. As you near retirement, it may be wise to shift some of your portfolio into mutual funds designed to lessen the level of exposure to market volatility. This could result in reducing the risk of capital loss. It is reasonable to take on significant risk when we are younger for the most obvious reason—so that our investments have the opportunity to achieve enough growth to provide an income for 15 to 25 years of retirement. Investing in equity funds when we were younger helped us overcome the less obvious, yet more serious risks of inflation and lower interest rates. Here are some ideas that can help you lower your exposure to risk:

• Adjust the mix of your investments as they relate to your retirement goals. If you carry 70% to 80% in equities and you have five years before retirement, you may want to lower your equity portion somewhat. Before drastically reducing equities, evaluate your portfolio's need for ongoing potential growth.

• Examine the style of each equity mutual fund in which you are invested. Reduce risk by simply moving a larger percentage of your portfolio into large-cap equity funds investing for value.

• Reduce exposure to other countries' economic problems. For example, you may have less portfolio risk if you move temporarily out of regions experiencing economic chaos.

• Look to conservatively invest more of your money in higher-grade bond funds or mortgage funds once you have assessed the potential rate of return.

• When safety is your main goal, move a portion of your investments into money market funds. However, it is probably unwise (unless you have amassed a small fortune) to transfer all of your money into low-interest money market funds because lower interest rates, hammered by inflation and taxes, could considerably erode your earnings.

• If you are invested in non-registered equity funds you may want to stay put as equity funds can have tax-favoured treatment on any capital gains, especially if you are in a higher tax bracket. With the current meager interest rates of T-bills or term deposits, you may lose buying power. For example, if you earn 4% on a money market fund and you are taxed at 50%, you will earn a net 2%. If inflation runs at 2%, your capital is not increasing in real after-tax, net-inflation value.

Every investor needs to understand the effect a market downturn can have on his or her invested capital. If you lose 25% in a down market, you'll need to earn 33% to get back your money. If a mutual fund has lost money, consider waiting until the market recovers before adjusting your portfolio, and seeking the help of your financial advisor.