# Investment Basics:
# Risk Tolerance
# Time Horizon
# Market Volatility

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# Investing for the future

- Product – what are you buying?
  - Individual Stocks and Bonds
  - Mutual Funds (MFs)
  - Exchange Traded Funds (ETFs)
  - Certificate of Deposit (CDs)
  - Alternative Investments (classical art, real estate)
  - Real Estate Investment Trusts (REITs)

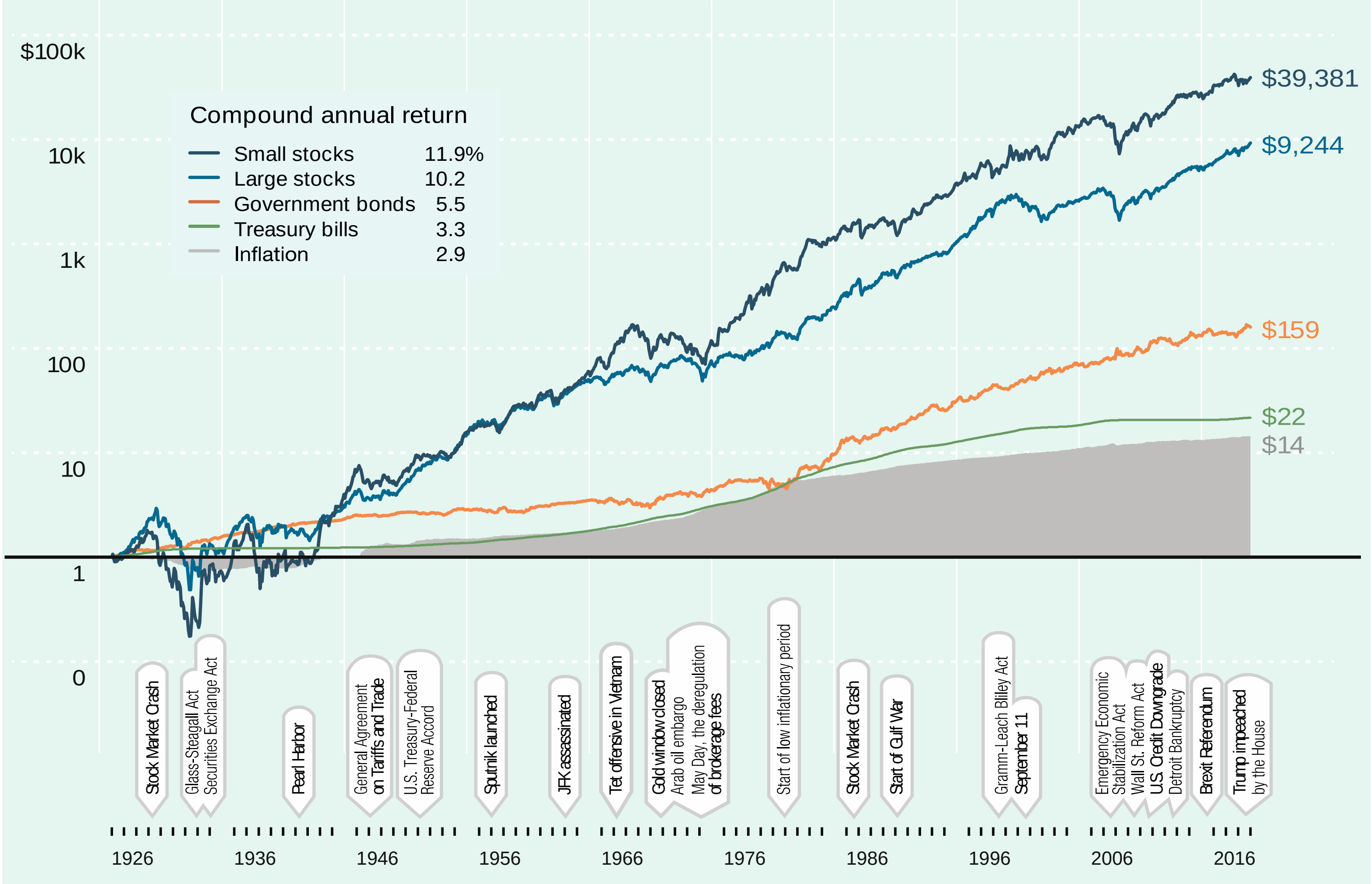
- Plan – how is it taxed?
  - Tax Advantaged Accounts:
    - Pre Tax:
      - Traditional IRAs
      - 401(k), 403(B), 457
    - Post Tax:
      - ROTH IRAs
      - ROTH 401(k)
    - Tax Specific
    - 529 – Education HSA – Medical Costs
  - Insurance Vehicles
    - Variable Annuities
    - Variable Life Insurance

# Ibbotson® SBBI®

## Stocks, Bonds, Bills, and Inflation 1926–2019

### Why invest?

If you have financial goals, such as a secure retirement or paying for a college education, investing makes sense. As you can see here in the growth of $1 over the past 94 years, small-cap stocks, large-cap stocks, government bonds, and Treasury bills should all have a place in a properly allocated long-term investment plan.



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Past performance is no guarantee of future results.

Hypothetical value of $1 invested at the beginning of 1926. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly into an index.

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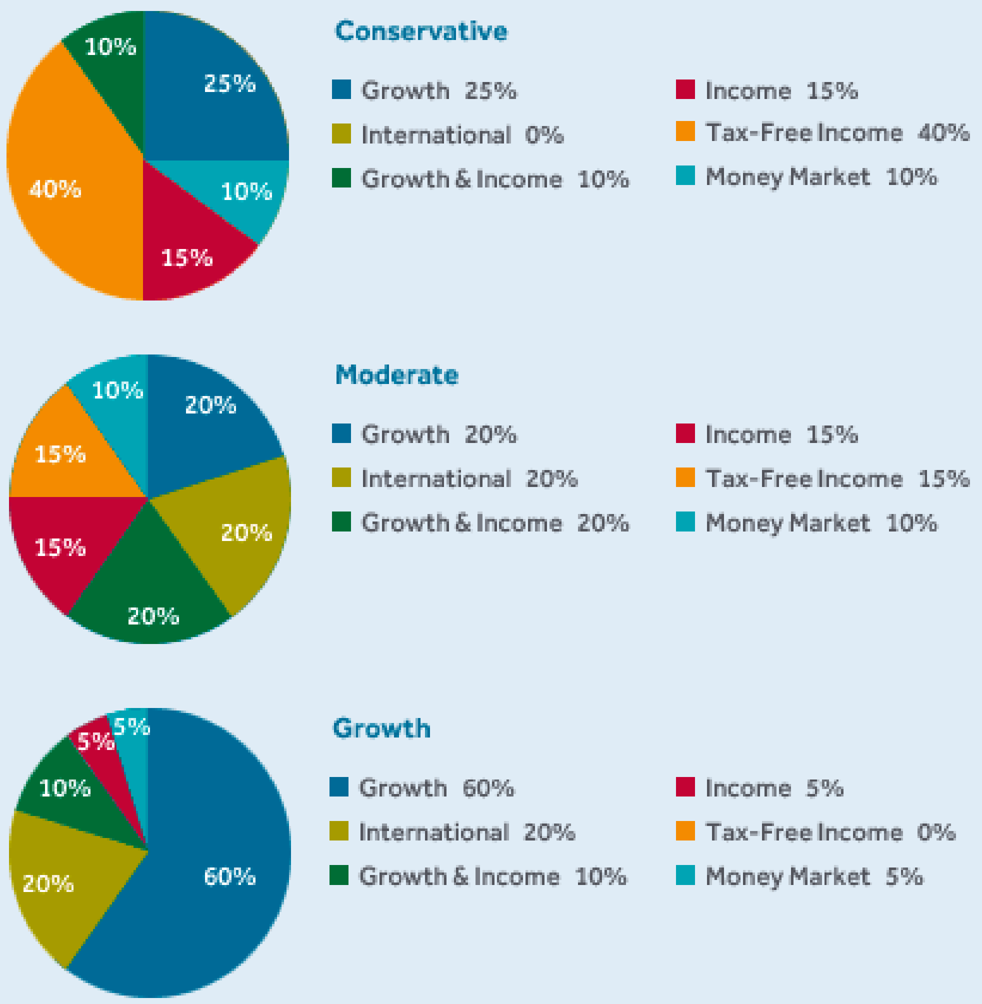
# Risk Tolerance

- Specific to each person based on
  - Experience with investing
  - Opinions of the Economy
  - Time Horizon (how long will you be investing)

- Important Factors that should be addressed
  - Current Income
  - Goals for the investment
  - Net-worth
  - Debt and Liability

# Determining Risk Tolerance

- **Conservative Investors** are those who put a premium on conserving their capital and are willing to accept lower returns in exchange for safety.
- **Aggressive Investors** seek to get the highest possible growth in value from their investments and are willing to risk suffering losses in the short term to meet their objectives.
- **Moderate Investors** are (surprise!) somewhere in between.



These allocations are for illustrative purposes only and not intended as investment advice.

# Time Horizon

**1. Keep it in perspective**

Market dips, even the most severe, are generally short-lived. Despite periodic declines, the financial markets have historically risen over the long term. By holding your portfolio longer, you can decrease the overall effect of volatility and increase your potential return over the long term.

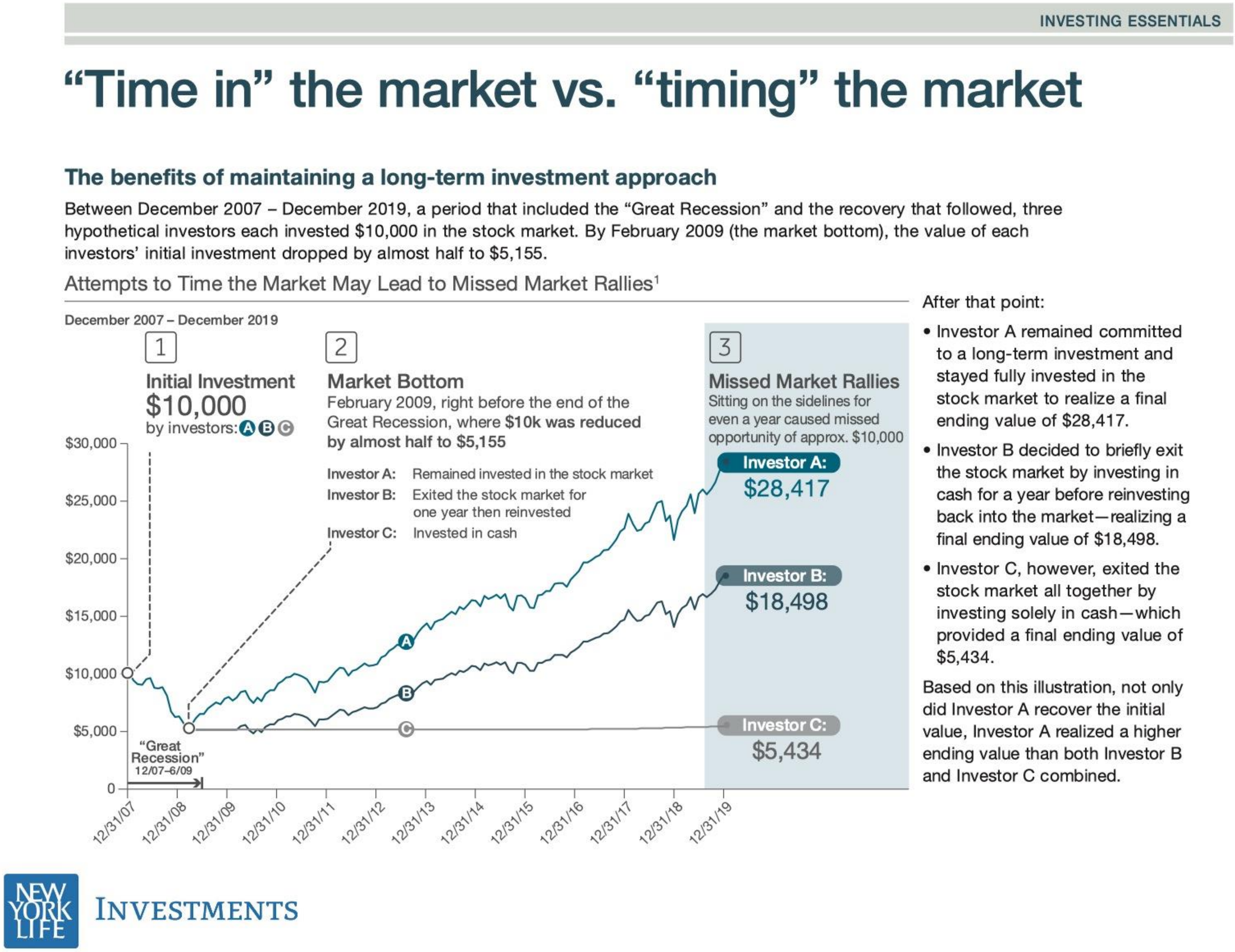
**2. Assess and adjust**

It’s natural that a volatile market can make you question your risk tolerance. Acknowledge how you feel and adjust your plan, if needed. But, don’t overdo it. It’s important to remain committed to your long-term investment goals.

**3. Create balance**

The investment landscape is constantly evolving. In recent years, new products that seek to limit investors’ exposure to volatility and provide diversification in times of turbulence have come to market. Consider talking to your financial advisor to see if these are right for you.

# Volatility



## “Time in” the market vs. “timing” the market

### The benefits of maintaining a long-term investment approach

Between December 2007 – December 2019, a period that included the “Great Recession” and the recovery that followed, three hypothetical investors each invested $10,000 in the stock market. By February 2009 (the market bottom), the value of each investors’ initial investment dropped by almost half to $5,155.

Attempts to Time the Market May Lead to Missed Market Rallies[1]

December 2007 – December 2019

1
Initial Investment
$10,000
by investors: A B C
2
Market Bottom
February 2009, right before the end of the Great Recession, where $10k was reduced by almost half to $5,155
Investor A: Remained invested in the stock market
Investor B: Exited the stock market for one year then reinvested
Investor C: Invested in cash
3
Missed Market Rallies
Sitting on the sidelines for even a year caused missed opportunity of approx. $10,000
Investor A: $28,417
Investor B: $18,498
Investor C: $5,434
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
0
A
B
C
“Great Recession” 12/07–6/09
12/31/07
12/31/08
12/31/09
12/31/10
12/31/11
12/31/12
12/31/13
12/31/14
12/31/15
12/31/16
12/31/17
12/31/18
12/31/19

After that point:

- Investor A remained committed to a long-term investment and stayed fully invested in the stock market to realize a final ending value of $28,417.
- Investor B decided to briefly exit the stock market by investing in cash for a year before reinvesting back into the market—realizing a final ending value of $18,498.
- Investor C, however, exited the stock market all together by investing solely in cash—which provided a final ending value of $5,434.

Based on this illustration, not only did Investor A recover the initial value, Investor A realized a higher ending value than both Investor B and Investor C combined.

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