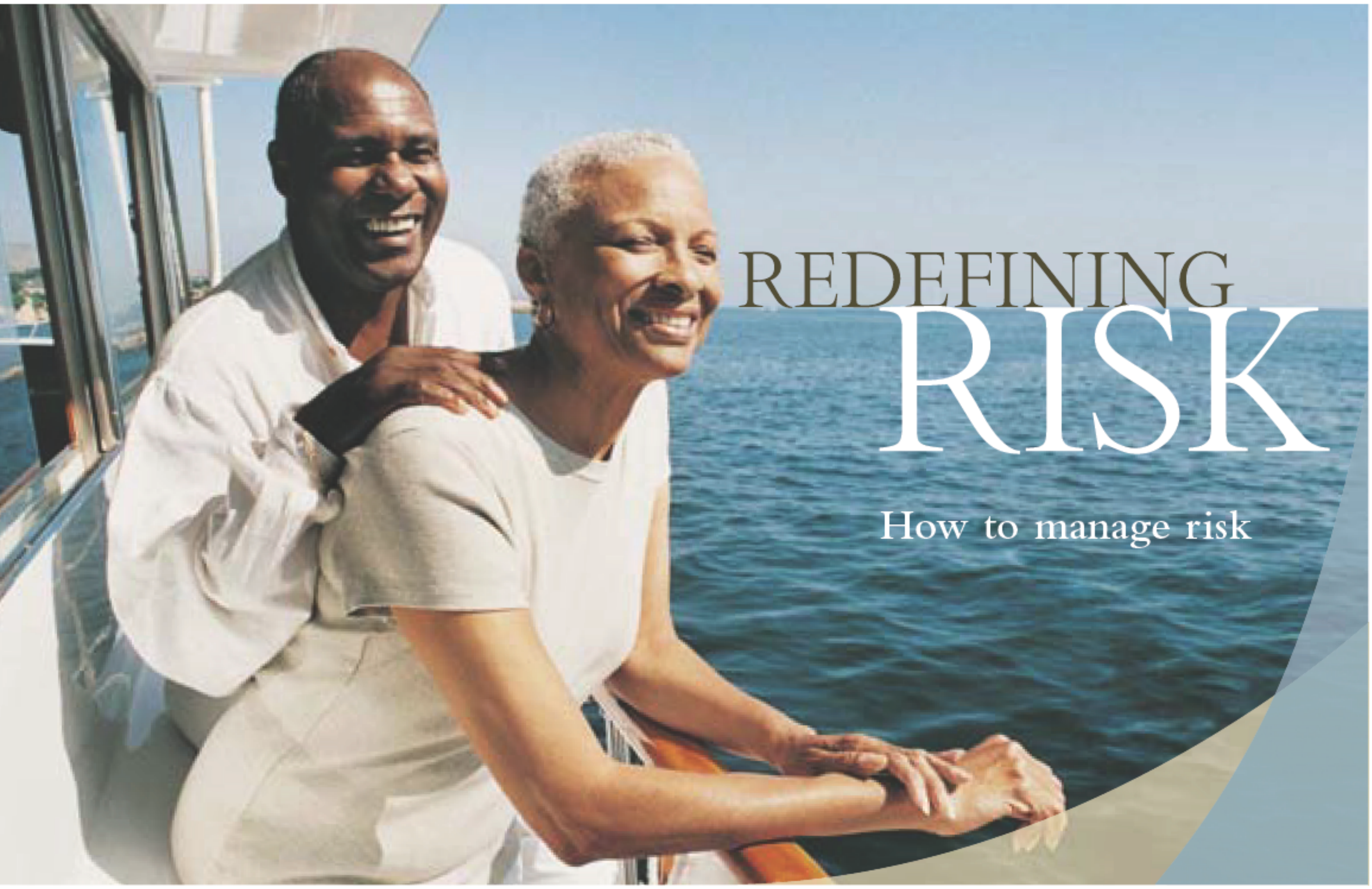

REDEFINING RISK

How to manage risk

Every week, millions of Canadians take a big risk with their money – they buy a lottery ticket.

While they're ready to exchange their hard-earned money for a one-in-three-million chance to win big, many of those same people shy away from market investing. The reason: they think the market is too risky.

Granted, investment risk is a fact of life; there's always a possibility that the value of your investments will tumble in the short term. Compared to the lottery gamble, though, investing offers much better odds for success. Besides, there are steps you can take to manage your exposure to risk.

Managing your risk

You can't eliminate risk. It is, however, possible to manage risk – and even use it to your advantage. Here's how:

ASSET MIX – The mix of investments you hold in your portfolio will largely determine your position on the risk-return scale. You need to select an asset mix that reflects your comfort with risk, your investment objectives, and your investment time horizon. The *Investment personality questionnaire* will help you define your own personal investment style.

DIVERSIFICATION – By investing in funds that hold a wide range of securities, industries and even countries, your money may be better protected than if you selected only one or two stocks or bonds. Diversification helps to minimize the impact of an economic decline in a particular country or industry, as well as a decline in a particular type of security.

DOLLAR COST AVERAGING – This strategy smoothes out the ups and downs of investing. It means investing smaller amounts at regular intervals, rather than saving up to invest in one lump sum. You end up buying more units when values are low and fewer units when values are high. You also avoid jumping into the market with all your money just as the market peaks.

RISK SHIFTING – As you near retirement, your time horizon gets shorter. This means you have less time to recoup any investment losses. With that in mind, it's probably a good idea to gradually start "shifting" your investments as you get closer to retirement, to more conservative, less risky investments that will help you preserve your capital, generate income and provide increased liquidity: money market funds and guaranteed interest accounts, for instance.

STAGGERING THE TERMS – Stagger the terms of your guaranteed investments so they don't all mature (come due) at the same time. That way, if there's a dip in interest rates, you won't have to renew all investments during a period of poor interest rates, which could seriously affect the income generated by those investments.

Envision your retirement

smartPATH

Follow the *smartPATH* retirement education program to make your retirement dream a reality.

The information provided in this magazine is accurate to the best of our knowledge as of the date of publication, but rules and interpretations may change. This information is general in nature, and is intended for educational purposes only. For specific situations you should consult the appropriate legal, accounting or tax expert.

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