BACK *to* BASICS

How to invest so you can best achieve your retirement or savings goals – and still be comfortable with your choices

There are literally thousands of different investments to choose from – and your plan offers you a good selection of options from which to choose. So how do you know which investments are right for you? The short answer is, it depends.

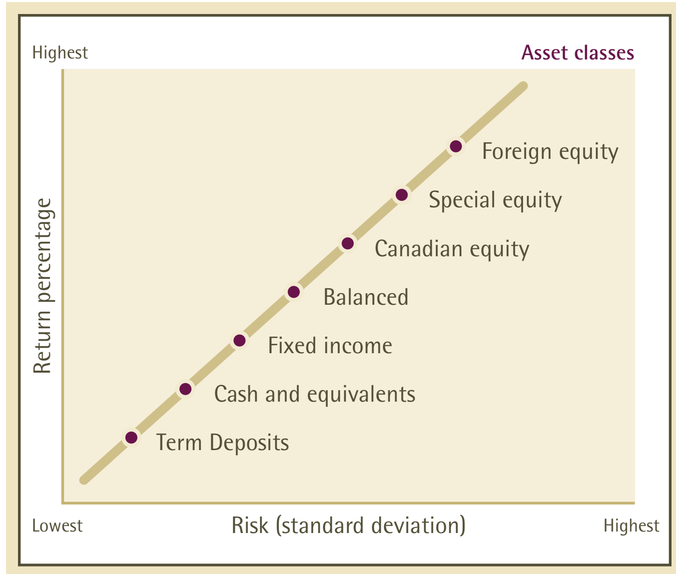
You should consider the following:

- **Your comfort with risk** – Can you sleep at night knowing that the value of your investment could drop in the short term?
- **Your investment objectives** – Do you want to preserve your retirement nest egg, generate income, or grow your investments?
- **Your time horizon** – How much time do you have before you retire?

Together, these three key factors will shape your investment strategy. So, before you go any further, you may want to make sure you've got a firm grasp on these concepts.

Balancing risk and reward

What is risk? In general, risk refers to the potential for loss. Different investment types and asset classes offer different levels of financial reward and carry different levels of risk. Generally speaking, the greater the risk, the greater the potential for long-term rewards. See the graph below to get an idea of how risk relates to the types of investments offered by your plan.



What's the best risk-reward mix for you? It depends on your comfort level. If you're the kind of person who lies awake at night worrying about your investments, you may sleep better if your investments lean toward the more conservative.

> DEFINING RISK

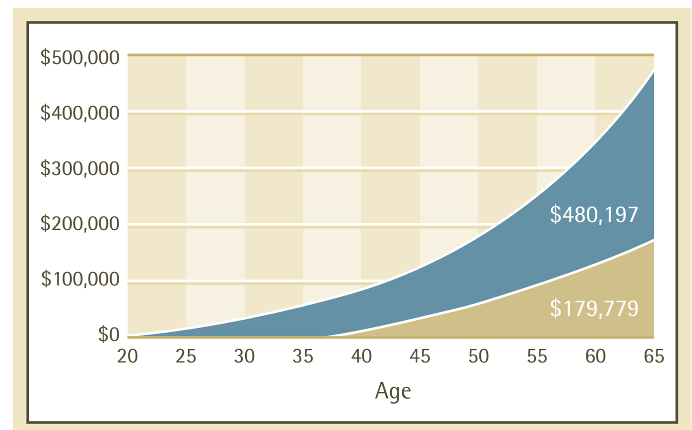
When it comes to investing, risk simply refers to a given investment's volatility – that is, the potential that the value of the investment will rise or fall in the short term. In investment terms, investment funds tend to be riskier (i.e., more volatile) than, say, guaranteed interest accounts. Historically, these riskier investments have provided better rates of return over the long term.

But your risk comfort isn't the only factor to consider in determining your risk-reward mix. You should also look at your investment objectives and time horizon.

Start early, finish strong

Envisioning retirement in your twenties and thirties may be difficult – retirement seems a lifetime away. That's the exact reason to start saving. Putting time to work for you is one of the cardinal rules of successful retirement planning.

Mathematically, there are two big advantages to getting an early start on retirement savings. If you're going to build a retirement income over 30 years, rather than 15 years, you won't have to contribute as much overall to realize the same or even greater results as someone who starts at a later age. Early savers also get full benefit of "the magic of compounding." For each year you let your savings and interest accumulate, you'll earn more interest. This is how your money can approximately double in 12 years while earning six per cent interest each year. By starting your retirement plan while you're still young, more of your retirement savings will come from investment earnings rather than your contributions.



The graph above demonstrates how saving $2,000 at the beginning of each year from age 20 versus age 35 can make a significant difference in retirement savings.

How do you choose?

Not sure what your tolerance for risk is or what your asset mix should be? The *Investment personality questionnaire* can help. By answering this short questionnaire, you'll be able to determine your investment objectives and your risk tolerance. After determining your investment personality, you may also select a "preferred" asset mix based on these findings. Alternatively, you may want to sit down with a professional who can help you figure out an investment strategy that's right for you.

Envision your retirement

smartPATH

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

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