MML Investors Services
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# Managing risk

"The greater the risk, the greater the reward." It's a statement we've all heard referenced in many areas throughout our lives. However, in the investment world, we have some caveats: Taking on more risk with your investments may increase your likelihood of higher returns, but you may also experience the downs of the investment markets, including the risk of losing some or all of your investment. Can your proverbial stomach take that?

Investing is sometimes a balance between playing it safe and settling for less or taking some risks with the hopes of gaining more return. In finance, just as in life, you can't avoid risk completely, but you can try to manage it and make it work in your favor.

## Balancing risks

There are many different kinds of risk. One of those is market risk. That's the chance the value of an investment will go down, not up, causing you to lose money. The second is the possibility that you may not earn enough on your investments to keep up with inflation. And a third common risk is the chance your investments won't grow enough to get you to your longer-term goals, such as retirement.

So how do you find the right balance? Well, the answer lies within each individual investor's risk profile. At the end of the day, you can't control the markets, but you can establish a sound, long-term plan for pursuing your financial goals. Your financial professional can help in the process. And we do mean process, because your "profile" may change over time, requiring periodic adjustments to your portfolio.

## Understanding your risk tolerance

There are a number of factors that can help determine your risk tolerance:

- **What is your time frame?** The length of time remaining for you to reach your goal matters when it comes to how much risk you can handle in your portfolio. The shorter the time frame, the less risk you may want to assume, given that "riskier" investments may experience greater volatility in the short term.
- **What can you afford to lose?** Another key consideration is how much investable money you have available after identifying your goals and obligations and how much you can afford to lose.
- **What is your emotional ability to handle risk?** Some people can't handle the ups and downs of the markets and, therefore, are better off choosing a more conservative portfolio. Others see the ebbs and flows as part of the process — and are able to ride out market volatility to reach their long-term goal.

Investors need to be savvy, always balancing the risks they are taking with the possible rewards — and avoiding investments that are beyond their understanding or individual tolerance for market volatility.

## Investing for the long term

When investing for long-term goals, it is important to be prudent and stay focused on the long view. You're investing for your family's long-term future, not to get rich by next week. Prices of stocks and bonds can go up and down, sometimes wildly. But if you're thinking in terms of years and not days, the short-term peaks and valleys won't seem so large. A reporter once asked J.P. Morgan what the stock market was going to do. Morgan solemnly answered, "I expect it will fluctuate." Remember: People who have an investment plan and stay with it do better than those who have no plan and jump in and out of the market.

A prudent investor helps manage risk by diversifying — spreading money among different kinds of investments that are not correlated to each other. That means not just investing in different U.S. stocks, bonds and mutual funds, but also in international markets and other kinds of assets, maybe even real estate or commodities, which may move in different directions at different times. That way you get some of the benefits when stock prices are up, but your portfolio won't get totally clobbered when they're down. Of course, diversification cannot guarantee a profit or protect your portfolio from losses.

## Not too much but not too little, either

It can actually be risky to take too little risk. A person in their 20s, who puts all of their retirement savings into conservative investments isn't at much risk of losing their money. But they may be at risk of running out of money when they retire because they weren't able to accumulate enough to keep up with inflation.

A reliable way to manage risk is to choose a strategy and stick with it. This is as much a matter of managing your emotions as picking investments and an asset allocation strategy that's in line with your investment profile. Learning as much as you can about different investments and strategies definitely helps. If you're just getting started, read up on the basics like 401(k) plans and individual retirement accounts. If you're closer to retirement, you may want to learn how you can shift your investment mix and convert your assets into income. Either way, enjoy the ride.