# OnTrack

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## Don't Get EMOTIONAL

It doesn't take much for some investors to get emotional. An unexpected surge in the market or increase in the share price of an investment can do it. So can disappointing market performance or investment returns. Even a long period of lackluster performance can get some investors worked up.

The trouble with getting emotional about investing and investments, however, is that emotions can override common sense and lead you to make irrational decisions. Acting on your feelings instead of relying on facts and logic could undermine your efforts to build up the savings you'll need for retirement.

### Overcome Fear

Fear is a strong emotion. Fear of losing money on your investments may drive you to put the majority of your retirement plan account in low-risk, conservative investments. Although that may preserve your savings, it can also stunt your account's growth. In your attempt to avoid short-term losses, you may also short-circuit the potential for long-term gains.

As difficult as it is to watch the stock market go up and down, consider including some stock funds or portfolios in your investment mix. Otherwise, your returns

may not be high enough to keep pace with inflation, let alone build up an adequate nest egg for retirement. Choosing a well-diversified* mix of investments can help manage risk in your account.

### Practice Patience

In investing, as in many things, patience can be a virtue. While it may be tempting to chase returns by switching into investments that have been performing the best recently, resist the urge. More often than not, investors who try to "time" the market in this way will rush to buy a "hot" investment, only to see its price drop, or switch out of an investment whose price has plummeted, only to see it rebound. You may be better off in the long run letting your patient side shine through and staying with your long-term investment strategy.

### Face Facts

On the other hand, stubbornly sticking with an investment just because you like it isn't the best strategy, either. Regardless of how you *feel* about an investment, if it *consistently* underperforms its market benchmark, then it may be time to make a change.

### Reason with Yourself

Allowing emotions to influence your investment decisions can be hazardous to your wealth. In the long run, learning to recognize the signals of emotional investing and replacing them with well-reasoned investment strategies can help produce better results.

** Diversification does not ensure a profit or protect against loss in a declining market.*

## Oh the THINGS You Might FIND

You never know what you might find when you start exploring places you generally ignore. You might find a rare baseball card in the attic, for instance, or discover your long lost high school ring lodged behind a dresser. And who knows how many treasures you might unearth in the garage . . . !

If your employer's retirement plan falls into the "unexplored" category, it's time for a change. Your retirement account can play a key role in turning your dreams for the future into reality. If you aren't familiar with your plan and your account, you could be missing out on a valuable opportunity to build a secure retirement.

### Dig for Details

Maybe you've been putting this off, but if you haven't taken a really good look at one of your retirement plan statements for a while, now's the time. The first thing most people look at is their updated account balance. The statement also generally shows how much was contributed to your account during the preceding period and the vested portion of your account balance.

Although mistakes are rare, they can happen, so get in the habit of checking your statements carefully to make sure the details are right. Give your account a thorough review at least once a year. Make sure the following are correct:

- Personal information (i.e., name, address, phone, etc.)
- Hire date (since it can affect vesting)
- Contribution amounts (yours and your employer's, if applicable)
- Investment instructions
- Beneficiary designation

### Probe Investment Performance

Your account statement also provides investment performance information, which will help you make decisions about the funds or portfolios in your plan account. By themselves, performance numbers don't tell you much. For instance, you may think a fund's return is poor, but you can't really tell how well the fund performed until you compare its performance to the returns of similar investments during the same period. Here are some pointers for gauging performance:

- Use a market index of comparable securities as a benchmark for each investment (e.g., the S&P 500 index* as a benchmark for large-cap stock funds or portfolios).
- Compare returns over various similar investment periods (e.g., three months, one year, three years, etc.).

Benchmarking helps put performance in perspective. For example, when a fund or portfolio has a negative return, it's troubling. But it's less troubling when the fund's comparable index dropped by a similar percentage. And, if the overall market dropped 10%, a fund that lost 5% of its value may actually be a relatively strong performer. Even positive fund performance can be disappointing. Returns of 5% during a period when an appropriate benchmark rose 15% are unsettling and may be a reason to investigate further.

### Investigate Other Options

It's a good idea to be familiar with all your investment options, even if you're not thinking of making a change to your plan account. For example, if your plan offers a fund you're interested in, be sure to look over the information your plan provides before investing in the fund. Find out about the fund's:

- Investment objectives (for example, growth, income, or a combination of these)
- Investment holdings and how they may help the fund meet its objectives
- Potential investment risks
- Financial highlights, including performance figures

### Don't Forget the Documents

When you joined your retirement plan, you received a Summary Plan Description (SPD) that spells out how your plan works. If you've never read through it, take time to do that now. SPDs must be plainly written so participants can understand them. Be sure to keep your SPD on file in case you have questions. Here are some of the things you can find in your plan's SPD:

- Description of the plan's benefits
- Plan participation and benefit eligibility requirements
- The amount you can contribute to the plan
- How contributions will be invested
- The plan's vesting provisions
- How and when you can access your retirement money (including information on hardship withdrawals and loans)

On occasion, your employer may make changes to the plan. If and when that happens, you'll receive a description of the changes, so be sure to promptly open and read any mail you get from your retirement plan. Then file it away with your SPD and your account statements.

### Your Findings

Now that you've blown the dust bunnies off your retirement plan and shined a light in the nooks and crannies of your account, don't lose your momentum. Open those statements when they come, review your investments' performance on a regular basis, and get the answers to any questions you may have about how your plan operates.

After all, it's your money and your future — so it's up to you to stay informed.

** An index of the stocks of 500 major U.S. corporations. You cannot invest directly in an index.*

# RISK on the RADAR

Weather fact: There is no ideal location where the weather is always perfect. Investing fact: There is no ideal, risk-free investment. However, knowing about various types of risk can help you make decisions about your retirement plan investments. Here's a quick quiz to test your "risk forecasting" skills.

## Risk Quiz

**Market risk** is the chance of

A. Losing money when the value of an investment drops.
B. Spending too much at the grocery store.
C. Not being able to sell an investment.

The answer is A. Dividing your investments among different asset classes may help reduce market risk because gains in one asset class may help offset declines in another.

**Interest rate risk** is the chance that

A. A bond issuer won't pay interest as scheduled.
B. The value of a bond will fall when interest rates rise.
C. Investors won't buy stocks because interest rates are low.

The answer is B. When interest rates rise, the prices of existing bonds decline because they're paying less interest than newly issued bonds. Holding a variety of bonds with varying maturity dates can help cushion a portfolio.

**Inflation risk** is the chance that

A. A tire will blow out.
B. A stock's price will rise for only a short time.
C. Investment earnings won't keep up with increases in the cost of living.

The answer is C. Even when the rate of inflation is low, choosing all low-risk investments can lead to a loss in purchasing power because low-risk investments offer lower potential returns.

**Default risk** is the chance that

A. Other investors will blame you for their poor investment performance.
B. A bond issuer may stop making interest payments or fail to repay the principal when the bond matures.
C. A major earthquake will occur on a trading day.

The answer is B. If a bond issuer runs out of money, you could lose your entire investment. Check the issuer's credit rating before you invest.

**Currency risk** is the chance that

A. Changes in foreign exchange rates may affect the dollar value of an international investment.
B. Paper money will be phased out.
C. A country will change its currency.

The answer is A. In addition, foreign taxation, political upheaval, and differences in auditing and financial standards can affect the value of foreign investments.

### Bonus Points

Remember that plan funds and portfolios are managed by investment professionals with risk management experience. You can increase your *own* risk management skills by taking advantage of the educational resources your plan offers.