

Managing risk at different stages of life

As an investor, you will always need to deal with risk of some kind. How can you manage the risk that accompanies the volatility of the financial markets? The answer depends somewhat on where you are in life.

When you're starting out ... If you're early in your career, with perhaps four or five decades until you retire, you can likely afford to invest primarily for growth, which also means you'll be taking on a higher level of risk – because risk and reward are positively correlated. But, given your age, you will have time to overcome the market downturns that are both inevitable and a normal part of investing. Still, even at this stage, being over-aggressive can be costly.

When you're in the "middle stages" ... At this time of your life, you're possibly well along in your career and working on at least a couple of financial goals, such as saving for retirement and your children's college education. You'll want to begin adjusting the balance in your portfolio between assets with higher growth and those with lower growth since there will be progressively less time to rebuild losses. You'll need to decide on the balance between risk and growth that's right for you.

When you're a few years from retirement ... You may have already achieved some key goals – perhaps your children have finished college and you've paid off your mortgage. As a result, you may have more money available to put away for retirement. Growth still matters because your retirement could be 25 or 30 years long, and you'll need investments that can keep up with inflation. But you'll also need investments designed to help provide for

your income needs in retirement and provide more stability. Also consider reducing your exposure to higher-risk investments and instead consider investing more in stable dividend-paying stocks, government and investment-grade bonds, and cash.

When you're retired ... Once you're retired, you might think you should take no risks at all with substantial assets held in cash. However, you could spend two or three decades in retirement, so you may need some growth potential in your portfolio to stay ahead of inflation. A more balanced mix between equities and fixed income is generally appropriate. Establishing a withdrawal rate that's appropriate for your lifestyle and projected longevity can help reduce the risk of outliving your money. Of course, if there's an extended market downturn during any time of your retirement, you may want to temporarily lower your withdrawal rate.

Managing investment risk is a lifelong process that evolves with your goals, responsibilities and time horizon. While you'll look for balance among your investments based on your life stage, having a balanced and diversified portfolio doesn't fully protect against a loss. Still, aligning your strategy with your stage of life can help navigate market volatility and stay on track toward long-term success while avoiding emotional investment decisions. The key is staying informed and making intelligent choices that reflect your current income needs and future aspirations.

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