

# Retirement Point

NEWS FOR PLAN SPONSORS AND PARTICIPANTS

December 2021

## Understanding Risk

*Everything we do — or don't do — has an element of risk to it. What are the risks of investing and how can you get comfortable with them?*

### U.S. Markets

Reports of a new COVID-19 variant in late November roiled markets as a wave of selling erased the month's earlier gains.

The Dow Jones Industrial Average took the hardest hit, dropping 3.73 percent. The Standard & Poor's 500 Index fell 0.83 percent while the Nasdaq Composite managed a small gain of 0.25 percent.<sup>1</sup>

### Thanksgiving Surprise

The markets were blindsided by news over Thanksgiving Day of the emergence of a new strain of COVID-19, which led to travel bans by multiple countries and renewed unease about the prospect of a return to economic and social restrictions.

The potential global spread of this new COVID-19 variant Omicron triggered fears of another round of economic deceleration, sending investors back to their pandemic playbook of selling travel and leisure, financials, energy, and cyclicals and buying pharmaceutical companies and stay-at-home stocks.

### Volatile Trading

The sharp drop on Friday, November 26, was exacerbated by reduced liquidity in the markets due to many traders being absent on this normally quiet post-holiday, shortened trading session. Stocks rebounded as traders returned to work on the following Monday but were unable to hold their gains on the month's final trading day.

### Upbeat Company Reports

The month had started off on a strong note, helped by a string of positive corporate earnings surprises, optimistic forward guidance from companies, and solid economic data. Investors were particularly encouraged by the fact that businesses had navigated the challenges of a surge in Delta variant infections in the third quarter, rising inflation, and supply chain bottlenecks.

MARKET INDEX	Y-T-D CHANGE	October 2021
DJIA	12.67%	-3.73%
NASDAQ	20.56%	0.25%
S&P 500	21.59%	-0.83%
YIELD	YTD	October 2021
10 YR TREASURY	0.52%	1.44%

Sources: Yahoo Finance, November 30, 2021

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year Treasury real yield = projected return on investment, expressed as a percentage, on the U.S. government's 10-year bond.

### Monthly Quote

"Create the highest, grandest vision possible for your life, because you become what you believe."

OPRAH WINFREY

### Tip of the Month

Exercise is not only wise, it may also prove economical. In the long run, just keeping fit may save you thousands of dollars (or more) in medical bills that an unhealthy person may incur.

### The Monthly Riddle

When can you add two to eleven and get one as the correct answer?

### Last month's riddle:

You see a large truck stopped just before the underpass of a low bridge. The driver informs you that his truck is 1" higher than the maximum clearance. This is the only road to his destination. What is the easiest way to help him get his truck through the underpass?

### Last month's answer:

When can you add two to eleven and get one as the correct answer?  
ANSWER: When you are figuring time. When you add two hours to eleven o'clock, you get one o'clock.

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### What is Risk?

When you make an investment, you risk the possibility that the value of your investments will go down or remain unchanged over time. Some investments are more risky than others. Generally, the more risk you're willing to take, the greater your opportunity for reward over the long term.

There's not a simple formula to follow to determine how much risk is worth taking; only you know how much or what kinds of risk you're comfortable with. What's more, your willingness to accept certain levels of risk will probably change during your lifetime.

Start to determine your comfort level with risk by asking yourself two questions:

#### 1. What are my retirement goals?

The more specific you are, the easier it will be to determine the level of return you'll need and the level of risk you'll need to accept to potentially reach those goals.

#### 2. When do I want to retire?

If retirement is a long way off, you might consider more aggressive investments. A span of several years gives you the opportunity to ride out the ups and downs of a number of market cycles. But if you're close to retirement, you might want to shift to investments with lower risk. In either case, talk to a financial professional to see what makes sense for your situation.

Next, you'll need to evaluate your investment options. Most investments fall into one of three broad categories:

- **Stocks and stock funds** — Historically, these have offered the highest potential reward but tend to have the highest risk and are more appropriate for long-term investors.
- **Bonds and bond funds** — These typically present less risk than stocks but generally have less growth potential than stocks.
- **Cash alternatives** — This category includes money market funds, or stable value funds, and offer the least volatility. Investors generally use them to help preserve what they've invested.

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## Dealing with Risk.

Losing money is an obvious risk with any investment, but there are others you may not have considered:

- **Risk of inflation**

Inflation eats away at the value of a dollar. If your investments don't keep pace with the rising cost of living, you've lost buying power.

If you are a conservative investor or will be retiring soon, you may be attracted to cash-equivalent investments. Consider including enough stock or bond fund investments to keep you from falling behind rising costs. Keep in mind that much of your investment portfolio might still have a 10- to 30-year time horizon once you retire.

- **Market risk**

Another word for market risk is volatility. Volatility may cause you to lose money if you need to sell your investment in the near future.

Diversifying your investments and contributing regularly over a long period of time could help you address market risks. There's no guarantee that putting your money in a variety of investments will eliminate risk, but it could help.

- **Merits of diversification**

Having a mix of stock and bond funds in your portfolio could help offset losses. Gains in one or more of your investments might balance out the losses you have in others.

- **Riding out cycles**

Investing over the long term won't guarantee you a profit or prevent you from losing money, but making a regular fixed-dollar investment (called dollar cost averaging) can help compensate for the natural up and down cycles in the market. Because the prices of mutual funds fluctuate, dollar cost averaging allows you to buy more shares when prices are lower, and fewer shares when prices are higher, which could help lower average cost per share. Before using this strategy, though, make sure to consider your willingness to continue investing while share prices are declining.

- **Risks of investing outside the U.S.**

Though there are unique risks associated with investing outside the U.S., the international marketplace may have a lot to offer some investors. Foreign markets often move in their own market cycles, so investing abroad may help to counteract the effects of a down U.S. market on your portfolio. Investing abroad involves risks, such as currency fluctuations, periods of illiquidity and price volatility, as more fully described in the prospectus. These risks may be greater with investments in developing countries.



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CITATIONS ECONOMIC SECTION:

1. WSJ.com, October 31, 2021
2. CNBC.com, October 28, 2021

CITATIONS FINANCIAL ARTICLE SECTION:

1. <https://americanfundsretirement.retire.americanfunds.com/basics/understanding-risk.html>