# Safe Money

## At Risk

By Stephen Dybwad

Every decision you make today, and action you take today, carries an element of risk and offers a potential benefit. It's such an inherent part of life, and we don't even think about it. The only time we think much about risk is when the risk makes us uncomfortable. We tend to measure risk with our level of fear. The things that make us most afraid are judged to be the riskiest things in life. The truth is, our feelings don't determine the risk.

**Risk always exists. A risk is definable.** A risk is measurable. A risk is manageable. With that in mind, what are the questions you should ask when it comes to assessing the risks associated with your investments? By the way, make no mistake, every investment has some kind of risk associated with it. The most common question I hear is usually some variation of, "How risky is this?" That really isn't an excellent question. Better questions would be, "What kind of risk will I be taking?" and "How does this risk match up with my needs and goals?"

Before you ask those questions, it would be a good idea to know some of the kinds of risks that you face.

1. **Market Risk.** (Principle Risk) This is the risk most people think of when they invest. They are asking, "Can I lose my money?". If your principle is not guaranteed, then the answer is, "Yes, you can lose your money."
2. **Inflation Risk.** (Interest Risk) This is the risk that the interest you earn might not keep up with the rising costs of living.
3. **Liquidity Risk.** (Timing Risk) This is the risk that all your investment might not be able to be converted to cash when you need it.
4. **Creditor Risk.** (Default Risk) This is the risk that your investment is unable to pay you interest or refund your money. This is not an exhaustive list of every type of risk, but it does represent the bulk of the risk most of us will face with our investments.

Let's see what kind of risk impacts your investments.

1. **Stocks:** Exposure to Market Risk means no guarantee of principle. There is potential for higher gain, with the potential for higher losses. You could make –or lose –a fortune.
2. **Mutual Funds:** Market Risk again. Just because you spread the risk to more stocks, doesn't mean the threat goes away. More of the same is still the same.
3. **Bonds:** Market Risk (still) with the addition of Creditor Risk. If the bond issuer becomes insolvent, your bond certificates just became tinder for your next campfire.
4. **CD's:** Inflation Risk is the issue here. You won't lose any principle, but over the long term, if you aren't keeping up with inflation, you're still going broke... safely.
5. **Real Estate:** Liquidity Risk could get in your way. The income might be okay, but if you need to sell quickly and there is no buyer, your options just got ugly.
6. **Variable Annuities:** Market Risk may deplete your account, and limited liquidity may prevent you from getting out all your money in the first few years. There are guarantees and loopholes, but know your timeframe.
7. **Fixed (and Indexed) Annuities:** Liquidity Risk is the issue here as well. You won't lose any principle, and you may opt for a guaranteed lifetime income, but if you need all your money back in the first few years, it'll cost you.

None of these risks are good or bad, they exist. You need to be able to match the risk with your need.

Do you need to save money to make sure you can make a significant purchase in a few years? You probably want to use CDs and money markets. Stocks, bonds, and mutual funds can't guarantee you'll still have all your money when you need it, while real estate and annuities might not give you all the liquidity you want.

Do you have extra money you don't need to provide a secure retirement? You may want to take that money and see what you can do with stocks and mutual funds. Do you need to make sure you won't lose what you've accumulated and have guaranteed lifetime income that can stay ahead of inflation? Annuities are designed for that.

Do you still need to accumulate for retirement, but don't want to risk what you already have? You may want to think about transitioning away from market risk and protect the bulk of your retirement money with indexed annuities.

Here are some thoughts:

1. Risk is part of everything we do, including retirement preparation
2. You can't eliminate risk, but you can choose the type of risk, and manage it.
3. It's more about the kind of risk and not so much about the amount of risk.
4. Know what type of risk you are willing to accept.
5. Beware of the advisor who offers a solution that doesn't match the kind of risk you are ready to take.

Keep asking good questions. I'll be back with more.

**Kasper Insurance**
220 Clifty Dr. Suite D,
Madison, IN
**(812) 273-1187**