How Much Risk Can You Tolerate?

INVESTING VS. SAVING MONEY

COWDELL™
INVESTMENTS, LLC

Introduction

Imagine you are attending a social event and your friend starts telling you about how great they are at investing. They are getting double digit returns. They tell you that you should get in on the XYZ stock or the latest fad. You decide to take their advice and you invest, but suddenly your account is down 10%. Your friend tells you to be patient; great things are about to happen. But then your account drops another 10%. After getting frustrated, you decide to get out. By the time you sell, your account is down 40%. Has this ever happened to you?

The latest fad was Bitcoin, peaking at about $19,000. How many of your friends bragged about their gains at $19,000? How many will admit that they are now down over 50%?

People tend to brag only about their winnings, but hardly ever mention their losses.

Investing involves risk. If you cannot tolerate market fluctuations, perhaps you should not be investing at all.

Are you an Investor or a Saver?

Saving in a bank or credit union is very low risk because your principal is federally insured up to the maximum limits. As long as you stay within the guidelines, the risk of losing any money is slim. Of course, the returns are very low because of the built-in-safety.

If you don't want your money to fluctuate, local banks and credit unions are a great place to save. There are also many online banks that have better rates than what you might find locally. Do a search at www.bankrate.com for the best interest rates. You might also consider a fixed or fixed indexed annuity for some of your safe money.

If you don't mind your money fluctuating and can emotionally and financially handle market swings, perhaps investing in stocks would be appropiate.

Most investors say they can handle market swings but when it happens to your own money, it can be nerve racking. Look at real numbers, not just percentages. For example; if you feel you can handle a 10% loss, look at the dollar amount instead of the percentage. If you have $100,000 to invest, can you stomach seeing your account drop $10,000 and your new balance at $90,000? How about a loss of $20,000?

When the stock market declines 10% to 13%, it is called a normal market correction . On average, it takes about four to eight months to recover. So, if you can't handle a $10,000 to $13,000 decline, don't put your money into the stock market. If you can tolerate the decline and understand that it will take about four to eight months to recover, perhaps the stock market will be a good fit for you and your money?

When the stock market drops 20% or more, it is called a bear market . In dollar terms using the same $100,000 example, that would result in a $20,000 decline. Keep in mind that many bear markets involve a 40% or more decline (or $40,000).

How long do bear markets last on average? If the S&P 500 falls at least 20% or enters a bear market, it will take about 22 months to recover or almost two years. The average decline is normally about 30%.

Most of the time, the economy and stock markets are growing as measured by the DOW and S&P 500. When you look at the markets by each decade, 70% to 80% of the time the markets goes up. There are normally two or three years in each decade that the markets will pull back or decline. When the markets pull back, those are prime buying opportunities.

Just to put things into perspective: Since the 1920's until the date of this writing, the S&P 500 has averaged about 9% per year. The oldest mutual fund in the nation, MFS Massachusetts Investors Trust, has also averaged about the same over 9% per year since July 15th, 1924. Of course, past performance is no guarantee of future results and your returns and results will certainly vary depending upon many factors.

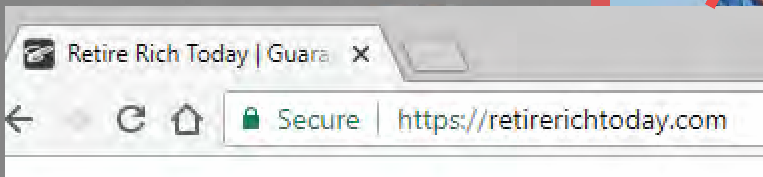
S&P 500 - 90 Year Historical Chart
provided by Macro Trends
www.marcrotrends.net

Bottom Line...

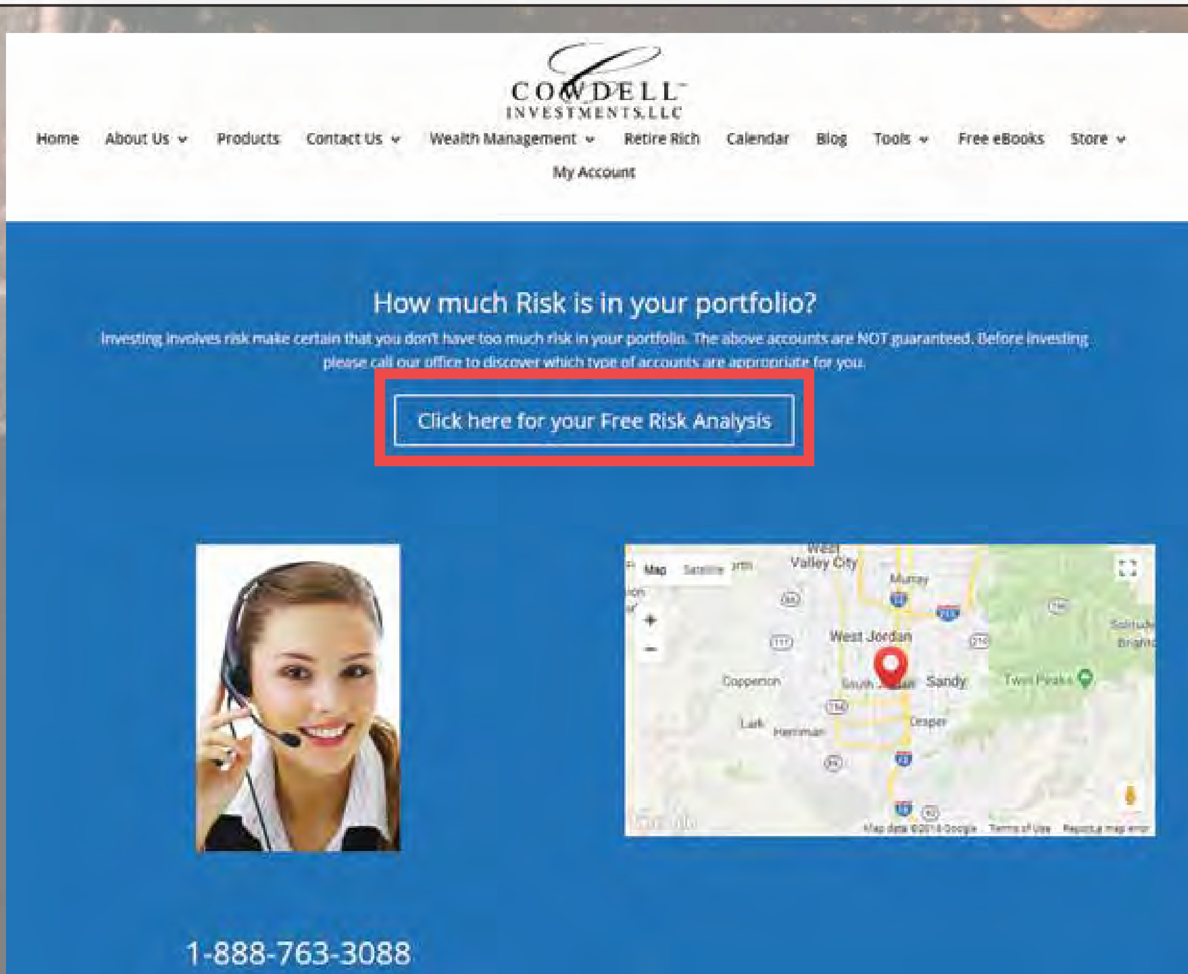
If you cannot tolerate your money dropping by 10% to 30% or more, perhaps the stock market is not for you. If on the other hand you can stomach market swings and have longer term financial goals - 5, 10, 20 years or longer - the rewards could be worth the risk.

It comes down to risk tolerance, which you can analyze using our free risk analysis tool on our website. Visit www.RetireRichToday.com to see how much risk is appropriate for you and how much of your money you should have in investments versus a savings account. (See next page for directions to our tool on our website.)

Go to www.RetireRichToday.com



Scroll down to the bottom of the home page where you will see a button labeled "Click here for your Free Risk Analysis"



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