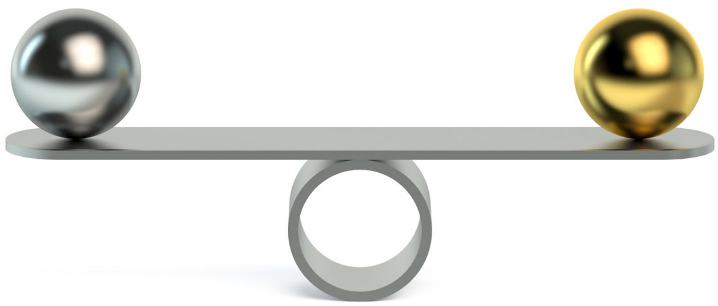
RATE OF SAVINGS VS. RATE OF RETURN



Fact or Fiction: In order to achieve your financial goals, you have to accept high levels of risk.

FICTION. The truth is, achieving your financial goals may be possible while taking less risk.

For years, common financial wisdom has promoted the idea that higher risks lead to higher returns, but in reality, many people have experienced lower rewards for taking higher risk.

Taking too much risk with your money can be a recipe for financial consequences. It is often assumed that higher risk investments will automatically generate higher returns. When you plan on having a large return you might end up saving a lower percentage of your income than you should be.

High risk investing is called high risk for a reason. The risk taking could result in earning far less than you expected, or even worse, you could actually lose money.

By the time you realize the returns did not pan out as expected, you may have lost decades worth of time and find yourself on the doorsteps of retirement without having reached your financial goals.

Higher risk doesn't always equal higher reward

It is common to hear a misconception that in order to achieve a specific financial goal, higher risk products may be needed. Many people build their financial futures based upon the hope that they'll be in the right place at the right time with their retirement assets.

There are many factors that affect your future such as rising taxes,[1] life events and perhaps market volatility. All these things cannot be monetized or computed with a mathematical equation to get an exact number as to how much you should have in retirement.

It's not just taking higher risk with your money but it's also how much that risk may be costing you.

There are other factors that should be considered to find out what your real return is. Factors such as taxes, fees, debt (mortgages, cars, student loans) and lifestyle expenses all have to be considered when determining your actual return.

With many factors out of your control, one thing you can control is how much you save.

So what can you do to get ahead and stay ahead?

Focus more on your rate of savings than on your rate of return. The better you are at putting money away, the less dependent you may be on needing higher returns and taking on higher levels of risk.

If you feel like you are fighting an uphill battle as you build your net worth, and you feel like you aren't making any progress, ask yourself these questions...

How much money did I save last year as a percentage of my total income?

What amount of money should I consider saving each year?

If you find yourself saving around 5% of your income, there may be a temptation to turn to higher risk investments to help close the gap between where you are headed and where you want to be for retirement.

By setting a goal to save at least 15-20% of your gross annual income, you can be in more control over your financial future. Since rates of return are so unpredictable, saving the right amount each year may actually allow you to lower the amount of risk you take. You work hard for your money and you shouldn't be taking more risk than you are comfortable with.

Become a saver before becoming an investor.

Today, it is all too common for people to invest before developing saving habits. This approach may not only encourage higher levels of risk and volatility, but might also leave you without enough liquid and accessible money to respond to changing life events.

There is no way to predict what may happen tomorrow and you could suddenly be faced with events such as an unexpected job loss, a medical emergency, providing parent care or an opportunity to start a business. All of these events may require available funds that can readily and easily be accessed.

Before taking high risks with your hard earned money, or setting aside funds in illiquid accounts, focus on the following:

- Become a world class saver[2] by setting aside 15-20% of your gross income.
- Consider accumulating one year of annual household income in accounts you can easily access if necessary.
- Protect your balance sheet and cash flows against life events that could affect your ability to save the money you've already saved.
- Become more efficient by considering taxes and other expenses that can erode your savings and investment returns.

Rather than hoping for an attractive higher rate of return on your money, and accepting the higher risks that come with it, focus on these steps to lead you toward a more confident road to building wealth.

[1] Guardian, its subsidiaries, agents, and employees do not provide tax, legal, or accounting advice.
Consult your tax, legal, or accounting professional regarding your individual situation.

[2] Guardian considers someone who saves at least 15 to 20% of their income to be a World-Class Saver.