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Money at work

Risk Tolerance Is About You, Not the Market

Surveys show that tolerance for investment risk rises and falls with the stock market. In mid-2008, 36% of mutual fund investors said they were willing to accept substantial or above-average risk for the potential of substantial or above-average gain. The percentage plunged to 30% the following year, when the market hit its recession-era low, and dropped to 28% by 2012. Since then it has trended slowly upward to 34% in 2017.

It's not surprising that investors feel more bold when the market is booming and more cautious when it is down, but this behavior can be counterproductive. You might invest too heavily in riskier investments when prices are high and sell when prices have dropped, taking a loss and leaving you out of potential gains when the market rises again. If you become overly cautious and choose only low-risk investments with little potential for gain, your savings may not keep pace with inflation over the long term.

Your risk tolerance should be a fundamental component of your investment strategy,based on your own situation rather than market performance. Your tolerance may drive some of the decisions you make when the market rises and falls, but it should only change as your own circumstances change. Here are some factors to consider:

Your time frame. In general, younger people can take higher risk because they have longer to recover from potential losses and to benefit from potential gains. However, if you have a more immediate goal, such as saving for college, your time frame may be shorter than if you were focusing primarily on retirement.

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Your goals. You may have to assume more risk if you anticipate an expensive retirement lifestyle. However, be careful not to assume too much risk just because you want to spend more.

Other sources of income. If you are confident that you will receive retirement income from another source, such as a pension, a business, or an inheritance, you may be able to assume more investment risk. It's generally not wise to place too much emphasis on Social Security in your calculations.

Your investor personality. Regardless of other factors, you have to feel comfortable with the risk you are taking. Will the risk of an investment substantially increase your stress level? If the answer is yes, you may be better off choosing a less risky investment.

Risk tolerance varies from person to person, and there is no right or wrong or one-size-fits-all approach. The key is to consider the factors that could affect your own risk tolerance and to make informed investment decisions appropriate for your situation.

All investments involve some degree of risk, and there is no guarantee that any investment strategy will be successful. The return and principal value of stocks and mutual funds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional.

Be sure to read the prospectus carefully before deciding whether to invest. ❖

A Steady Strategy – Dollar-Cost Averaging

One of the most fundamental truths of investing is that you can't time the market. Even so, it's natural to wince a little when you buy an investment only to see the price drop, or sell only to see the price rise. One approach that might help alleviate some of your concerns is dollar-cost averaging.

Regular Investments

Dollar-cost averaging involves investing a fixed amount on a regular basis, regardless of share prices and market conditions. Theoretically, when the share price falls, you would purchase more shares for the same fixed investment. This may provide a greater opportunity to benefit when share prices rise and could result in a lower average cost per share over time (see chart).

If you are investing in a workplace retirement plan through regular payroll deductions, you are already practicing dollar-cost averaging. If you want to follow this strategy outside of the workplace, you may be able to set up automatic contributions to an IRA or another investment account. Or you could make manual investments on a regular basis, perhaps choosing a specific day of the month.

Dollar-cost averaging does not ensure a profit or prevent a loss, and it involves continuous investments in securities regardless of fluctuating prices. You should consider your financial ability to continue making purchases during periods of low and high price levels. However, this can be an effective way to accumulate shares to help meet long-term goals.

All investments are subject to market fluctuation, risk, and loss of principal. When sold, they may be worth more or less than their original cost. ❖

Month by Month

If Deborah invested $3,000 in a security with a $30 share price in month 1, she could purchase 100 shares. If instead she invested $500 each month over a six-month period, she might be able to accumulate more shares for the same dollar investment, which could result in a lower average cost per share.

Month	Amount Invested	Share Price	Shares Acquired
1	$500	$30	16.67
2	$500	$35	14.29
3	$500	$25	20.00
4	$500	$20	25.00
5	$500	$30	16.67
6	$500	$35	14.29
TOTAL	**$3,000**	**$175 ÷ 6**	**106.92**

Average price per share: $29.17 ($175 ÷ 6)
Average cost per share: $28.06 ($3,000 ÷ 106.92)

This hypothetical example is used for illustrative purposes only and does not represent the performance of any specific investment. Actual results will vary.

Beyond Medicare: What Are Your Options?

Medicare is a valuable benefit, with average spending per beneficiary projected at $13,490 in 2018. Even so, Medicare covers only a little more than 60% of total healthcare costs for Americans age 65 and older. Deductibles, copays, coinsurance, and payments for services not covered by Medicare can all add up to substantial out-of-pocket expenses. And there is no annual or lifetime out-of-pocket limit.

Whether you are enrolled in Medicare or planning to enroll in the future, you may want to consider two options to help manage out-of-pocket costs: Medigap and Medicare Advantage. Both are offered by private insurance companies approved and regulated by Medicare. They are mutually exclusive — you cannot be covered by both — but either might provide more stability to your health-care spending in retirement.

Supplemental Insurance

Medigap supplements coverage under Original Medicare Part A (hospital insurance) and Part B (medical insurance), and you must be enrolled in Part A and Part B in order to buy a Medigap policy. These policies pay all or a percentage of Medicare out-of-pocket costs such as deductibles, copays, and coinsurance. Some plans may pay for services not covered by Medicare, such as emergency medical care outside the United States (up to plan limits), but they generally do not cover long-term care, vision or dental care, hearing aids, or private- duty nursing. New Medigap policies do not cover prescription drugs, so you must enroll in Medicare Part D if you want prescription drug coverage.

Medigap plans are identified in most states by the letters A through N (E, H, I, and J are no longer available) in order to make comparison easier for consumers. All plans may not be offered in every state or by every insurance company, but plans identified by the same letter should offer the same benefits, though monthly premiums may differ.

You can enroll in a Medigap plan at any time, but the best time to do so is during the initial Medigap open enrollment period — the six-month period that begins on the first day of the month in which you are 65 or older and enrolled in Medicare Part B. During this time, you can buy any Medigap policy a company sells in your state for the same premium the company charges to healthy enrollees, even if you have health problems. If you miss this opportunity, an insurance company can charge you more for coverage or refuse coverage altogether, depending on your health. Medigap policies are guaranteed renewable; once you are enrolled, you cannot be denied coverage or charged more than healthy enrollees due to changes in your health.

A Medigap policy covers only one individual, so spouses need separate policies if both want coverage.

All-in-One Coverage

Medicare Advantage plans, also called Medicare Part C, replace Original Medicare Part A and Part B and often offer prescription drug coverage, similar to Medicare Part D. They may offer additional benefits not covered by Original Medicare such as dental care, eyeglasses, and wellness programs. Hospice care is covered under Original Medicare even if you have Medicare Advantage.

By enrolling in a Medicare Advantage plan, you are opting to receive benefits through a private insurance company, although much of the funding comes from the federal government. You will typically pay your Medicare Part B premium and an additional Part C premium, depending on the plan. You may also have out-of-pocket deductibles, copays, and coinsurance. However, all Medicare Advantage plans have an annual out of- pocket maximum.

You can enroll in a Medicare Advantage (MA) plan instead of Original Medicare during your initial Medicare enrollment period — the seven-month period beginning three months before the month you turn 65. (Special enrollment rules apply if you have health insurance through your own or your spouse's employment.)

You can change coverage from Original Medicare to MA, or vice versa, or change between MA plans during Medicare's Open Enrollment period from October 15 to December 7. You can change from MA to Original Medicare during the disenrollment period from January 1 to February 14. From December 8 to November 30 of the following year, you can make one switch to a top-rated "5-star" MA plan.

For more information on Medigap, Medicare Advantage, and enrollment periods, see Medicare.gov. ❖

Four Financial Numbers You Should Know

Daily life is full of numbers, and some matter more than others. Here are four that could help you understand and potentially improve your financial situation.

Retirement Plan Contribution Rate

What percentage of your salary are you contributing to a retirement plan? Making automatic contributions through an employer-sponsored plan is a convenient way to save for retirement, but this out-of-sight, out-of-mind approach may result in a disparity between what you need to save and what you are actually saving. There is no magic number, but one common guideline is to save 10% to 15% of your salary. If you start late, you may need to save even more.

If that seems like too much, you should at least contribute enough to receive the full company match (if any) that your employer offers. Some plans let you sign up for automatic increases each year, which is a simple way to bump up the percentage you're saving over time.

Credit Score

When you apply for credit, such as a mortgage, a car loan, or a credit card, your credit score will likely factor into the approval decision and affect the terms and the interest rate you'll pay.

The most common credit score is a FICO® Score, a three-digit number that ranges from 300 to 850. At one time, you had to pay to check your score, but many credit-card companies now offer this as a free service to customers. You should also regularly check your credit report, which contains the information used to calculate your score. You're entitled to one free copy every 12 months from each of the three major credit-reporting agencies. To request a free report, visit annualcreditreport.com.

Debt-to-Income Ratio

Your debt-to-income ratio (DTI) is another number that lenders may use when deciding whether to offer you credit. A DTI that is too high might mean that you are overextended. Your DTI is calculated by adding up your major monthly expenses and dividing that figure by your gross monthly income. The result is expressed as a percentage. If your monthly expenses total $2,000 and your gross monthly income is $6,000, your DTI is 33.3%.

Lenders decide what DTIs are acceptable, based on the type of credit. For example, a ratio of 43% or less is standard for many types of mortgages, but the percentage might be more or less depending on the specific situation.

Once you know your DTI, you can take steps to reduce it if necessary. You may be able to pay off a low-balance loan to remove it from the calculation and/or avoid taking on new debt that might negatively affect your DTI. Check with your lender if you have questions about acceptable DTIs or what expenses are included in the calculation.

Net Worth

Your net worth provides a snapshot of where you stand financially. To calculate your net worth, add up your assets (what you own) and subtract your liabilities (what you owe). Ideally, your net worth will grow over time as you save more and pay down debt, at least until retirement.

If your net worth is stagnant or even declining, then it might be time to make some adjustments to target your financial goals, such as trimming expenses or rethinking your investment strategy. ❖

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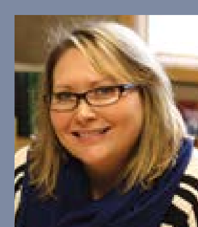

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ANY QUESTIONS?
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WAY THAT WE CAN.