Investing Balancing Act – Risks and Rewards

American Century Investments®

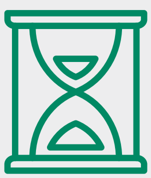
FINANCIAL FYI®

With investing decisions, it's important to weigh the possibility of earning returns with the chance of losing money. Understanding the risks, and some possible ways to manage them, can help you make more informed investment choices.

Take Smart Risks

All investing involves risk. It's a fact. But it's not all bad. Taking on risk can be scary, but it may also help you get the kinds of returns you need to reach your goals. Questions you need to ask yourself are: How much should I take and how much am I willing to take? Two considerations are time and tolerance.

TIME



How long before you need the money

The longer you have to invest, the more risk you can likely take because your investments have time to recover from market drops.

Generally, the closer you are to your goals, the less risk you'll want to take.

TOLERANCE

Your comfort level with risk

Understanding how you feel about risk can help you choose investments that won't keep you up at night. However, you also need to consider these:

- Playing it safe—with as little risk as possible—may prevent you from reaching your goal.
- Choosing riskier investments to compensate for a lack of saving could put your investments in a precarious position.

Test Your Risk Tolerance

A good barometer of how you feel about risk is to gauge your reaction to a market drop of 20%. Would you do scenario 1 or 2 below?

1. Sell everything or move it to a money market.

Your risk tolerance is likely lower, and you may want to consider more conservative investments.

OR

2. Wait and see if a rebound happens or buy more because prices are cheaper.

Your tolerance is likely higher, and you may be able to handle riskier investments.

Understand Risks

While not all investments carry the same kinds of risks, below are some of which you should be aware, as well as some potential ways to manage them in your investment portfolio.

INVESTING RISKS	PORTFOLIO IDEAS	
Market Economic events can cause the value of your investments to drop. Market declines can be spurred by anything from political events to weather—events that cause investors to be wary.	**Diversify** Include a mix of investment types that react in different ways to market conditions. That way, when one area of the market is not performing well, it may be offset by others that are. Diversification is a long-standing principle used to reduce risk.	It's important to not get too discouraged during market lows or overly optimistic during the highs. Instead, keep a long-term focus.
Inflation If your investments don't keep pace with inflation, it can impact reaching your goals—even when the rate is relatively low.	**Add Risk** Consider taking on more risk to get the returns you need, such as adding more stocks. Remember that more aggressive investments can mean higher highs, but also lower lows.	Another option for managing inflation risk is to consider inflation-hedging investments in your portfolio.
Interest Rates Changes in interest rates affect fixed income investments. Higher interest rates usually mean lower bond prices, and vice versa.	**Mix Up Maturities** Diversify your fixed income investments with bonds that have varying maturity levels. Maturity is the length of time a bond issuer has to repay the principal amount of the bond. Longer duration bonds usually have higher interest rate risk. Shorter duration bonds are usually less volatile when interest rates rise.	Investors with a longer time horizon may want to consider intermediate-term maturities–between three and 10 years—for a balance of risk and return.
Credit Risk The possibility of losing money because a bond issuer fails to repay a loan is credit risk when investing in bonds.	**Weigh Risks vs. Yield** Evaluate risk by reviewing credit ratings. **Higher Credit Quality** equals LOWER risk of issuer default, but LESS yield potential; investment-grade bonds have credit-quality ratings of BBB or higher. **Lower Credit Quality** equals HIGHER risk of default, but MORE yield potential; high-yield bonds have credit-quality ratings of BB or lower.	Credit ratings reflect an issuers financial strength and ability to make timely interest and principal payments at a bond's maturity.

The Bottom Line

Your portfolio needs to balance the right amount of risk and reward for your financial goals. Understanding the good and bad of risk can help you make better decisions for managing risks and choosing investments that fit your personal investing style.

This material has been prepared for educational purposes only. It is not intended to provide, and should not be relied upon for, investment, accounting, legal or tax advice.

As with all investments, there are risks of fluctuating prices, uncertainty of dividends, rates of return and yields. Current and future holdings are subject to market risk and will fluctuate in value.

Diversification does not assure a profit, nor does it protect against loss of principal.

Generally, as interest rates rise, the value of the fixed income securities held in the fund will decline. The opposite is true when interest rates decline.

Credit letter ratings indicate the credit worthiness of the underlying bonds in the portfolio and generally range from AAA (highest) to D (lowest).