Strategies for managing risk

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Taking time to

understand and manage risk

can help you achieve your future financial goals

5 tips for managing risk

Every day you make decisions that are right for you. Ultimately, these decisions involve some level of risk. But what is risk? When it comes to investing, investment returns and principal value of an investment will fluctuate so that, when an investor's shares are redeemed they may be worth more or less than the original cost.

Three risk categories

When it comes to investing, all investments have risk. There are three main categories of risk to consider.

Market Risk — the possibility that an investment will lose money due to factors that affect the overall performance of investments in the financial markets, which includes any marketplace where the trading of securities takes place.

Interest Rate Risk — the risk that bond prices will decline because of rising interest rates. That's because bond prices have an inverse relationship with interest rates, meaning bond prices go down when interest rates go up. Conversely, when interest rates go down, bond prices go up.

Inflation risk — the risk that your money will not maintain its purchasing power as time goes by and there is an increase in the cost of goods and services.

Key Takeaways

- ✓ All investments have risk
- ✓ Know your goals, risk tolerance, and time horizon
- ✓ Asset allocation and diversification can help
- ✓ Review your portfolio periodically

Strategies to manage risk

Stock market fluctuations are normal

The ups and downs of the financial markets are very natural and can happen for several reasons, like economic downturns, political upheaval, and even negative company or industry-specific news.

The market fluctuates daily, and there are occasions when it undergoes significant changes, known as volatility. Although volatility can be intimidating, it is important to note that historical data shows that markets have generally been positive. Stocks have recorded a positive return in 66 out of the last 87 calendar years, indicating that they have shown an upward trend at least 76% of the time.[1]

Let's explore the strategies you can use to help manage risk.

1. **Invest regularly** to leverage dollar cost averaging*

When you participate in a retirement plan, you can benefit from a strategy called dollar cost averaging – which means investing regularly over the long term regardless of market conditions.

Here's how:

- The sum of all the shares purchased over time divided by the number of shares purchased is the average price per share. This is called dollar cost averaging.
- Investing the same amount at regular intervals can help your money buy more shares if prices are low and fewer shares if prices are high.

To boost your savings even more, Save Smart® is a plan feature that allows you to gradually increase the before-tax amount you contribute toward your retirement. You select the percentage — 1%, 2% or 3% annually in the month you choose.

1 10 things you should know about volatility. Hartford Funds

For example, a lump sum investment of $5,000 can purchase 500 shares at $10 a share. However, when the dollar cost averaging strategy is applied, regular contributions buy shares at varying prices. In this example, at the end of 6 weeks, an investor would have 43 more shares with a lower average share price.

Week	Lump sum purchase: $5,000		Dollar cost average: $833 regular contribution	
	Share price	Shares purchased	Share price	Shares purchased
1	$10.00	500	$10.00	83
2			$9.00	93
3			$12.00	69
4			$8.00	104
5			$7.00	119
6			$11.00	75
Total shares purchased		500		543
Average share price	$10.00		$9.50	

**Dollar-cost averaging does not assure a profit or protect against loss in declining financial markets. One thing to remember when it comes to investing and investment strategies is that dollar cost averaging does not assure a profit or protect against loss in declining financial markets.*

2. Discover your investor profile

Understanding your comfort level with investing and determining your investor profile is another way to manage risk. Your investor profile is comprised of your tolerance for risk, your investment goals and your time horizon. Generally, the longer your time horizon, the better able you are to ride out short-term market fluctuations. ADP offers the Personal Investor Profile to help you determine your investor profile.

Once you know your investor profile and have determined your investing time frame, you can select the investments available in your retirement plan to create an asset allocation that meets your retirement goals.

Click here or scan the QR code to take the **Personal Investor Profile** questionnaire to determine your investor profile and risk tolerance.

3. Invest for your goals

Your asset allocation is how you divide your money among the different investment types—such as stocks, bonds and money market/stable value investments. It's one of the main factors that impact your investment results.

Taking asset allocation a step further is diversification. Think of this as "not putting all your eggs in one basket." Diversification means choosing a mix of investments from your Plan's fund line-up. You may pick funds within each investment class to help reduce the risk that a significant drop in any one area could negatively impact your entire retirement portfolio.

Diversification among different kinds of investments can be one of your best defenses against market volatility. However, diversification does not assure a profit or protect against market loss.

How far you are away from retirement influences investment decisions — finding the right balance between seeking to grow or to preserve your savings.

✓ If you have 25 or more years until you retire, time is still on your side. Investing now provides for more growth potential over time.

✓ If you are 15 years from retirement, it's more of a balance between preserving what you've saved so far while still allowing a little room for growth.

✓ If you are five years from retirement, your goal is likely to preserve what you've saved as you prepare for retirement.

Finding the right balance - preserving and growing your retirement savings

Time until retirement	Your main objectives
25+ years	Start investing for your future Give your money time to **grow**
15 years	**Preserve** what you've saved Allow room for **growth**
5 years	Prepare for retirement **Preserve** what you've saved

The further from retirement, the greater the importance of **growing** your savings

The closer to retirement, the greater the importance of **preserving** your savings

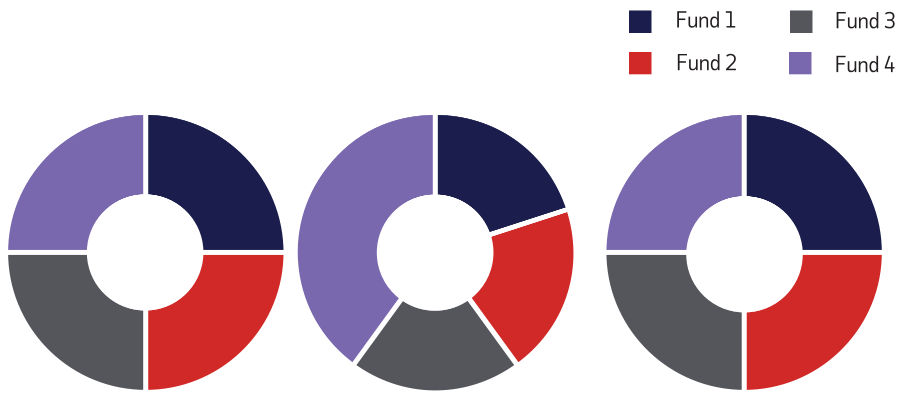
Diversification does not assure a profit or protect against market loss.

Generally, the closer you are to retirement, the greater the relative importance of preserving your savings. The further you are from retirement, the greater the importance of growing your savings.

4. Review and readjust your investments

Different investments — stocks, bonds and money market/stable value investments — react differently to the same market conditions. For example, this participant invests 25% of their contribution from each paycheck into four different funds. As a result of market fluctuations, their desired allocation shifts.

Make a habit of reviewing your asset allocation to determine whether you need to rebalance your holdings to return them to your original desired percentages. You can do this on your own or select the Automatic Account Rebalancing feature offered by your plan. This feature allows you to rebalance your account according to your original allocation as often as quarterly, semi-annually, or annually.



Initial Allocation
Fund 1 – 25%
Fund 2 – 25%
Fund 3 – 25%
Fund 4 – 25%

Allocation after Market Downturn
Fund 1 – 20%
Fund 2 – 20%
Fund 3 – 20%
Fund 4 – 40%

Rebalanced Allocation
Fund 1 – 25%
Fund 2 – 25%
Fund 3 – 25%
Fund 4 – 25%

This sample allocation is not meant to be construed as a recommendation or investment advice. It is intended to give you a point of reference when considering your own unique situation. You may have additional concerns not reflected herein that may affect your investment decisions. Asset allocation does not assure or guarantee better performance and cannot eliminate the risk of investment losses. The values of your investment options will vary with market conditions, and upon redemption, may be worth more or less than the original value. A plan of systematic savings does not ensure a profit or prevent a loss in declining markets. This material is not intended as investment advice. Consult your financial advisor.

Keep in mind that rebalancing your funds could mean potential sales charges or other fees. Additionally, switching out of an investment when the market is doing poorly means locking in the loss.

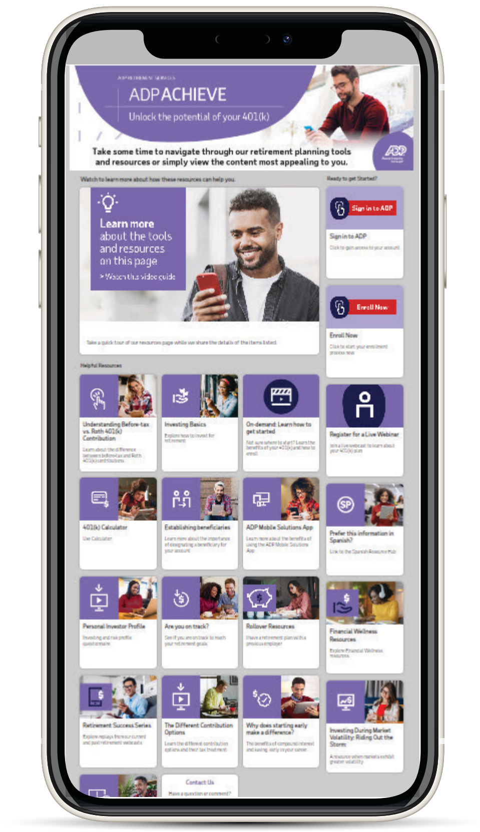
To help keep your asset allocation on track, your Plan offers an account rebalancing tool. To utilize this tool, log into **My.ADP.com** or scan the QR code to log into your account. Click **Discover more account options** and select **> Investments > Automatically Rebalance My Account**

5. Take advantage of your Plan's financial planning tools

Retirement planning plays an important role in your financial well-being.

The **ADP Achieve Engagement Hub** contains the following:

- A retirement planning video library.
- Rollover resource information.
- Access to timely on-demand webcasts on retirement topics like Investing Basics or Asset Allocation.



Unlock your retirement planning tools.

Visit the ADP Achieve hub to access helpful retirement resources and planning tools. You can select the link to ADP's Spanish target page if you prefer this information in Spanish.

You can also scan the QR code from your camera or QR code reader.

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