# Retirement on the Brain

Managing Risk: Step-by-step investing for tomorrow

The Standard®

## Managing risk

Understanding risk is crucial to overcoming the fear of investing. Managing risk explains the basic investing principles in plain English, helping you move toward financial security in retirement.

# The key to understanding your options:

## — investment categories

There are literally thousands of investment options available to investors. In your plan alone, there may be a dozen or more choices. It may surprise you to know that, for the most part, all of those choices fall into one or more of the following categories:

- Cash equivalents
- Bonds
- Stocks

Reminder: When you are choosing your investments, remember that you are investing for the long term.

The chart below describes the key features of each investment category.

| Investment category | Description | How investors make money | How investors lose money |
|---|---|---|---|
| Cash equivalents | This category usually includes a money market fund or stable value security. Designed to maintain a principal value that does not fluctuate. | Investors receive interest income and a return of their invested principal. | It is possible to lose money if the issuer defaults or returns only a portion of the amount invested. |
| Bonds | Companies, the U.S. government and various governmental units issue bonds (sometimes called fixed-income investments) to investors to raise money. When you purchase a bond, you are lending your money to the bond issuer for a certain period. The main reason bond prices move is changing interest rates. As interest rates rise, the prices of bonds fall. | Bonds pay interest to investors. The interest rate is usually fixed. Another way to make money from a bond is to sell it before maturity at a price higher than your purchase price. | If you sell a bond before maturity for less than you paid for it, you will lose money. It is possible to lose all the money invested in a bond if the bond issuer has severe financial problems and can't repay the debt. |
| Stocks | When you buy shares of stock (sometimes called equities) in a company, you become one of the owners of the company. Companies sell their stock to investors to raise money. | Stock investors can make a profit by selling their shares for more than the price they paid. Some companies also pay stockholders regular dividends from company earnings and profits. | Investors who sell their shares at a lower price than they paid lose some of their invested money. If the company issuing the stock goes bankrupt or greatly decreases in value, a shareholder could lose the entire amount invested. |

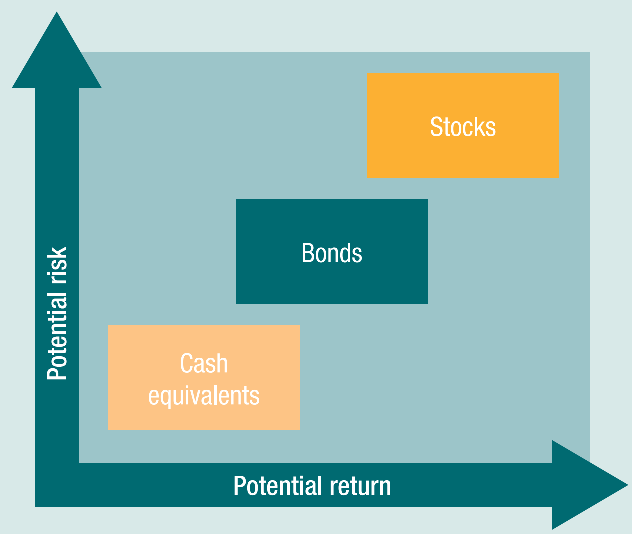
# Understanding risk

Of the three basic investment groups, stocks offer the highest potential investment returns — and the most risk to principal (the amount invested). Bonds offer moderate potential return and less risk of principal loss than stocks.

Cash equivalent investments offer low risk and returns that historically have been at, or slightly above, inflation. Losing money with cash equivalents is very unlikely. However, your returns may not be high enough to stay ahead of inflation. In effect, the returns you earn may be just enough to maintain your purchasing power as prices rise.

## The risk/return relationship

Risk, the chance you could lose money, is a simple fact of investing. But the more risky an investment, the greater the potential for growth. The reason for this is simple: An investor choosing between two investments generally would not choose the riskier of the two unless it offered a chance of earning a higher return. So, to attract investors, riskier investments generally provide more growth potential. The graph below shows where different investments fall on the risk/return scale.



# Diversification:

## — the key to managing risk

Diversification is the process of spreading your money among different investments. Most mutual funds are automatically diversified. Let's say you invest your money in a stock fund. That fund may hold stock in many individual companies. Even if a few of those companies do poorly, those losses may be offset by the stocks that perform better than expected. But be aware that diversification does not ensure a profit or protect against loss in a declining market.

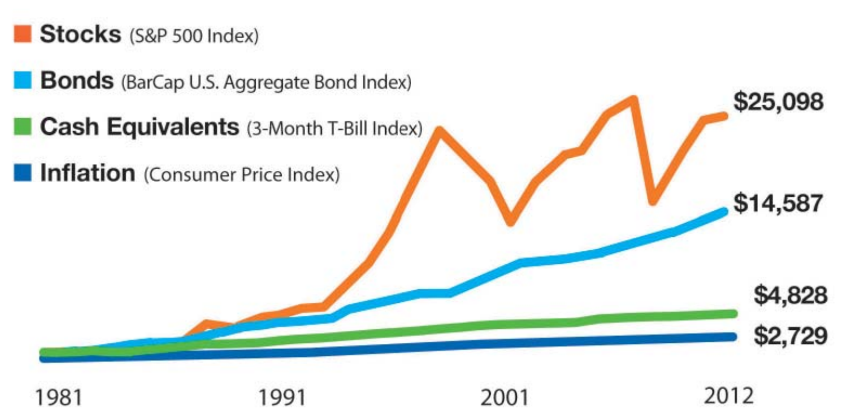
### Diversification by investment category

By spreading your money across different investment categories (asset classes), you balance risk because different investments tend to do better in different market conditions — stocks may take off while bonds suffer, and vice versa.

### Time can help smooth out risk

Stocks have historically been much riskier than investments like bonds or cash equivalents. But as you can see from the chart below, stocks have historically outperformed other types of investments over time.

### Different investments, different returns




The index performance shown is for illustrative purposes only and is not indicative of the performance of any specific investment. The illustration assumes $1,000 invested in each category from December 1982 – December 2012. **S&P 500 Index:** A market capitalization-weighted index of 500 widely held stocks. Investing in stocks carries more risk than investing in bonds or cash equivalents. **BarCap U.S. Aggregate Bond Index:** An index that covers the U.S. investment-grade, fixed-rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. Bonds are subject to certain risks including interest-rate risk, credit risk and inflation risk. Investing in bonds carries more risk than investing in cash equivalents. **3-Month T-Bill Index:** An index based on the results of auctions the U.S. Treasury holds for its Treasury bills, which are short-term government securities. **Consumer Price Index:** A measure of the average price of consumer goods and services purchased by households. Past performance is no guarantee of future results. Investments are subject to market risk and fluctuate in value. An investment cannot be made directly in an index. Sources: Morningstar Direct, Legg Mason.

### Time is on your side

**If you have many years until retirement**—15 years or more—you can afford to take some risks in hopes of a bigger payoff. This opens up a world of investment options to you.

**If you have an intermediate length of time until retirement**—five to 15 years—time can do some of the work for you. You have enough time to take on some risk in search of higher-than-average returns. However, it is important to also recognize that safely earning consistent returns is a key part of your plan.

**If you are just a few years from retirement**—less than five years—a year or two of poor returns may mean you'll have less money at retirement. This reality could narrow your range of investment options.

# Investor profile quiz:

## — discover your investing style

After each question, circle the letter that best describes you. Then add up the points and match the total with the investor profile on the next page. Please note that this profiling tool is only a guide. For advice specific to your situation, you will want to consider other factors, such as your retirement savings, tax considerations and investing time frame. You should contact your investment professional and/or tax advisor for personalized advice.

### Investor profile quiz

**1. When do you expect to tap into your retirement account?** — Points

- **a.** Less than five years — 0
- **b.** Between five and 10 years — 20
- **c.** Between 10 and 15 years — 30
- **d.** More than 15 years — 40

**2. What do you expect to happen to your pay (salary) in the next five years?** — Points

- **a.** I expect my pay to increase much faster than inflation (due to promotions, new job, etc.). — 12
- **b.** I expect my pay to increase slightly faster than inflation. — 10
- **c.** I expect my pay to just keep up with inflation. — 5
- **d.** I expect my pay to decrease (due to retirement, part-time work, depressed industry, etc.). — 0

**3. How do you feel about investing for retirement?** — Points

- **a.** I am seeking maximum stability, even if returns are low. — 0
- **b.** I can tolerate a small amount of fluctuation in my investment account and I am seeking consistent returns. — 4
- **c.** I am middle-of-the-road and prefer both growth potential and consistency of returns. I can tolerate a fair amount of market movement in exchange for more attractive long-term returns. — 8
- **d.** I am willing to assume a relatively high level of volatility for potentially greater returns. — 12
- **e.** I am seeking maximum long-term growth, even if it means wide swings in my account value. — 15

**4. How much risk are you willing to take in order to potentially increase your investment return?** — Points

- **a.** I am willing to take a **lot** of risk with **all** of my retirement account. — 15
- **b.** I am willing to take a **lot** of risk with **some** of my retirement account. — 12
- **c.** I am willing to take a **little** risk with **all** of my retirement account. — 8
- **d.** I am willing to take a **little** risk with **some** of my retirement account. — 4
- **e.** I am **unwilling** to take on more risk. — 0

**5. If the stock market went down 15 percent, what would you do?** — Points

- **a.** **Sell** all of my stock funds immediately and put the money in something more stable. — 0
- **b.** **Transfer** some of my stock funds into less aggressive investments. — 2
- **c.** **Do nothing** and wait for it to come back. — 4
- **d.** **Buy more**: Increase my stock investments while prices are low. — 8

**6. If you received several statements in a row with negative returns and realized that your account had lost 20 percent, what would you do?** — Points

- **a.** **Sell** all of my stock funds immediately and put the money in something more stable. — 0
- **b.** **Transfer** some of my stock funds into less aggressive investments. — 3
- **c.** **Do nothing** and wait for it to come back. — 6
- **d.** **Buy more**: Increase my holdings in stock funds while prices are low. — 10

Total score: __________

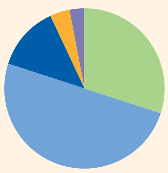
# Guided Portfolios:

## — choosing your investment mix

The following pre-mixed portfolios show how you may want to diversify your investments. Circle the portfolio that matches your score on page 4. If you need more information, you may wish to contact a personal financial advisor.

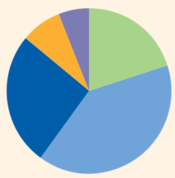
### Guided portfolios: Where do you fit?

**Conservative**
(Score: Less than 40)



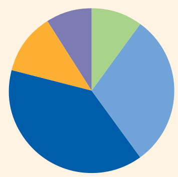
| | |
|---|---|
| Cash Equivalents | 30% |
| Bonds | 50% |
| Lg Cap Stocks | 13% |
| Sm/Mid Cap | 4% |
| Int'l Stocks | 3% |

**Moderately conservative**
(Score: 41-53)



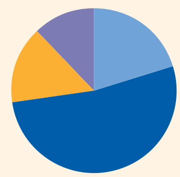
| | |
|---|---|
| Cash Equivalents | 20% |
| Bonds | 40% |
| Lg Cap Stocks | 26% |
| Sm/Mid Cap | 8% |
| Int'l Stocks | 6% |

**Moderate**
(Score: 54-66)



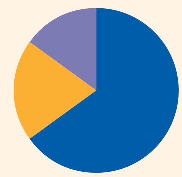
| | |
|---|---|
| Cash Equivalents | 10% |
| Bonds | 30% |
| Lg Cap Stocks | 39% |
| Sm/Mid Cap | 12% |
| Int'l Stocks | 9% |

**Moderately aggressive**
(Score: 67-79)



| | |
|---|---|
| Cash Equivalents | 0% |
| Bonds | 20% |
| Lg Cap Stocks | 52% |
| Sm/Mid Cap | 16% |
| Int'l Stocks | 12% |

**Aggressive**
(Score: 80 and above)



| | |
|---|---|
| Cash Equivalents | 0% |
| Bonds | 0% |
| Lg Cap Stocks | 65% |
| Sm/Mid Cap | 20% |
| Int'l Stocks | 15% |

**Less risk / less potential return** **Higher risk / higher potential return**

You should carefully consider the investment objectives, risks, charges and expenses of the investment options offered under the retirement plan before investing. Funds that invest in bonds are subject to certain risks including interest-rate risk, credit risk and inflation risk. As interest rates rise, the prices of bonds fall. Small-company (small cap) investing involves specific risks not necessarily encountered in large-company investing, such as increased volatility. International investing involves certain risks, such as currency fluctuations, economic instability and political developments. These risks may be accentuated in emerging markets.

**Employers and plan participants should carefully consider the investment objectives, risks, charges and expenses of the investment options offered under the retirement plan before investing. The prospectuses for the individual mutual funds and each available investment option in the group annuity contain this and other important information. Prospectuses may be obtained by calling 877.805.1127. Please read the prospectus carefully before investing. Investments are subject to market risk and fluctuate in value.**

The Standard is the marketing name for StanCorp Financial Group, Inc. and its subsidiaries. StanCorp Equities, Inc., member FINRA, wholesales a group annuity contract issued by Standard Insurance Company and a mutual fund trust platform for retirement plans. Third-party administrative services are provided by Standard Retirement Services, Inc. Investment advisory services are provided by StanCorp Investment Advisers, Inc., a registered investment advisor. StanCorp Equities, Inc., Standard Insurance Company, Standard Retirement Services, Inc. and StanCorp Investment Advisers, Inc. are subsidiaries of StanCorp Financial Group, Inc. and all are Oregon corporations.

Standard Retirement Services, Inc.
1100 SW Sixth Avenue
Portland OR 97204-1093
877.805.1127

www.standard.com/retirement

Managing Risk - brochure
RP 11445-GP (5/13)