

How to invest so you can best achieve your retirement or savings goals – and still be comfortable with your choices

There are literally thousands of different investments to choose from – and your plan offers you a good selection of options from which to choose. So how do you know which investments are right for you? The short answer is, it depends.

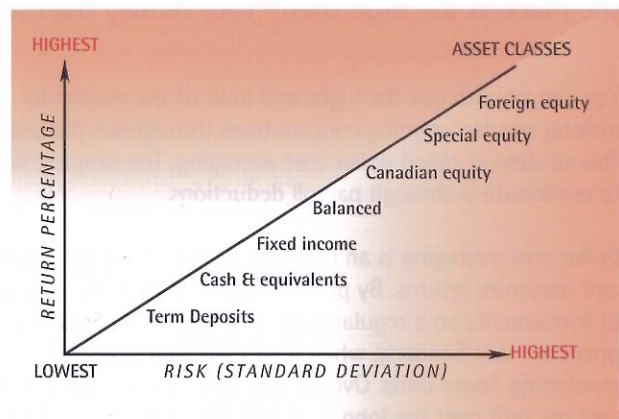
You should consider the following:

- Your comfort with risk – can you sleep at night knowing that the value of your investment could drop in the short term?
- Your investment objectives – do you want to preserve your retirement nest egg, generate income, or grow your investments?
- Your time horizon – how much time do you have before you retire?

Together, these three key factors will shape your investment strategy. So, before you go any further, you may want to make sure you've got a firm grasp on these concepts.

Balancing risk and reward

What is risk? In general, risk refers to the potential for loss. Different investment types and asset classes offer different levels of financial reward and carry different levels of risk. Generally speaking, the greater the risk, the greater the potential for long-term rewards. See the graph below to get an idea of how risk relates to the types of investments offered by your plan.



Back to BASICS



What's the best risk-reward mix for you? It depends on your comfort level. If you're the kind of person who lies awake at night worrying about your investments, you may sleep better if your investments lean toward the more conservative.

But your risk comfort isn't the only factor to consider in determining your risk-reward mix. You should also look at your investment objectives and time horizon.

Your investment objectives and time horizon

Are you a distance away from retirement and looking to grow your plan assets? Or are you nearing retirement or your savings goal and want to preserve what you've already saved? Broadly speaking, there are three distinct investment objectives, each with their own risk-reward relationship.

1. Growth – If you're still years away from retirement and are looking to grow your retirement nest egg, accepting more risk in exchange for

potentially higher returns probably makes sense. Growth assets, such as the equity investments offered by your plan, offer the best opportunity for growth potential over the long term.

2. Income – If you want to protect your savings and retirement is still a few years away, you may still wish to experience some of the growth offered by market investing. You may need to accept a moderate degree of risk in exchange for potentially higher returns. Fixed income assets, such as the fixed income or bond funds offered by your plan, offer excellent opportunities to preserve your capital and make solid returns.

3. Capital preservation – If you need to protect your savings, you'll want minimal risk. This might be the case if you're nearing retirement and need to make sure the money will be there to draw upon as income. Cash equivalent assets, such as shorter term guaranteed interest accounts and the money market investments offered by your plan, provide you protection for your hard-earned dollars.

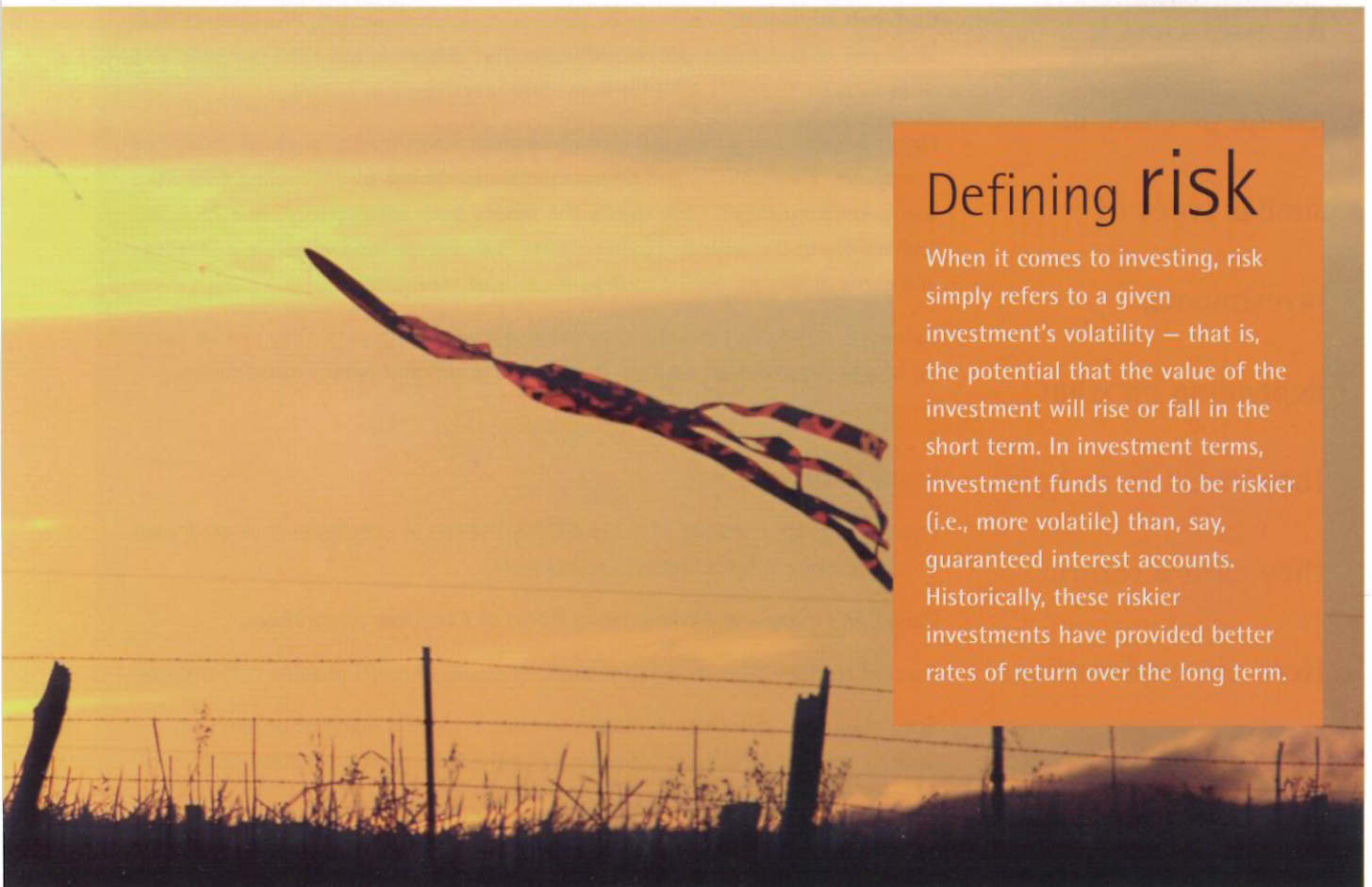
Start early, finish strong

Envisioning retirement in your twenties and thirties may be difficult – retirement seems a lifetime away. That's the exact reason to start saving. Putting time to work for you is one of the cardinal rules of successful retirement planning.

Mathematically, there are two big advantages to getting an early start on retirement savings. If you're going to build a retirement income over 30 years, rather than 15 years, you won't have to contribute as much overall to realize the same or even greater results as someone who starts at a later age. Early savers also get full benefit of "the magic of compounding." For each year you let your savings and interest accumulate, you'll earn more interest. This is how your money can approximately double in 12 years while earning six per cent interest each year. By starting your retirement plan while you're still young, more of your retirement savings will come from investment earnings rather than your contributions.

Defining risk

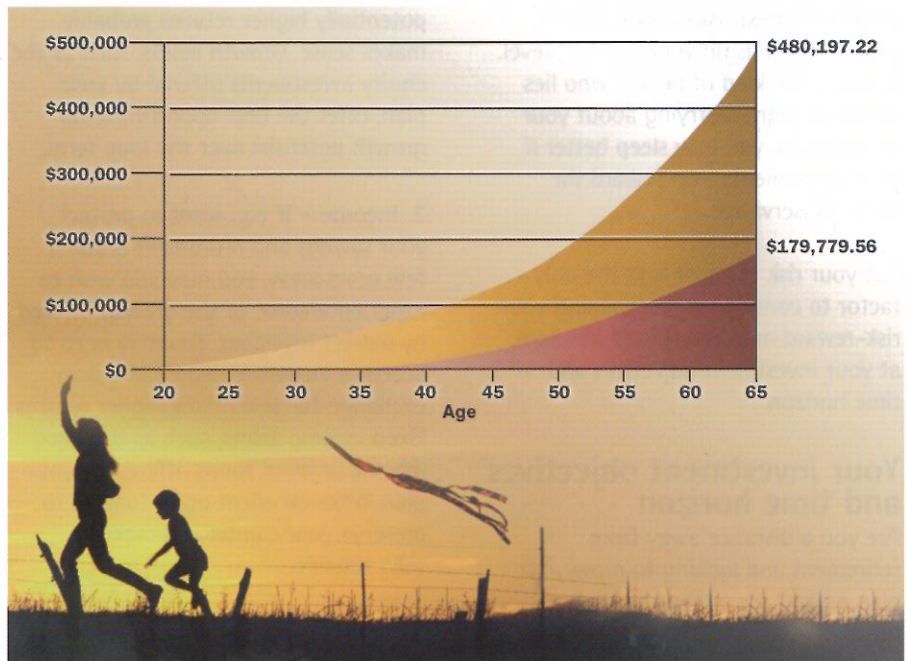
When it comes to investing, risk simply refers to a given investment's volatility – that is, the potential that the value of the investment will rise or fall in the short term. In investment terms, investment funds tend to be riskier (i.e., more volatile) than, say, guaranteed interest accounts. Historically, these riskier investments have provided better rates of return over the long term.



This graph demonstrates how saving \$2,000 at the beginning of each year from age 20 versus age 35 can make a significant difference in retirement savings.

How do you choose?

Not sure what your tolerance for risk is or what your asset mix should be? The *Investment Personality Questionnaire* can help. By answering this short questionnaire, you'll be able to determine your investment objectives and your risk tolerance. After determining your investment personality, you may also select a "preferred" asset mix based on these findings. Alternatively, you may want to sit down with a professional who can help you figure out an investment strategy that's right for you. ■



Sign up for the right class!

An asset class is a group, or class, of similar types of investments, depending on what they invest in or how they earn a return.

Here are explanations of asset classes.

Asset allocation – diversification in a single fund, based on specific investor personalities. These types of funds consist of a diversified mix of investments, and investment managers, which may include income, capital appreciation and dividends.

Cash and equivalent – consists of short-term, interest-bearing investments such as money market funds with investments that mature in less than one year. This asset class isn't usually used for long-term investing.

Fixed income – consists of income-bearing investments, such as bonds or mortgages. Corporations and governments issue bonds to get money they need today, knowing they'll have to pay the money back with interest. In effect, you lend money to the seller by buying a bond. A mortgage fund invests in mortgages and earns money on the interest paid on those mortgages.

Balanced – These funds are a diversified mix of investments. They can be made up of a combination of equities, bonds, mortgages and money investments.

Equity funds

Equity funds are made up of many different stocks in companies that are traded on stock markets, both foreign and domestic.

Canadian equity – is predominately stocks of Canadian corporations.

Foreign equity – consists predominately of stocks of non-Canadian corporations.

Special equity – consists of industry or sector-specific holdings or don't fit under a specific fund type; for example, real estate, precious metals, and natural resources.