INVESTMENTS

✖ DANGER | ☑ EXAMPLE

8. MARKET RISK

Retirees can lose money saved for retirement in financial markets.

Ian invested the majority of his money in a hot new technology company that his neighbor told him was expected to achieve exponential growth. While the company did well for a number of years, it was highly overvalued and the shares recently declined by 50%.

9. INTEREST RATE RISK

Fluctuating interest rates can impact the value of bonds or other financial vehicles used to save for retirement or provide income.

Brian invested in bonds during a time period of low interest rates. However, interest rates began to increase over the next five years and the value of his bonds decreased.

10. LIQUIDITY RISK

Liquidity risk is the inability to have assets available to provide financial support at the time it is needed.

Bonnie and Zach have saved a significant sum of money for retirement, but most of it is in stocks. Due to a decline in the market, they are unwilling to sell any of their stocks right now to fund their retirement. They want to recoup their original investment.

11. SEQUENCE OF RETURNS RISK

Sequence of returns impacts how long a portfolio will last. Once an individual is beginning to take withdrawals in retirement, significant loses in the early stages can derail the sustainability of their plan, even if they achieve higher returns later on in retirement.

$100,000 Portfolio with $10,000 Annual Withdrawal

Year	Market Gain or Loss	Value
1	-50%	$40,000
2	+100%	$70,000
3	-50%	$25,000
4	+100%	$40,000

Average Annual Return: +25%
Actual Dollar Return: -$20,000