INVESTOR NEWSLETTER

INVESTING FOR RETIREMENT: 3 RISKS EVERY INVESTOR SHOULD KNOW

HELPING YOU MAKE INFORMED INVESTING DECISIONS

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It doesn't matter how old you are or what you do. The vast majority of us have the same goal: to stop working one day and enjoy the rest of our lives doing whatever it is we like to do.

While the concept of retirement has changed dramatically over time, it's probably fair to say that most people look forward to it. In fact, most people spend their working years saving and planning for their eventual retirement. It's often seen as the reward for their hard work and effort.

That means your investment portfolio has a crucial job: it has to fund the lifestyle you want for as long as you need.

With that in mind, let's look at the three principal risks you will face as you prepare for your eventual retirement.

1. Inflation

The first risk we all face is inflation. Even a 2% inflation rate will reduce the purchasing power of your money over time. If you are concerned with maintaining the same anticipated lifestyle throughout your retirement, you'll need to build in inflation protection. A portfolio that provides an absolute return above inflation is one potential option. Another way to combat inflation risk is by adding alternatives, such as real assets or infrastructure, to your portfolio. These assets tend to benefit during periods of higher inflation.

Inflation can significantly erode a portfolio's returns, especially if markets are volatile. For example, if your portfolio returns 6% in one year, but inflation is 2%, then the "real" return you receive is only 4%. And if markets fall by 6% in a year, and inflation remains 2%, then the "real" return of your portfolio will be -8%. As you can imagine, higher inflation has a much more significant impact.

As inflation eats away at your portfolio, less is left to sustain you for the rest of your life. And no one know how long they are going to live. Indeed, longevity is another growing risk that you face in retirement.

2. Longevity

All investors preparing for a future retirement face one common risk: that of outliving their savings.

In most countries, human lifespans are rapidly lengthening due to improved medical care, better nutrition, innovations in disease prevention and control, and a general increase in the standard of living. But even if you don't make it to the century mark, someone who is 35 today can anticipate making it to their mid-80s or longer. If we assume they retire at 65, that means their investments need to produce sustainable income for at least 20 years.

Increased longevity means planning for retirement also means thinking about other issues you may face as you get older: higher health care costs over time, reduced mobility, the potential need for long-term care and/or a different type of housing. All will impact the level of income you require.

While you can't predict how long you'll live, by planning for a longer retirement you can avoid running out of money when you need it most. Some of us could reasonably expect to spend as many (or even more!) years in retirement as we did working. That means that you will need to consider investments that have the potential to produce steady income over an entire market cycle.

3. Sequential

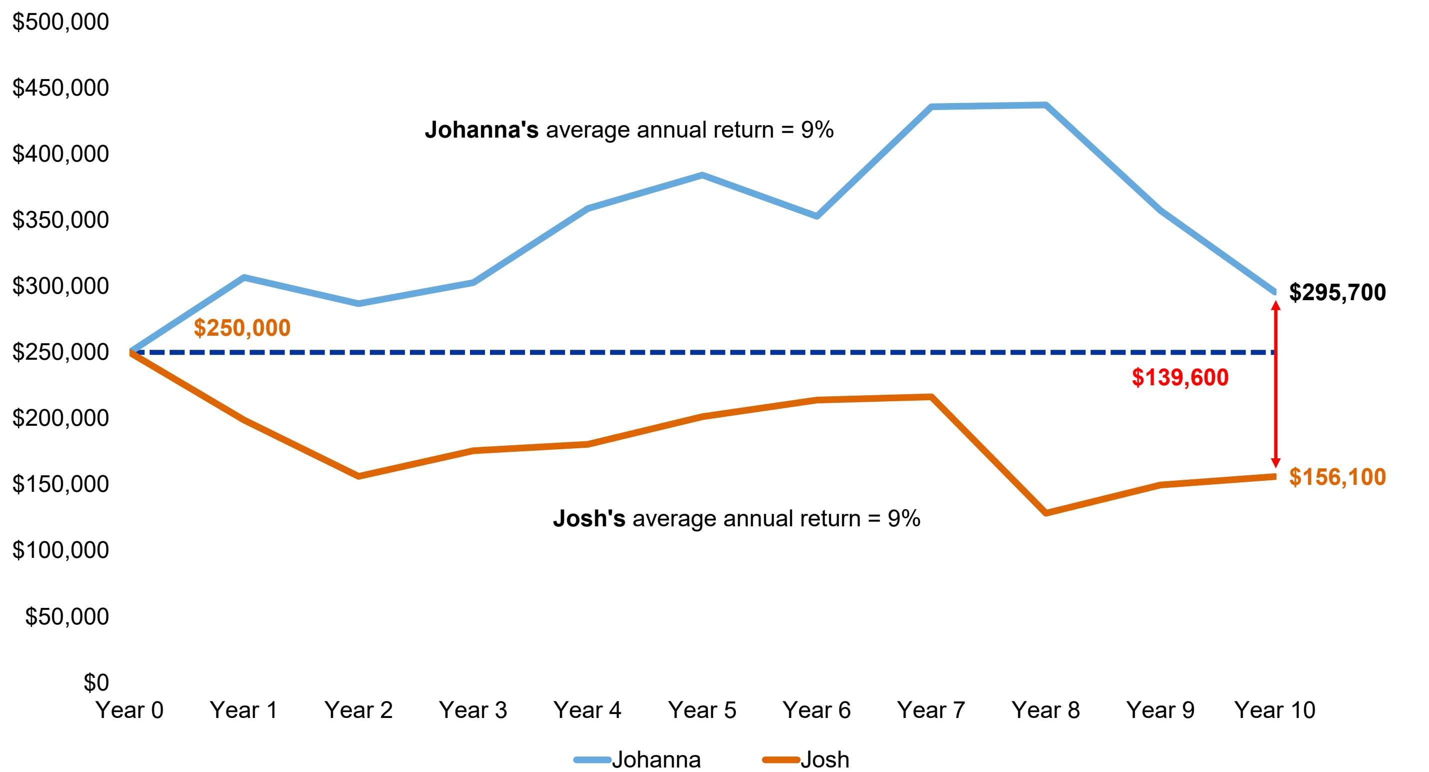
Let's face it – financial markets are cyclical. Volatility is an inherent part of their nature. Different asset classes go in and out of favor. Geopolitics, major news from a key company, unexpected earnings results, changes in public policy, technical factors and any number of events can spark volatility. Even positive markets can be volatile. The issue for investors is managing that volatility: smoothing out returns to limit losses on the downside and attempt to preserve gains on the upside.

As an investor, you face your maximum risk exposure the day you retire. That day marks the start of the longest period in which you will need your savings to provide income. Your savings have likely reached their peak and your ability to save further is limited. A downturn in investment returns during this period can have a significant impact on your portfolio. This is **sequential risk**, which means poor returns early in retirement are much more harmful to your nest egg than poor returns later in retirement.

As you can see in the chart below, Johanna and Josh both started their retirement with a $250,000 portfolio and withdrew $15,000 a year for a 10-year period. They both had the same average annual return – 9%.

But Josh's portfolio suffered losses in his first two years of retirement, while Johanna's portfolio grew in the first few years, then had a significant loss in the final two years. After 10 years, Josh's principal has been eroded, while Johanna's portfolio has grown.

Sequential risk / The order of investment returns matters



ANNUAL RETURN	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10	AVERAGE
Johanna	32%	0%	13%	26%	13%	-3%	30%	5%	-14%	-12%	9%
Josh	-13%	-12%	27%	15%	24%	17%	11%	-33%	35%	19%	9%

What can you do to manage retirement risks?

First of all – stay invested! While market volatility is a constant, it's also true that the general trend in equity markets globally has been positive. Markets may bounce around over the short-term but an investor who "stayed the course" over five, 10 or 20 years is likely to see growth in their portfolio. In partnership with your financial advisor, you should design an investment strategy based on your investment goals, time horizon, financial circumstances and risk tolerance, not on what markets are doing at a given moment.

Additionally, you should structure your portfolio to provide ongoing growth for an extended period while also maintaining the potential to provide a steady stream of income. While there are no guarantees in investing, a mix of globally diverse equities and fixed income may give you the best chance of accomplishing those dual goals. Including real assets, such as infrastructure and real estate , can be helpful because of their ability to withstand inflation.

Finally, think carefully about how you envision your retirement and the lifestyle you may want. Spending your days gardening or going for long walks requires less of a nest egg than completing a bucket list of climbing the seven highest mountain peaks or taking an extended cruise every year. And build a retirement plan that encompasses every aspect of your life – health, hobbies, relationships and housing – not just finances.

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IMPORTANT RISK INFORMATION

Investors should consider how the combined risks impact their total investment portfolio and understand that different risks can lead to varying financial consequences, including loss of principal.

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