Making Investment Choices: Risk & Return

Risk and return are part of the same equation when you are investing.

- **RISK:**
  - When you invest in a stock, bond or mutual fund, you are taking a risk that those investments might decline in value.
  - In other words, you have no guarantee that you will end up with more money than you started with.

- **RETURN:**
  - The return is the amount of money that your investments gain over a period of time. That is what is meant by the term, “return on investment.”

How are Risk and Return Related?

Generally, the higher the risk, the greater the opportunity that exists for a higher return. But remember, there is no absolute guarantee!

- Stocks are higher risk than bonds, but have historically had a higher return.
- Bonds are higher risk than cash investments (which can include certificates of deposit and money market funds) and therefore have had a lower rate of return than stocks, but a higher rate of return than cash investments.
- Cash investments are considered the least risky investment, but also tend to have the lowest return.

What is Inflation Risk?

Because the cost of living increases each year (some years a little, some years a lot), you need to get a return on your investments that is equal to or above the inflation rate, or your savings and investments will lose ground.

- For example, if you keep your money in a savings account or a certificate of deposit (CD) that is earning 3% and the inflation rate is 2%, your real return is only 1%.

Find out more at: www.wiserwomen.org

Like us on Facebook (facebook.com/WISERwomen)
Follow us on Twitter (@WISERwomen)
Connect with us on LinkedIn

© WISER 2019
If your account is earning less than the inflation rate, you are really *losing money* because the value of your investments will have less purchase power as time goes on.

You may have reasons to invest in a savings account that provides a low return in the short run, but in the long run, it is not a good idea to only invest in these accounts. The money you are saving as long-term investments should have higher rates of return.

**Why is it Important to Diversify Investments?**

“Diversifying” means investing in a mix of higher and lower risk investments. By investing in a mix of different stocks, bonds and cash investments, you can decrease the risk of your overall investments.

- For example, if your high-risk stocks lose value, your cash investments will still be stable and you won’t lose the total value of all of your savings. Mutual funds are one good way to start spreading your risk, or diversifying. See WISER’s fact sheets on Mutual Funds to learn more.

Although it is important to have your money in a mix of cash, bonds and stocks, you still have to decide how much you want to put into each, and what funds, stocks and/or bonds you will invest in. See WISER’s fact sheet *Asset Allocation: Don’t Put all of Your Eggs in One Basket* for more help on this topic.