You’re in the Driver’s Seat

You don’t have to know how to tune up the engine to drive a car. And you don’t have to be an investment pro to take charge of your retirement savings. All you have to do is decide how much to contribute, choose how to invest your contributions, and track your results. That said, remembering a few investment basics will help you steer your account in the right direction.

Risk and Return Ride Together

Some investment types are riskier than others. Higher potential investment returns usually accompany the higher risk. Investments with high risk have more growth potential than medium-risk investments and much more growth potential than low-risk investments.

Stocks Often Lead

Although past performance doesn’t predict future returns, historically, stocks have performed better than bonds and cash equivalents over the long term. Yet, at times, bonds and cash equivalents have outperformed stocks. Stocks are also much more volatile than bonds and cash equivalents, so investors should be prepared for ups and downs and the possibility of losing money.

Bonds Usually Run Second

Bonds have historically been much less volatile than stocks, with long-term returns that have been in between stocks and cash equivalents. Like stocks, bonds have recorded some years with poor returns or losses. Generally, bond values drop when interest rates rise. And the bond market gains when interest rates fall.

Cash Is Slow but Steady

Cash equivalent returns have usually been lower than stock and bond returns. The risk of losing money by investing in cash equivalents is also low. The steady returns of cash equivalents can help to compensate for times when stocks or bonds perform poorly.

Diversification Adds Risk Control

If you invest in a diversified mix of different investment types and one investment type drops in value, only part of your portfolio is affected. Diversification doesn’t ensure a profit or protect against loss in a declining market. Still, it’s a key strategy that you can use to manage investment risk on the road to reaching your long-term goals.