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Risk

By Ric Cochran

Let's talk about risk. Even if we hate risk, we still can't escape it. Some are so afraid of risk they might likely lose more trying to hide from it than harnessing it. Others recognize that everything has risk, including cash, perhaps especially cash over the long-term. How could cash have risk? Really simple: if you lock up your cash, then take it out and count it years later, you may have all your cash; but can you buy as much with it as five, ten or twenty years before? Have you ever seen a period in modern times that prices didn't go up? If you can only buy half as much, or even less, you've lost a lot of purchasing power. Ouch! And unless you want to use your dollar bills for wallpaper, the power to purchase goods and services is the only value cash has.

How much purchasing power can we lose over time by holding cash, not achieving high enough returns to keep up with a rising cost of living? A lot, if you trust the government's numbers. Some believe the government understates inflation, which would be worse. According to the U.S. Bureau of Labor Statistics, it took over $100,000.00 in 2013, to purchase what $43,000.00 would purchase in 1983. That's a loss of over half! But just before that, from 1973 to 1983, cash lost half its purchasing power in a single decade! So it took over $100,000 in 2013 to purchase what $19,000 would buy in 1973, a loss in purchasing power of over 80%. Imagine if, like Rip Van Winkle, you went to sleep in 1973 with $19,000 under your pillow and woke up in 2013 how surprised you'd be at how little your money would buy. Cash doesn't seem to keep well.

Many stay in cash or cash-like, low-return, accounts for fear of losing if they invest. I understand that fear. I've seen a lot of people lose money due to poorly structured portfolios and bad decisions. But consider that while a well-structured portfolio is likely to fluctuate in value, time tends to reward those who ride out the dips. Whereas, those who fail to prudently invest out of fear of fluctuations tend to be left farther and farther behind by a rising cost of living. Yes, periodic downward fluctuations in markets occur; but so do periodic upward fluctuations. Nobody seems to mind the upward fluctuations that are more frequent. And you can't realistically expect the upward performance without being willing to ride out the occasional downward dips. Often a key difference between success and failure can amount to having perspective.

According to studies by Ibbotson Associates, stocks in a well-diversified portfolio have historically outperformed bonds, cash, or cash equivalents. During the 85-year period from 1926 to 2010, studies documented in their book *Stocks, Bonds, Bills, and Inflation: 2010 Yearbook*, show that Large Company Stocks have provided investors an annualized average return of 9.87%, which amounted to 6.67% above inflation, far and away better than the returns for bonds and, of course, cash. Why did stocks provide higher returns over the long haul? Stocks are perceived to have higher risk than bonds, or cash, though long-term bonds can have stock-market-like volatility, albeit with lower historical

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Important:
Workshop coming up! See Louisiana News for details!

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Louisiana News

COMPLIMENTARY PUBLIC WORKSHOP

TUESDAY
March 4, 2014

Shreve Memorial Library
Broadmoor Branch
1212 Captain Shreve Drive
(One block north of East Preston)

10 am / S.A.F.E. Planning : Don't Lose Your Home & Savings To Pay For A Nursing Home

☐ **Please call ahead to make your reservation! (318) 869-3133**
Ask about our RAM Workshop
Invite friends, family members, and anyone you care about to attend our workshops. This is important to everyone who wants to protect an estate from devastating nursing home costs and / or costly investing mistakes.

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Risk *continued from front*

returns. Investors in stocks expect to be rewarded for their willingness to put up with volatility. Otherwise, why put up with markets sometimes going down if the long-term rewards aren't enough to more than assuage the periodic short-term groans? Inflation tends to reward stocks over time as it tends to punish bonds and cash. I believe much of what people consider risk, is simply market volatility and failure to understand the ebb and flow of world commerce.

If you can't hide from risk and inflation over the long-term, why not seek payment for putting up with it, that is, as an alternative to losing purchasing power? A key function of a portfolio manager should be to allocate investments among multiple asset classes to help manage risk and volatility more effectively through diversification. It's also important to avoid excessive trading and hidden fees. The goal should be to achieve real returns (returns above the rate of inflation) for a level of volatility an investor can be comfortable with. An added bonus is a portfolio manager offering ongoing education for clients, on a monthly basis, to gain a growing appreciation for risk and the generous rewards for not hiding from it.

Ric Cochran writes articles and speaks to groups about investing for everyday people. He's an investor coach at RAM.

Investment advisory services are offered through Rainey Asset Management, a Louisiana registered investment adviser. Past performance is not indicative of future results.

Jane was driving her car to the mall and while stopped at a red light, the car just died. It was a busy intersection and the traffic behind her was starting to pile up. The guy in the car directly behind her was honking his horn continuously as Jane continued to try getting her car to start up again.

Finally, Jane got out of her car and approached the guy in the car behind her. "I can't get my car started," Jane said, smiling. "Would you be a sweetheart and go see if you can get it started for me? I'll stay here in your car and blow the horn for you."

Getting old is tough! I used to wake up feeling like a million bucks. Now, I wake up feeling more like a bounced check.