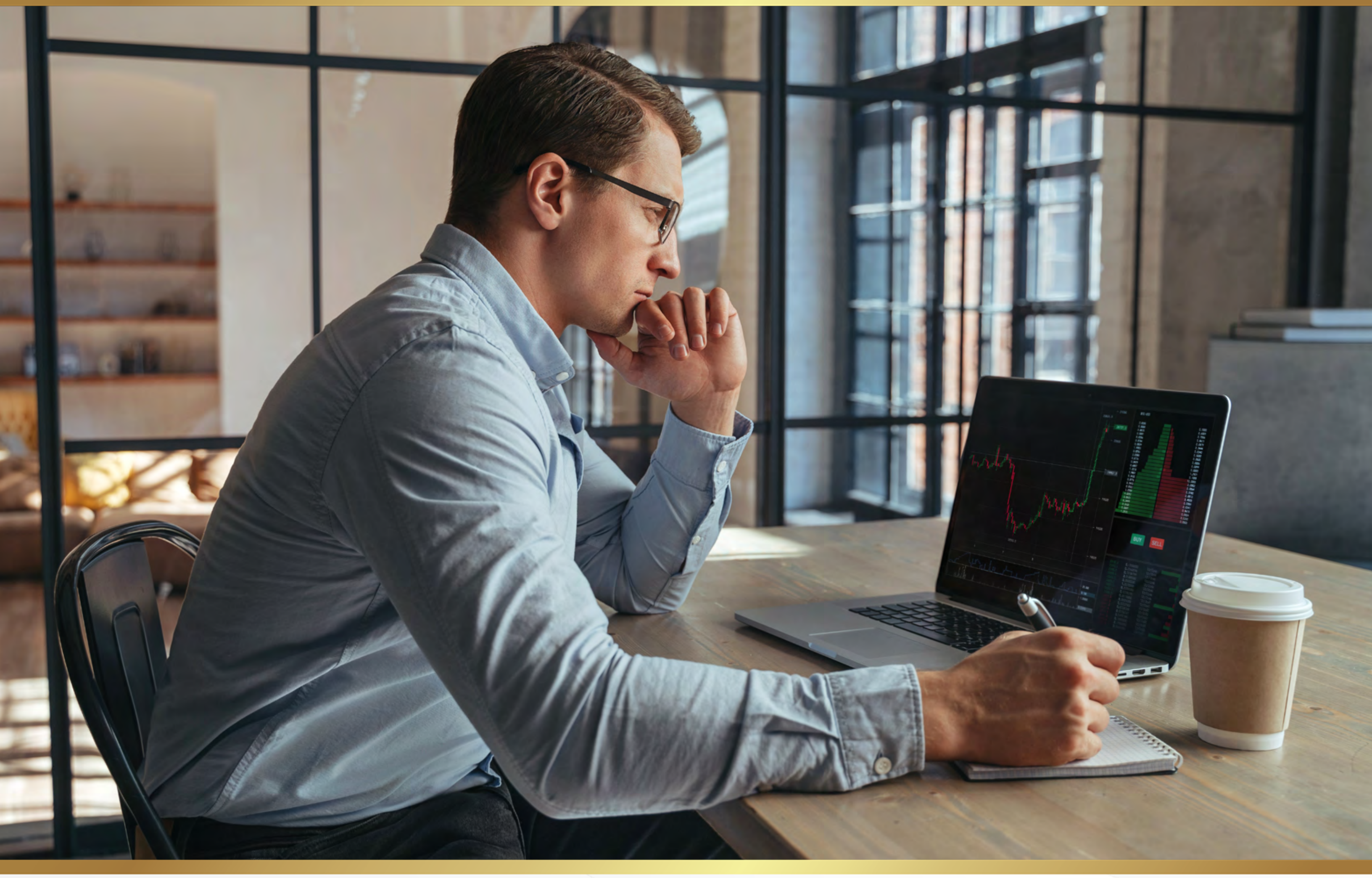
RISK TOLERANCE AND INVESTING FOR INCOME



WilLo Financial Group

INVESTMENTS AND INCOME STRATEGIES

Risk Tolerance and Investing for Income

Risk tolerance is one of the most important ingredients in creating a retirement plan that's right for you. That's why understanding risk tolerance and how to accurately determine your own is so important. Some people are naturally wired to take risks. Others are wired to avoid risk as much as possible. In terms of investing, risk tolerance relates to your ability to withstand losses. If you're investing for growth in the stock market, for instance, how much portfolio shrinkage can you take before you feel the effects financially and/or emotionally?

Knowing your risk tolerance is important in deciding how aggressive or conservative you want your portfolio to be. Simply stated, if your risk tolerance is high, you'll probably invest more aggressively. If it's low, you'll be more conservative. But it's not that simple. There are two important things to understand about risk tolerance right off the bat. One, it changes. And two, your mental wiring is only one determining factor. Other factors include:

Your age and stage of life: If you're in your 30s or 40s, in the "growth-and-accumulation stage," you might be willing to take more risk than you're naturally comfortable with. If you're in your mid-60s, you might take less risk than you instinctively want to. That makes sense because when you're younger, you have time to recover from a major financial loss. But as you get older that time is no longer available, and a major loss becomes a bigger threat to your retirement goals.

Your retirement timeline: If you're 60 and plan to retire in five years, you may want to start getting more conservative now. If you're 60 and don't plan to retire for another 10 years, you might want to remain slightly more aggressive for a while longer.

Your savings: Another factor is the size of your nest egg. If you've got $4 million saved, you'll probably feel you can afford to take more risk than someone who has less than $1 million. This one is tricky, though, because having more savings doesn't necessarily mean it's okay to take more risk. In fact, the opposite can be true. You might need to take a little more risk for a time if the amount of your savings is smaller, and if it's bigger you might run the risk of getting complacent and taking more risk than you should be.

Your goals: As with every other aspect of your retirement plan, your individual retirement goals play an important role in determining your risk tolerance. Do your goals include making a major purchase? Do you want to leave a big inheritance? Or do you want a more reliable income to maintain your standard of living and enjoy your favorite activities?

The markets: As noted, your risk tolerance changes. One factor that may prompt it to change is the status of the financial markets. Certain market conditions may prompt you to want to take more or less risk. But this issue is also tricky because most people invest through the rearview mirror. So, while a soaring market could be a temptation to take more risk, it might better be seen as a warning to take less. Conversely, a down market could tempt you to be more conservative when it might better be seen as a buying opportunity and a good time to be more aggressive.

Know All Your Options

As noted, knowing your own risk tolerance is important in determining how aggressive or conservative you want your asset allocation to be. As most people know, certain financial tools and strategies are considered aggressive, which are the riskiest. Options with somewhat less risk would fall into the moderate category, while the least risky choices would be categorized as conservative. The chart below illustrates this breakdown in more detail. The conservative and moderate options on the left and in the middle make up the universe of income-generating investment tools. The aggressive options on the right are mostly growth-based, with some income-generating opportunities.

Conservative	Moderate	Aggressive
Certificate of Deposit	Corporate Bonds	Common Stocks
Government Bonds	Preferred Stock	Stock Mutual Funds
Fixed Annuities	R.E.I.T.s	Commodities
Indexed Annuities		

The sad fact is that many people stay largely in the aggressive column straight through retirement simply because they don't know enough about the other options. They don't realize how these conservative and moderate options can be managed by the right advisor to help ensure not only reliable income return, but also the potential for continued portfolio growth with less risk through strategic reinvestment. There is also a misconception that the income model is strictly for people with low risk tolerance. This is false. Investing for income today has strategies for investors of all risk tolerance levels. For most people, a good time to take a fresh look at your risk tolerance as it relates to your investment allocation is in your late 50s or early 60s. This is the time when you are transitioning from the "growth and accumulation" stage of financial planning to the "income stage," meaning that you'll probably need your assets to start generating income within 10 to 15 years.

Take Action!

Determining your risk tolerance at different stages of life is more than just knowing how much you do or don't like taking risks. It's about considering your stage of life, retirement timeline, savings, the markets, and, most importantly, your specific retirement goals. It's also about understanding that risk tolerance changes, and that it's important to revisit your strategy regularly. And, of course, it's important to know that the universe of income-generating financial options today is diverse and dynamic and includes strategies right for every risk tolerance level and every situation, including yours!

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