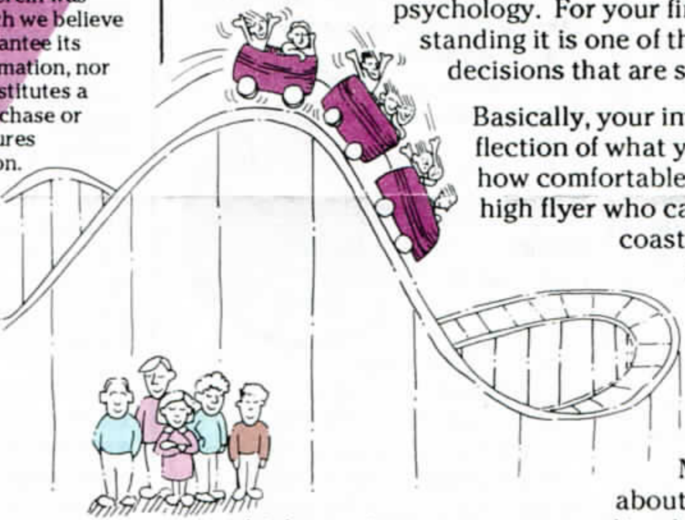
A Quarterly Newsletter
For Plan Participants

January 1990

Perspectives

What Kind of Investor Are You?

Freud never talked about it, and it won't help you pass a Rorschach test, but your investment personality is an important part of your total psychology. For your financial well-being, understanding it is one of the keys to making investment decisions that are suitable for you.



Basically, your investment personality is a reflection of what your financial goals are and how comfortable you are with risk. Are you a high flyer who can take the thrills of a roller coaster ride hoping for a big payoff? Or do you like the view only from the ground floor? Or somewhere in between?

Maybe you think you already know the answer. Maybe you've never thought about it, or are unsure. Or maybe you think your investment personality should change with the situation. Whatever the case, this issue of *Perspectives* can help you clarify your ideas by looking at the factors that can help you understand what kind of investor you are.

Three Basic Types

Investment personalities, or temperaments, can generally be divided into three categories, each with a different type of investment objective and level of comfort with risk:

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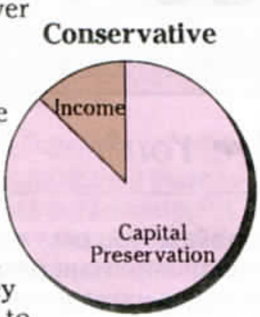
Please Note:

Merrill Lynch

• Conservative Risk Investors. These are people who, above all, want to make sure that the money they originally invested is there whenever they want it.

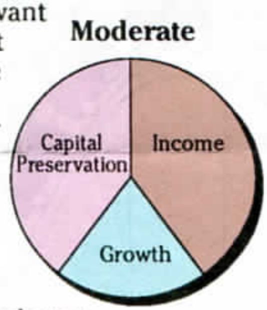


As a result, they gravitate toward investments they believe offer low levels of risk. In return, they are prepared to accept lower levels of return than may be possible through higher-risk investments. Typically, these investors are looking for investment income, that is, interest or dividends earned by solid, conservative investments.

• Aggressive Risk Investors. The opposite of conservative risk investors, these are people who are willing to assume a relatively large degree of risk in hopes of realizing large gains.

These investors generally seek growth, that is, an increase in the market value of their investment. They are impatient with the lower returns of lower risk investments, and willingly accept the risk that they might lose some or all of their original investment. Ups and downs in the value of their original investment can make a bumpy flight, but this investor accepts them as the price for the potential for the higher rate returns typical of a growth objective.

• Moderate Risk Investors. These are the "Great In-Betweeners" – in between the characteristics of the other two types. Moderate risk investors want some assurances that their original investment will be there when they want it, but not at the expense of potentially higher returns.



On the other hand, moderate risk investors don't feel comfortable with relatively low returns, but they're not willing to take all the risk necessary to try to achieve the highest returns, either. They typically seek investments or a mix of investments that produces total return, or a combination of income and growth.

It's a safe guess that most people fall into this middle category. But within this group, there is an almost infinite number of types, all willing to take a little more or a little less risk than another person in this group in exchange for somewhat higher or lower returns.

Your Plan Investments

To make investments you feel comfortable with, you've got to select a mix of investments that appears to match your investment personality. It's important to note, however, that the range of investments available through your Plan is probably limited, and that – with the possible exception of the option to invest in a particular stock* – you probably don't have the opportunity to make some of the highest risk investments. Such investments include venture capital, real estate development projects and precious metals.

Instead, for the most part, your Plan features investments that fall on the low to moderate side of risk. These may include mutual funds and fixed-income investments.

Remember, though, that taking greater risks doesn't necessarily mean you'll get higher returns. For example, a specific aggressive growth stock mutual fund might actually give you a lower total return (dividends and capital appreciation) than a more conservative stock fund, or other types of investments that take on less risk — especially over a

* The risk posed by a particular stock can vary from moderate to high, depending primarily upon the strengths of the issuing company, the industry in which it operates and the state of the economy.

short period of time, or during an adverse economic climate.

How Much Risk can You Afford?

There are two questions to ask to help you determine your tolerance for risk. The first is, how much risk can you afford to take? To answer that you've got to consider a number of factors in your life, including your age, your other financial assets, your income and prospects for income growth, your financial responsibilities and others.

• **Age:** How old you are can affect your tolerance for risk, because it determines how much time you may have to compensate for investment losses. An investment that loses value in the short term may recover its value over a longer period of time and grow well beyond the price you are paid for it.

If you're young, you may be able to wait for the possibility of that type of recovery. But if you're nearing retirement, short-term losses could give you less to draw upon when you retire.

• **Responsibilities:** How much risk you can afford to take depends in part of how much income you have left after covering your personal expenses, supporting a family, securing proper insurance coverage and setting up a cash fund to cover emergencies. If you think you may need to draw upon your investments for any of these categories, you may need to keep your investment risk on the conservative side.

• **Income:** Generally, the more money you make the more you can afford to take risks with your investments. That's because your flow of income can quickly replace any investment losses.

For the same reason, your future earning power also is a factor. If you expect your income to grow in the years ahead, you may also be able to accept more investment risk.

• **Assets:** Your company's retirement plan is just one place in which you may have financial resources for your retirement. Social Security, a pension, personal savings and investment, real estate and IRA – all of these figure into your financial picture. The larger your base of financial assets compared to your current and future needs, the more you can generally afford to take investment risk.

How much risk you want to take with investments in your company's Plan is also affected by how your other assets are invested. If they are invested conservatively, you might be able to take more risk with your Plan assets; if they're in higher-risk investments, you may want to be more conservative with your Plan investments.

Can You "Take" Taking It?

Apart from how much risk you can afford, you also need to determine how much risk you can tolerate psychologically, because the two are not necessarily the same.

Say you've got twenty years to retire. You have all your current and future financial bases well covered, and a text-book analysis of your financial condition says you can afford to take some investment risk. The critical factor in your investment personality may still be whether you are comfortable watching the value of an investment go up and down.

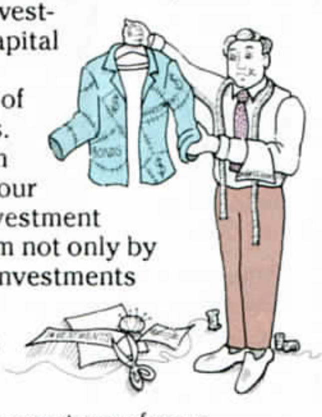
Some people, no matter how affluent, never get used to the roller coaster ride that some investments bring. As a result, they stay with relatively more conservative investments, even at the expense of giving up the opportunity for higher investment returns. Paying attention to your gut-level reactions to fluctuations in the value of an investment is an important factor to consider in assessing your investment personality.

Putting It All Together

Once you've determined your own investment personality, it's time to translate that into an investment program, or how much you invest and what you invest it in.

Your company's Plan has several investment choices available, each with a different set of characteristics. Some may emphasize stability of your original investment, some aim for income and some may offer the potential for growth.

Most financial advisors recommend that people diversify their investments, that is, spread their investment capital over a variety of choices. You can tailor your own investment program not only by which investments you choose, but by the exact percentage of your total investment you allocate to each. By fine-tuning those percentages, you can help shape an investment portfolio to your own unique investment personality.



The next issue of *Perspectives* will focus on how to make those kinds of investment selections.