WHEN IS STABLE VALUE TOO STABLE?

INVESTING ONLY IN STABLE VALUE IS MORE RISKY THAN YOU MIGHT THINK

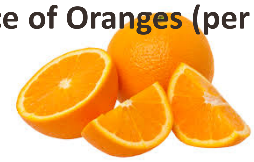
There is a strong relationship between risk and return. Often times, the more risk an investor takes on, the more returns they can expect from their investments over time (though there are no guarantees).

Stable value investments are designed to fit the opposite side of the risk/return relationship – taking on very little risk, while providing a small return. If you're a very conservative investor, stable value might be your go-to investment. But what you may not know is that investing too heavily in stable value can actually cause your savings to *lose* value over time.

INFLATION REDUCES YOUR BUYING POWER

One force that works against your retirement savings is **inflation** – the rate that your money loses buying power. **This is the why the things we buy become gradually more expensive.** If you are saving money today that you will draw on in retirement 10 or 20 years from now, there is plenty of time for that money to lose value due to inflation. Just look at how much the price of oranges has risen in the US in the past 20 years:[1]

Price of Oranges (per lb.)



March 2000	March 2010	March 2020
$0.57	$0.86 (51% more)	$1.17 (105% more)

STABLE VALUE INVESTMENTS MAY NOT KEEP UP WITH INFLATION

The problem with stable value investments is that they can struggle to keep pace with inflation, meaning you could actually lose value over time, even if the actual amount of savings in your retirement account increases. Let's say you invested $1,000 in a stable value fund with an average annual growth rate of 2%. In 20 years, your savings would have grown to $1,486. That seems okay, but it's not so great when you consider that prices in the US double about every 20 years.[2] Your $1,486 would only be able to buy about $743 worth of goods compared to 20 years earlier. **Your savings would have grown, but lost buying power**.

INCREASING INVESTMENT RISK CAN HELP OVERCOME INFLATION

One way to overcome inflation is to increase your investment risk enough to raise your average annual return. You can do this by investing in bonds and stocks in addition to stable value. If you're not sure how to do this in your retirement plan, reach out to a BerganKDV advisor for investment advice at no additional cost to you.

[1]Charts related to the latest "Consumer Price Index" news release | More chart packages. (n.d.). Retrieved May 04, 2020, from https://www.bls.gov/charts/consumer-price-index/consumer-price-index-average-price-data.htm
[2]McMahon, T. (2014, April 01). What is Quantitative Tightening? Retrieved May 04, 2020, from https://inflationdata.com/Inflation/Inflation_Rate/Long_Term_Inflation.asp
No investment strategy, such as asset allocation or diversification, can guarantee a profit or completely protect against loss.

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