Risk tolerance and risk capacity: Understanding both sides of your risk profile

As all investors know, risk is a fundamental part of investing. Your risk profile is an important factor in determining your financial well-being. It can affect how you make investment decisions, the kind of investments you include in your portfolio and how confident you feel about reaching your goals.

Your risk profile consists of two components.

Risk tolerance is a measure of the amount of risk you're comfortable assuming and the amount of uncertainty you're willing to accept.

Younger investors are typically more risk-tolerant than older investors because they have more time to recover from market downturns.

Risk capacity is an objective measure of the risk you're capable of taking to reach your financial goals.

This number can be estimated by taking the total amount of your investments and calculating the rate of return you expect to receive within the time frame available to you.

The two varieties of risk work together.

Risk tolerance

- An emotional decision
- Influenced by factors such as your age, temperament and investing experience
- Anticipatory — how you react to future market fluctuations and volatility

How much risk are you willing to take on?

Risk profile

Risk capacity

- An objective decision
- Influenced by factors such as your current financial status, number of dependents and income needs
- Quantifiable — run the calculations

How much risk is necessary to reach your goals?

Discussing your goals and objectives with your financial advisor will help you determine what your risk profile is.

About fixed indexed annuities

When evaluating the purchase of a fixed indexed annuity, you should be aware that fixed indexed annuities are not a stock market investment and do not directly participate in any stock or equity investment. A fixed indexed annuity may be appropriate for those who want the opportunity to capture upside potential while having a level of protection from market downturns.

Withdrawals taken before age 59½ may incur a 10% early withdrawal federal tax penalty in addition to ordinary income taxes; withdrawals may trigger surrender charges and reduce your death benefit and contract value. Please keep in mind that annuities have limitations, as they are designed for long-term retirement goals.

All guarantees and protections are subject to the claims-paying ability of the issuing insurance company. Federal tax laws are complex and subject to change. The information in this brochure is based on current interpretations of the law. Nationwide doesn't offer tax advice. Please talk with your attorney or tax advisor for answers to specific questions.

This material is not a recommendation to buy or sell a financial product or to adopt an investment strategy. Investors should discuss their specific situation with their financial professional.

Fixed indexed annuities have the potential to make a difference

Fixed indexed annuities provide principal protection in a down market and opportunities for growth, which may help mitigate risk. Specifically, fixed indexed annuities provide:

- **Protection from negative returns returns**
  The money invested in a fixed indexed annuity and any earnings credited will not be lost due to a negative market.
- **Opportunity for growth**
  An investment in a fixed indexed annuity has the potential to grow based on the performance of a market index or indexes; this provides more growth potential than a fixed annuity but less growth potential and risk than a variable annuity.
- **Guaranteed lifetime income**
  Some fixed indexed annuities feature optional living benefit riders that can ensure a lifetime stream of income that cannot be outlived.[1]
- **Tax advantages**
  The value of a fixed indexed annuity grows tax deferred, so investors won't pay taxes on any growth until they take a withdrawal.
- **Mitigating the impact of inflation**
  Fixed indexed annuities are designed to help outpace inflation.
  > Returns are tied to the performance of a market index, so they have the potential to beat the average rate of inflation.

  > Investors can use multiple contracts and a laddering strategy to align their guaranteed income with increases in inflation.

[1] Returns are based on the performance of an underlying index, such as the S&P 500® Composite Stock Price Index. While the benchmark index does follow the market, an investor's money is never directly exposed to the stock market.

WHAT'S NEXT?

To learn more about how a fixed indexed annuity can help address risk, talk to your financial professional.

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Annuities have limitations. They are long-term vehicles designed for retirement purposes. They are not intended to replace emergency funds, to be used as income for day-to-day expenses or to fund short-term savings goals.

Guarantees and protections are subject to the claims-paying ability of the issuing insurance company. If you take withdrawals before you're age 59½, you may have to pay a 10% early withdrawal federal tax penalty in addition to ordinary income taxes. Withdrawals may trigger early surrender charges and reduce your death benefit and contract value.

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