

## ASSET ALLOCATION AND PORTFOLIO DIVERSIFICATION

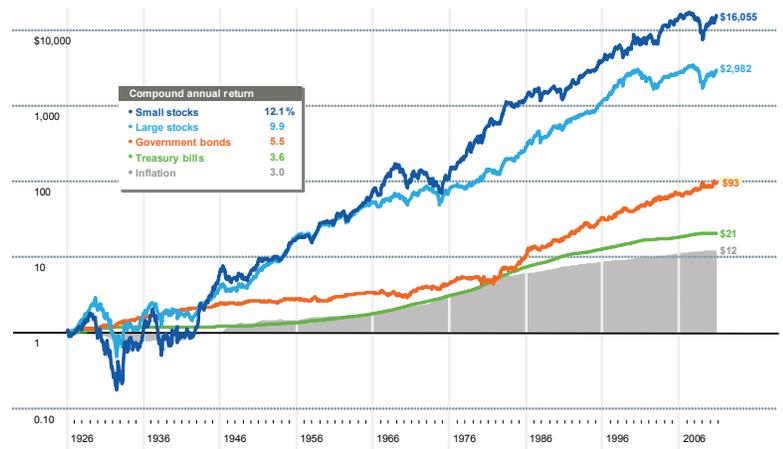
Asset allocation and portfolio diversification involve dividing an investment portfolio among different asset classes, styles and percentages. The process of determining which mix of assets to hold in your portfolio is a very personal one. The plan that works best for you at any given point in your life will depend largely on your time horizon and your ability to tolerate risk.

Before undertaking any investment strategy you must consider and understand a wide range of factors. Among the most important decisions to keep in mind are asset class return and risk, and the benefits and power of diversification.

### UNDERSTANDING ASSET CLASSES

There are literally hundreds of separate and distinct asset classes available and more are constantly being proposed. There are varying levels of risk and reward for each. Putting the right asset classes together to meet your goals is key in building a suitable portfolio to meet your needs. Making asset allocation decisions is more complex than just choosing between stocks, bonds or cash.

As shown on the right, an 84-year examination of past capital market returns provides historical insight into the performance characteristics of various asset classes. This graph illustrates the hypothetical growth of inflation and a \$1 investment in four traditional asset classes over the time period January 1, 1926, through December 31, 2010.



#### Asset Class Investing Lets You Control Your Investments

- Using mutual funds lets you take control of your asset allocation.
- By controlling your asset allocation you can consider other retirement accounts and set an overall allocation for your retirement funds.
- You have the ability to use only one fund and be as conservative or aggressive as suits your needs.

**Past performance is no guarantee of future results.** Hypothetical value of \$1 invested at the beginning of 1926. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.



## THE BENEFITS AND POWER OF DIVERSIFICATION

It has been proven that the most effective way to manage risk is to diversify investments across a number of asset classes. Diversification allows you to create a portfolio with reduced risk and greater return potential.

Each individual asset class:

- Has its own risk and return characteristics
- Behaves differently under various economic conditions
- Goes through market cycles

By utilizing some combination of both stocks and bonds you can develop a more diversified portfolio. However, you need to consider the style of investing as well.

### Style

What is the difference between a growth stock and a value stock? You've heard the terms in regards to value and growth investing, but you may not be sure what they exactly mean.

There are no hard, set definitions of growth and value stocks. But you will find that there are some criteria that generally define these different stocks.

Growth Stocks	Value Stocks
<ul style="list-style-type: none"> <li>• Earnings tend to grow at a faster rate than U.S. economy</li> <li>• Often trade at higher prices</li> </ul>	<ul style="list-style-type: none"> <li>• Undervalued by the market</li> <li>• Often trade at lower prices</li> </ul>

Growth and value are not just investing methods, but they are a way for investors to narrow the stocks they will invest in. History has shown us that they tend to take turns. There are periods when growth stocks do well, and other periods in which value stocks excel. The best investment strategy for the average investor is to hold both in a diversified portfolio.

In addition to the differences between the asset classes, today's investor is also faced with huge differences within the universe of stocks and bonds. The asset allocation process can help you decide what percentages of growth stocks and value stocks afford you the best way to achieve your investment goals.

A number of recent studies have shown that a portfolio's asset allocation strategy:

- Is the driving force behind portfolio performance
- Accounts for more than 90% of the variation in overall returns over a period of time

This is far greater than the effects of both security selection and market timing combined.



## CONCLUSION

Having an appreciation for the benefits of diversifying your assets and managing volatility is very important. You can work to minimize risk and maximize performance by determining the correct asset mix and investment vehicles appropriate for your retirement strategy.

