

# How to Invest

## The Importance of Asset Allocation

Retirement Strategies Group

retirement made simple

One way to help protect yourself from market ups and downs is to develop an asset allocation strategy. Asset allocation is the process of spreading your investments among different asset classes: stocks, bonds, and short-term investments such as cash.

Your money is too important to invest without a strategy. That's why it's critical to analyze your goals and your current situation before you make your next investment decision. Though the term sounds complicated, "asset allocation" means dividing up your investments among the different asset classes in a way that makes sense for you. You should consider an asset allocation strategy that matches your unique financial needs, comfort with investment risk, and time frame for when you're planning to retire. In fact, the right asset allocation can help you maintain your confidence through economic ups and downs and may even increase your potential for better returns over time. Keep in mind that neither diversification nor asset allocation ensures a profit or guarantees against loss.

When it comes to choosing how your savings are invested, be careful not to possibly shortchange your interests by leaving long-term assets in highly conservative choices. Be sure to balance your need for growth, income, and safety.

If you are further from retirement, a portfolio with a higher allocation of stocks or stock funds may be appropriate. More aggressive asset mixes with higher equity allocations focus on capital appreciation. As you near retirement, however, you may want to gradually shift toward more conservative investments, such as bond or money market funds. A conservative mix

focuses more on the preservation of your assets.

Even in retirement, though, it's important to find a balance between growth and preservation, especially during your early retirement years — keep in mind that your retirement is likely to span thirty years or so\*. Consider keeping some of your money invested in stocks or stock funds, which will allow your assets to grow both to support the later years of your retirement and to keep pace with inflation.

The sample target asset mixes on the next page show some asset allocation strategies that blend stock, bond, and short-term investments to achieve different levels of risk and return potential.

(See chart on reverse.)

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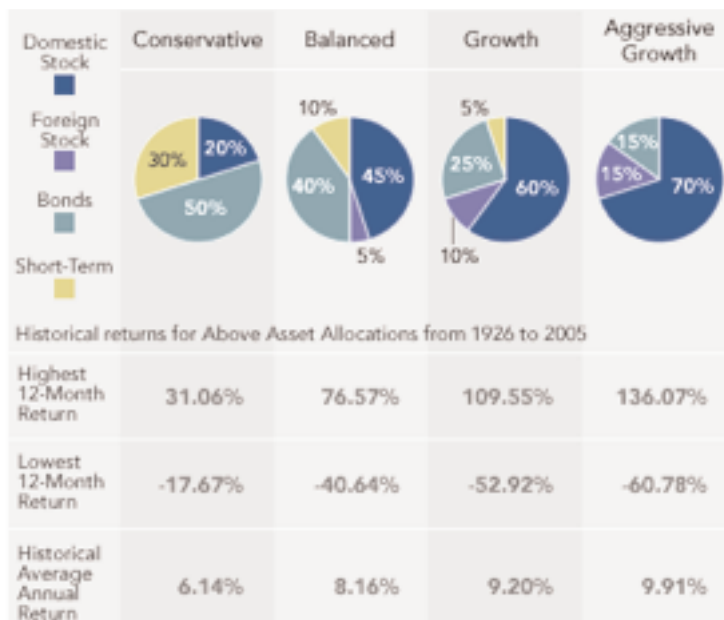
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### Mixing Asset Classes Can Help Moderate Risk

\*Source: 2000 Individual Annuitant Mortality Table, provided by the Society of Actuaries.



The allocation that is appropriate for you depends on several factors:

- Your time horizon, or when you will need to start tapping into your savings
- Your tolerance for risk
- Your overall financial situation

### Diversification Within Asset Classes

Not putting all your eggs in one basket also applies to how you invest your portfolio within the major asset classes. Not only is it key for managing risk, but spreading your investments among many different holdings that represent a wide range of investment styles may improve the odds of your portfolio benefiting from a greater number of economic or market develop-

ments. Within your stock allocation, you may want to consider including U.S. and international markets, small- and large-companies, and growth and value investments. For bonds, diversification may entail investing in the investment-grade and high yield markets, for example. The general rule of diversification is that while some of your investment choices may falter, others may perform well, although neither asset allocation nor diversification ensures a profit or guarantees against loss.

One easy way to diversify is with multi-asset class funds, which in addition to providing diversification across asset classes also provide diversification within asset classes.