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WHEN IS RISK TOO MUCH?

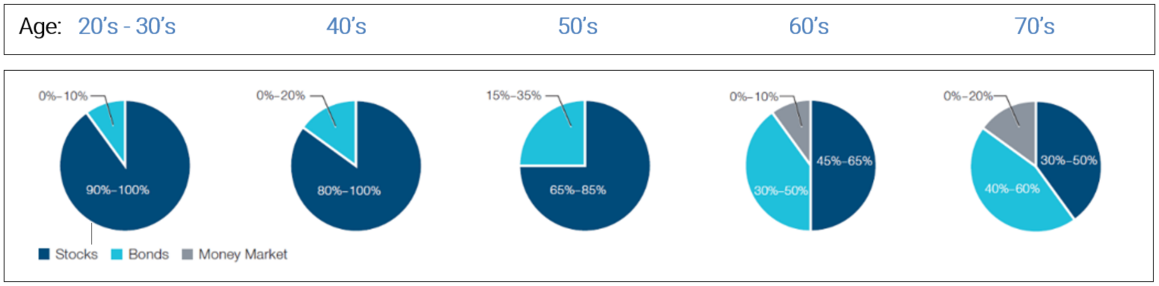
What is Asset Allocation?

In its simplest form, asset allocation is how you decide to divide your investments amongst the three major asset classes (stocks, bonds, cash) Independent studies have shown that this decision is representative of over 90% of the potential investment return of a diversified portfolio. In addition to this, individual investment selection and timing have very little influence on the performance of a long-term portfolio.

Why is it Important?

Asset allocation and diversification are key components of your portfolio. As you get closer to retirement, it becomes increasingly important to shift a portion of your portfolio to more conservative investments like highly rated bonds and cash. This helps protect your savings for the distribution years. Keep a long-term perspective over your horizon as you approach retirement or when your circumstances change. If the idea of managing a properly allocated and diversified portfolio seems overwhelming, consider investment solutions that do it for you, such as managed portfolios, balanced funds or target date fund options.

Sample Asset Allocation by Age for Retirement



The pie charts provide an example of how an average investor, with a planned retirement age of 65, might allocate their investments. These allocation models are based purely upon the time horizon, so it should be noted that an investor may wish to be more aggressive or conservative than these models when factoring in their personal tolerance for investment risk.

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Time Horizon is Key

Historically, stocks have offered the highest returns of any major asset class over longer periods of time. While stocks also come with higher bouts of short-term volatility, retirement investors who are many years from retirement will have time to recover when the stock market dips. The longer your holding period, the more you may benefit from stocks. Bonds historically have had lower returns, on average, but less variability—especially over intermediate horizons. Cash has offered the lowest average returns but with the least amount of variability. Combining these asset classes allows you to manage that trade-off of growth potential with short-term volatility.

Investing in the stock market requires a long-term perspective. If you focus on the short term, it's easy to let emotions influence your investment decisions, as the market fluctuates frequently.

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