ASSET allocation GUIDE

Asset Allocation is the process you go through in deciding how to divide up, or allocate, your investment dollars among the various types of investments (called asset classes) offered through your retirement plan.

Now that you're ready to invest in your retirement future, it's important to get a feel for this process. Studies show that how you allocate your money has the greatest effect on your returns.

This guide will take you through the asset allocation process by:

- Introducing you to some common types of investments
- Educating you about the importance of diversification
- Making you aware of your feelings about risk
- Reviewing some general asset allocation models to help you visualize your own personal investment mix

STEP ONE:

WHAT kind OF investor ARE YOU?

Finding Your Balance

Creating an investment mix is how you decide to allocate, or divide, your assets or investment dollars. This guide introduces you to three factors of any investment mix, helps you understand your feelings about risk, and enables you to review a sample investment mix based on your personal investor profile.

When making your investment decisions, you should consider these three factors:

*Your **risk tolerance**—the amount of risk you can accept in order to obtain the returns you want.*
*Your **time horizon**—the amount of time your money remains invested.*
*Your **financial goal**—the amount of money you need to save to make your retirement dream a reality.*

The risk tolerance quiz that follows helps you gain a general understanding of your feelings about risk. By determining your risk tolerance level, and considering how long you have to invest, you can begin to create your own personal investment mix.

1. How many years do you have until retirement?

a. Less than five. (1 point)
b. Five to ten. (2 points)
c. More than ten. (3 points)

2. When it comes to making investment decisions, which of the following best describes you?

a. Not very knowledgeable. (1 point)
b. Very knowledgeable. (3 points)
c. Somewhat knowledgeable. (2 points)

3. Are you willing to take on more risk in exchange for potentially higher rates of return?

a. Yes. (3 points)
b. No. (1 point)
c. Not sure. (2 points)

4. When it comes to making investment decisions, which of the following best describes your philosophy?

a. I worry about losing my money and lean toward having a more conservative investment mix. (1 point)
b. I would not hesitate to take on higher risk because I know it's the only way to achieve potentially higher returns. (3 points)
c. I believe in taking my time and investigating all my options before making a decision. (2 points)

5. Which of the following best describes your current attitude toward investing for retirement?

a. I would like the opportunity for my retirement savings to grow, but am only comfortable with a medium amount of risk. (2 points)
b. I tend to worry that the value of my retirement savings will go down. (1 point)
c. I would like the opportunity for my retirement savings to grow as much as possible, and am willing to take on higher risk for potentially higher returns. (3 points)

Total Your Points Here:

Scoring System

5 - 8: Conservative. You are an investor who seeks stability and safety for your money. Remember, not having enough money when you retire is a big risk too. Keep in mind your time horizon and the impact inflation can have on your investments.

9 - 12: Moderate. You are an investor who likes to balance lower-risk investments with higher-risk investments. Evaluate your situation at least annually to make sure that this balance contains the right mix of lower-risk and higher-risk investments appropriate for your situation.

13 or Higher: Aggressive. You are an investor who is comfortable taking substantial risk in exchange for potentially higher returns. Evaluate your situation at least annually, stay focused on your time horizon, and modify your investment mix as your situation changes.

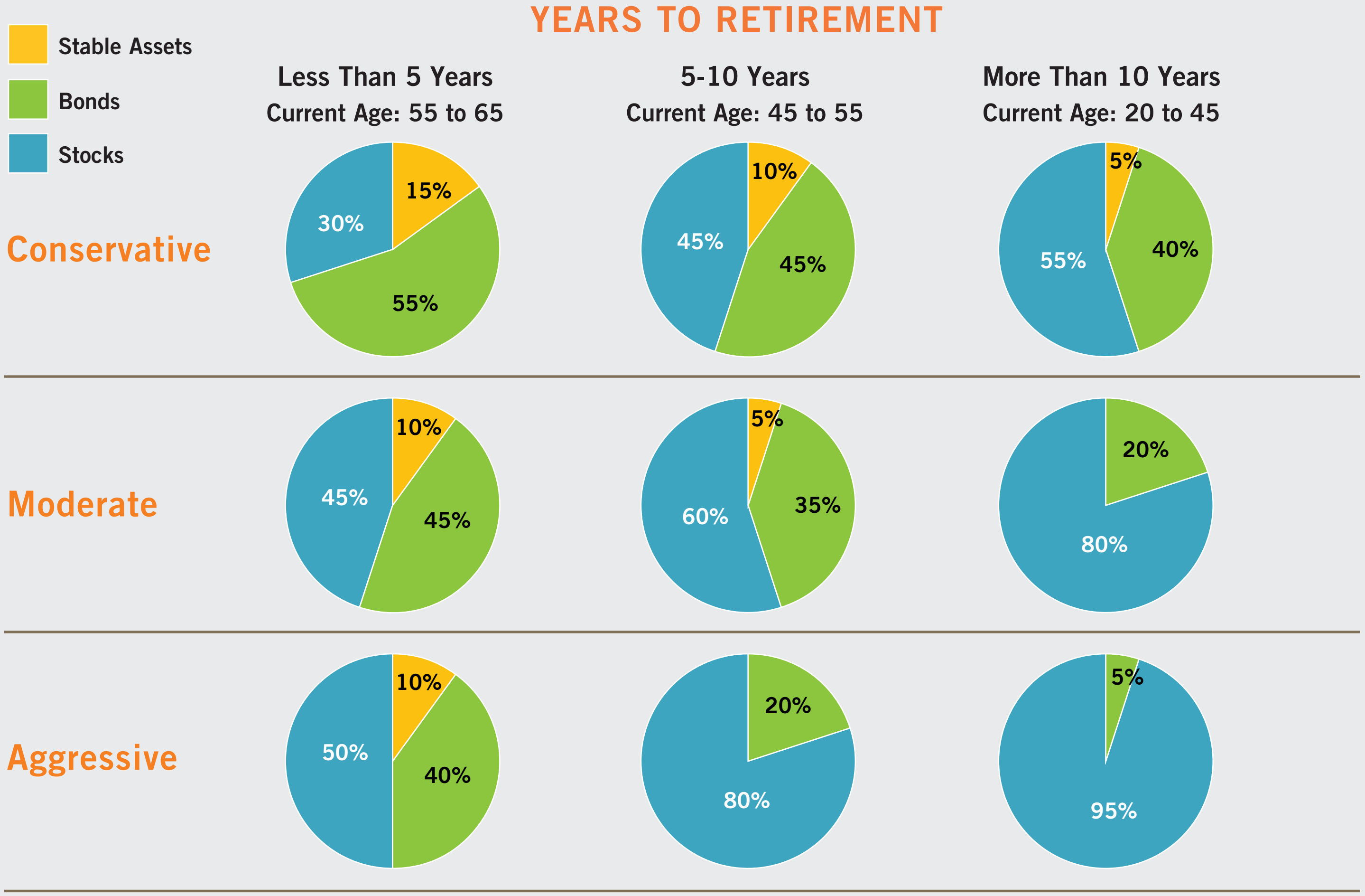
Based on your score, you are a(n) __________________ investor.

Studies show that your investment mix has the greatest effect on your returns. Many people think that obtaining good returns is about buying and selling at just the right time, or picking a hot stock. It's not. It's about choosing a mix that best balances risk and return while meeting your needs and then evaluating your mix over time.

STEP TWO:

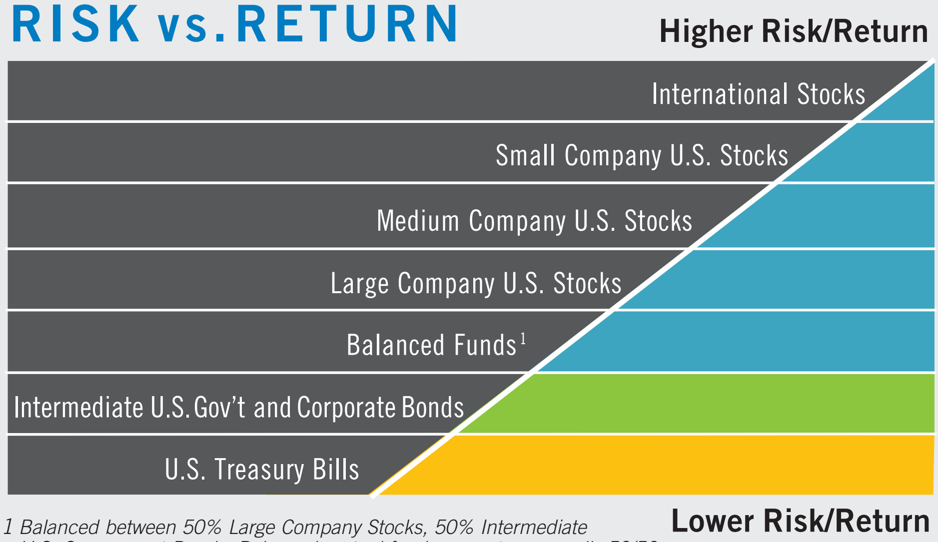
FIND YOUR investment mix

Find the model below that matches both your risk tolerance and years until retirement and circle it. You may wish to use this model as a starting point to create your own investment mix.



Allocations are examples only and should not be considered investment advice or as a recommendation of any specific investment product. Please consider your investment choices carefully and obtain and read the appropriate fund prospectuses before investing any money. You should choose your own investments based on your particular objectives and situation. Be sure to review your decisions periodically to make sure they are still consistent with your goals. You may wish to consult a financial advisor for more information.

RISK vs. RETURN



1 Balanced between 50% Large Company Stocks, 50% Intermediate U.S. Government Bonds. Balanced mutual funds are not necessarily 50/50.

Big Picture Perspective

Jan. 1, 1980 through Dec. 31, 2013

- **Stocks delivered an average annual return of about 13.92%.**
- **Bonds delivered an average annual return of about 8.42%.**
- **Cash equivalents delivered an average annual return of about 4.39%.**
- **Inflation has averaged about 3.00% a year.**

Source: Kmotion, Inc. Research

GET ON **track.**

Now you're ready to choose investments from your plan to create your own personal mix. As you do so, be sure to also consider all of your assets, income, and other investments. You may also wish to adjust your investment mix based on your answers to the following questions.

Q: How much money will I need in retirement?
A good starting point is 75%–100% of your current income. You may need more or less than that, depending on your lifestyle, healthcare needs, and other financial responsibilities.

Q: How long will I need a retirement income?
Advances in healthcare, nutrition, fitness, and medicine have helped to lengthen Americans' life spans. You may spend 20 or more years in retirement.

Q: How will different rates of return affect my savings?
One of the easiest ways to find out the effect of different rates of return is to use the **"The Rule of 72."** Start with 72 and divide by your annual rate of return. The answer is the number of years it will take to double your money.

The Rule of 72
How long will it take your investment to double?

Rate of Return	Rule of 72 (Years)
6%	12 Years
8%	9 Years
10%	7.2 Years
12%	6 Years

Q: How will inflation affect my savings?
The impact of inflation over many years can rob you of purchasing power and may require more growth-oriented investments than you think. Keep inflation in mind when choosing your investment mix.

Inflation's Impact

Item	1984	2014	2044
Gallon of Milk	$1.52	$3.35	$8.13
Postage Stamp	$.14	$.44	$1.07
Cup of Coffee	$.15	$1.55	$3.76
Gallon of Gas	$.66	$3.90	$9.47
Movie Ticket	$2.35	$9.00	$21.85
Mid-priced Car	$3,579	$25,000	$60,682

Sources: 1984 prices are based on the historical Consumer Price Index (U.S. city averages). 2014 prices are based on general averages. Projections for 2044 prices assume a 3% annual inflation rate.

Make Regular Adjustments To Your Mix

As you near retirement or as you experience changes in your life, your ability to tolerate risk may change. Consider rebalancing your mix to be sure your risk level matches your personal situation.

Understand Investment Risk

Business risk is the risk that an investment may lose value because a particular company or industry hits the skids. The technology stock crash of 2000 is a good example. To minimize this risk, invest in mutual funds that focus on different industries, and limit the amount of any individual stock you own, such as company stock.

Market risk is the chance that the value of your investments will decrease in the financial markets. Keeping a portion of your money in non-equity investments such as bonds or stable value funds helps minimize this risk.

Inflation risk is the likelihood your investments won't keep pace with inflation (the rise of the cost of living). Historically, the consumer price index has risen an average of 3% each year or so. This risk is best countered with an asset allocation weighted with stock funds, which historically have outpaced inflation.

Interest rate risk is a common risk faced by bond investors, who may see a drop in the value of their investments when interest rates rise. Again, keeping some of your money in stock funds can help counteract this risk.

International risk is faced by foreign or global fund investors who may see the value of their investments decline in the face of political, economic or currency instability in foreign markets. Minimize this risk by investing in multiple foreign markets, in addition to the U.S. markets.

Longevity risk is the chance you may outlive your money. Because of this, it is important to invest in stocks as part of your long-term investment mix, because stocks can outpace the long term rate of inflation and potentially produce higher returns.

It's About Strategy

Carefully review and consider the investor profile you determined for yourself and the general asset allocation models. Don't forget to review your diversification mix on an annual basis to make sure it best suits your financial situation and goals.