AUTOMATIC REBALANCING OF FUNDS ON 401SAVE.COM

After you have logged onto 401Save.com, click on the following on the site:

- *Transactions*
- *Transfer Existing Savings*
- *Select Transfer Type – select Schedule*
- *Start date (or cancel date if you are trying to cancel)-enter date*
- *Frequency – options are Monthly, Quarterly, Semi-Annual, Annual. Select the frequency.*
- *Type –select rebalance*
- *Click Submit after you are done with the above selections.*
- *Click Confirm after reviewing what you have entered (if everything appears correctly).*

Note that you will receive an email confirmation notification only if you have signed up for email notification on the site.

If there are any questions, contact the 401Save Call Center at 1-888-700-0808 7 a.m. to 5 p.m. Pacific Time, Monday to Friday.

Asset Allocation

What is asset allocation?

One of the most important decisions for your investment portfolio is your choice of asset allocation. Asset allocation simply means determining how much you should invest in each of a variety of asset categories, such as equities , cash or cash alternative investments , bonds , real estate , foreign securities, and possibly even precious metals and collectibles . How you allocate your assets depends on several factors, including your investment objectives , attitudes toward risk and investing, desired return, age, income, tax bracket, time horizon, and even your belief in what the market will do in the near term and long term.

Example(s): *Let's say your investment objective is substantial asset growth, you have a 10- to 15-year horizon, and you are willing to assume a high amount of risk. You might choose to place a larger percentage of your funds in stocks of newer, growing companies that may offer higher return but involve a greater degree of risk. In contrast, another investor with a 5-year time horizon, whose objective is preservation of principal and who doesn't want substantial risk, may invest more heavily in government or banking instruments. Your asset mix, the specific investments you choose within each asset category, and the timing of your investments all play a part in your overall return.*

The underlying principle in asset allocation is the documented observation that different broad categories of investments have shown varying rates of return and levels of price volatility over time. By diversifying your investments over asset classes, you potentially reduce risk and volatility. Downturns in one investment class may be tempered (or even offset) by favorable returns in another. Just as using different asset categories within a portfolio has the potential to reduce your risk, your choice of individual assets within a class can do the same. For instance, choosing stocks from different industries (e.g., automotive, high technology, retail, or utilities) within your stock allocation can be less risky than investing all of your stock allocation in one industry or company.

Caution: *It is important to note that asset allocation does not guarantee a profit or protect against loss in a declining market. Asset allocation is a method used to help manage risk. All investing involves risk, including the potential loss of principal, and there is no guarantee that any investing strategy will be successful.*

Generally, the higher the expected return on an investment, the higher the risk involved in trying for that return. The longer your investment time horizon, the more volatility you may be able to handle, allocating more of your investment to higher-risk (aggressive) assets. With a longer-term investment horizon, you have a better opportunity to ride out several economic cycles. A shorter time frame usually requires a more conservative approach because you have less time to try to recuperate from a market downturn. In that case, you may want to reallocate investments into a lower volatility mix of asset classes as the time approaches to convert your investments to cash for a particular goal.

Monitoring and rebalancing your asset allocation

The major reason you engage in asset allocation is to achieve certain investment objectives. However, even if your current asset allocation is appropriate, it shouldn't necessarily remain static forever. Your asset allocation may change over time; what was appropriate in the past may not be right today, and what works today may not be appropriate for you in the future. This can be the result of a variety of factors, including:

- Changes in your investment objectives and the priority you place on each one
- Economic fluctuations that suggest allocating more of your portfolio to a certain asset class
- Growth or decline within asset classes that require a rebalancing (shifting funds from one asset class to another to return to the ratios you have determined are appropriate for your investment portfolio).

Any of these factors can mean it makes sense to reexamine your asset allocation to see if it needs to change also. For this reason, it is important to monitor your asset allocation periodically and rebalance your portfolio as needed.

Example(s): *Let's say that on January 1, you determined that your assets should be allocated to 60 percent stocks, 20 percent bonds, and 20 percent cash, and that you placed your investments accordingly. The stock market has a very good year, and due to growth in that category, you discover at the end of the year that your ratios have shifted. Now, 70 percent of your portfolio's value is in stocks, 15 percent in bonds, and 15 percent in cash. What should you do? Well, if you want to keep the same percentages you began with, you could sell some stocks and invest in bonds and cash instruments to bring your portfolio back into* *the balance you chose. The opposite would be true if stocks sank; you might sell another asset class and invest enough in stocks to return to your original percentage. Alternatively, you could direct any new cash you are able to invest into asset classes that now represent a lower percentage of holdings than you prefer.*

Changing allocations as your goals or time horizons change

Of all the factors that might prompt a reexamination of your asset allocation, perhaps the most common is a change in your life situation. As noted above, the asset allocation you establish today may not be appropriate as your life circumstances and your investing priorities change. For instance, you may have established allocations based on the long-term objective of investing for your retirement, which you expected to occur in 20 years. But perhaps you were not married when you set your investment strategy for that objective, and now you are. And the addition of a new baby would mean even more changes to your priorities. In that scenario, chances are good that your investment objectives have changed also and may now include intermediate-range goals such as funding private school tuition. In order to meet your newly modified objectives, you may want to reallocate your investments.

Even if your goals don't change, your planning horizon for them almost certainly will. For example, let's say you set your asset allocation with the initial objective of sending a child to college in 12 years. Time passes, and now that child will be entering college in 2 years. You should probably change your allocations to various asset classes based on the current time horizon. That may mean moving funds from higher-risk to lower-risk investments to ensure that the needed money will be available. Imagine the stress you might feel if the tuition invoice arrives while you are waiting for that risky stock investment to rebound from the tumble it took three months earlier. Imagine the stress that can be avoided by planning ahead and monitoring and rebalancing your allocations as your planning horizon changes.

Some investments are designed specifically to shift your asset allocation over time. However, if you don't want to put the process on autopilot, you should make sure that you monitor your current allocation and adjust it as warranted. Tax time or year-end is often a good time to check up on your portfolio and think about making any necessary adjustments. At a minimum, you should check it in the wake of a substantial change in your life situation.

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