Asset Allocation

Asset allocation is an investment strategy that seeks to reduce investment risk, while maintaining a desired rate of return, by spreading an individual's investments over a number of asset types. It takes advantage of the tendency of different asset types to move in different cycles, and thus smooth out the ups and downs of the entire portfolio. Stocks, bonds, and cash (or cash equivalents) are the investments normally used. Depending on individual needs or preferences, other asset types may also be included.

Asset allocation does not guarantee a profit or protect against a loss in declining markets. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio or that diversification among asset classes will reduce risk.

A Personal Choice

There is no single asset allocation model to fit every investor, or for every stage of a person's life. The asset allocation decision is a highly individual one, and involves carefully answering a number of key questions:

- **Investment goals:** Why are you investing? Is the primary need for income, to pay current living expenses, or as a source of emergency funds? Or are you accumulating money for a future need?
- **Time horizon:** When will the money be needed? At retirement, or sooner, to send a child to college, for example?
- **Liquidity needs:** How quickly do you need to be able to turn your investment into cash?
- **Risk tolerance:** How comfortable are you with the inevitable ups and downs of the financial markets?
- **Tax impact:** How will the investments affect your tax situation?
- **Economic conditions:** Inflation, interest rates, and the state of the economy are essential factors to consider.
- **International exposure:** How comfortable are you investing in foreign markets?

Although no guarantee of how an investment may perform in the future, an analysis of historical data can provide information about the levels of risk and return for each investment type being considered. These historical values are then used as a guide to structuring a portfolio that matches the investor's individual goals and overall risk tolerance level.

A Changing Choice

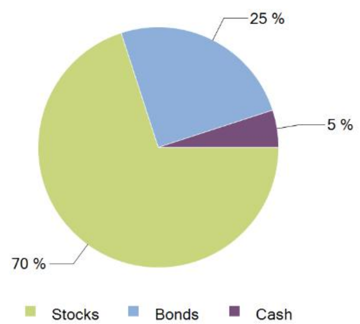
Over time, financial markets and an individual's goals and situation will change. Periodically, an investor must review his or her situation to ensure that past investment allocations are still appropriate. If not, adjustments should be made.

Representative Asset Allocation Models

The charts below illustrate three hypothetical asset allocation models, for three age groups, or types of investor. These models are intended to serve only as representative samples of how asset allocation might work, and are not intended to serve as investment or portfolio recommendations.

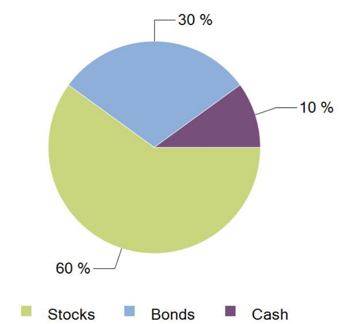
Asset Allocation Portfolio #1

Younger or Higher Risk Investors



Asset Allocation Portfolio #2

Medium Risk Investors, Those Near Retirement



Asset Allocation Portfolio #3

Retired or Low Risk Investors