Understanding Asset Classes

Your choice of investments and how they perform over time is a key factor in determining how your account will grow. Everyone's situation in life is different, and everyone's investment strategy is different. Determining which asset classes are most appropriate for your goals is the first step in developing an investment strategy.

STOCK FUNDS

Stock funds invest in shares of stock in companies. A stock fund's risk and return will depend on the types of stocks it purchases—some funds invest in large, established companies (large-cap stocks), others invest in medium-sized and smaller growing companies (midcap stocks and small-cap stocks) and still others invest overseas in various international markets (international stocks). If the company does well and its stock price increases, your investment will increase in value. If the stock goes down in price, you could lose money. Stocks offer the highest potential investment returns over time, but also involve the most amount of risk to your principal. A critical factor in measuring stock fund performance is how the stock market as a whole or certain market segments are performing. Stock funds can lessen these risks through diversification. By investing in the stocks of many companies across many industries, diversified stock funds significantly lower the chance that a downturn at one company or in one industry will affect the fund as a whole. Even so, investors should be aware of the volatility of stock funds and the potential for loss of principal.

What kind of investor should consider stocks? Stocks may be a good option if you are investing for the long term, may not need your money for at least several years, and are comfortable with the natural investment risk inherent in stocks.

BOND FUNDS

Bond funds invest in bonds and other interest-earning securities issued by governments and corporations. Bonds are sold to raise money—to build factories or bridges or to expand public services. Bonds promise to pay fixed interest payments and, at the end of the loan (called the bond's maturity), to pay the original investment (principal). Bond maturities generally range from 1 year to 30 years. In general, the longer the maturity, the higher the interest payments; the market will pay more for a longer loan. Conversely, the longer the maturity, the greater the risk, as bonds are interest rate sensitive. As interest rates rise and fall, the value of a bond rises and falls in the opposite direction. A bond's promise to pay interest and repay principal is only as good as its issuer's financial strength. The stronger the issuer, the higher the quality of the bond. All things being equal, high-quality bonds will pay lower interest because they're safer; the market will pay less for a less risky loan.

WHAT TYPE OF INVESTOR SHOULD CONSIDER BONDS?

Bonds may be a good option for investors willing to accept moderate risk who may not need their money for at least several years.

FIXED INCOME FUNDS

Fixed Income investments are designed to protect the value of your money over short periods of time. These types of investments generally present a low risk of losing principal. Fixed income funds include money market investments as well as stable value funds. Money market funds invest in short-term securities issued by banks, corporations, and the U.S. Government and its agencies. Because these monies are held for shorter periods of time, the return is generally lower. Stable value funds invest in GICs (guaranteed investment contracts) and BICs (bank investment contracts), as well as money market securities (Treasury bills, notes and bonds that are soon to mature) and other "cash-equivalent" investments. The biggest risk associated with these funds is not earning enough to outpace inflation. Many investors choose short-term funds for their relatively high degree of safety—but there is a price for this safety. The low rates of return mean that their real returns (total returns minus the rate of inflation) are either very low or zero. Short-term funds can be a good way to preserve savings you'll need within a short time period.

WHAT TYPE OF INVESTOR SHOULD CONSIDER FIXED INCOME INVESTMENTS?

Short-term investments are a good option for generally conservative investors who may not need their money for about one to three years and are willing to accept the risk of not keeping up with inflation; or to balance a more aggressive portfolio.

ASSET ALLOCATION FUNDS

Strategy, or Asset Allocation funds, buy more than one asset category to reduce risk through diversification. As stock prices and bond interest rates change, you don't have to decide what adjustments to make or when to make them. The fund's manager controls the investment mix to meet the fund's investment objective. This type of fund enables investors to obtain a professionally managed, diversified portfolio with a single investment fund.

WHAT TYPE OF INVESTOR SHOULD CONSIDER ASSET ALLOCATION FUNDS?

Asset Allocation Funds may be a good option for investors seeking a total portfolio solution created and managed for them by investment professionals.

You will find that your investment strategy changes over time, as your life changes. Your plan offers a range of investment options covering the major asset classes to help you build an investment strategy that meets your needs.