

Building your financial future

Can the market make you rich?

Not long ago, owning a stock portfolio was seen as a ticket to riches: Flush retirement accounts could be built on a foundation of stock market returns. Here's the reality: Returns from stocks, bonds and other assets can help grow your wealth and protect it from inflation, but they alone don't have the power to make you rich. That power is yours.

Contributions matter much more than investment returns

Even in healthy market environments, portfolios are built on contributions rather than market returns. This is true in all but the longest, strongest bull markets.

Regardless of the return, contributions matter more 10-year horizon, \$10,000 annual contributions 0% Annual return 12% Annual return 6% Annual return \$193,615 48% Value \$137,249 \$100,000 27% Value 52% 73% 100% Contributions Contributions Contributions In a flat market Even in a bull market In a modest market The market earned When the market Contributions doesn't gain anything iust 48% of the become even more or if it loses money important, accounting final market value. contributions count for 73% of the while contributions for everything investor's portfolio comprised 52%

Even if the market returned 12% annually for 10 years, contributions would account for more of your final market value than earnings.

For illustrative purposes only. Note: For simplicity, these scenarios assume consistent returns for every year. Actual market returns are highly variable, which would negatively affect a portfolio's ending value when compared with consistent returns. Also, the household income and savings rate do not assume any adjustments for inflation.

Even in a strong bull market – where the market returns 12% a year for 10 years – market returns accounted for just 48% of the final market value, while contributions made up 52%.

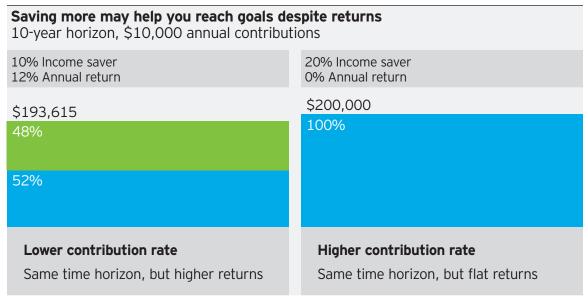
In a more modest market that returns 6% a year for 10 years, the importance of contributions becomes even more obvious, comprising 73% of the portfolio's final market value. And, of course, when the market doesn't gain anything – or if it loses money – contributions count for everything.

Focus on what you can control

Prudent financial planning means building your portfolio based on factors you can control. Market returns are out of your hands, but these factors aren't.

Contribution level – The primary factor you can control in your portfolio is how much you invest. In fact, as the chart below illustrates, an investor who ups his savings rate from 10% to 20% has a greater chance of reaching his financial goals, despite market volatility. Over 10 years, saving 20% and putting it under a mattress would result in a larger portfolio than saving 10% and earning 12%.

Prudent financial planning means concentrating on factors you can control — like how much you invest.



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Time horizon – If you can't find a way to save more for retirement, you may need to consider working a bit longer and delaying your withdrawals from your investment account. But keep in mind that many life events, such as illness, are unexpected, so your investment time horizon isn't completely in your control.

Asset allocation – Your asset allocation – how much of your portfolio is in stocks, bonds, cash and other asset classes – and your underlying investments are the primary means by which you can control portfolio risk.

It's important to note that the chart above isn't intended to advocate that you simply accept 0% market returns and allocate all your assets to cash. While investing in only cash can help you reduce uncertainty and avoid losses, you limit your potential for growth and risk a reduction in purchasing power if inflation increases.

While there is no asset allocation formula that can guarantee a profit or eliminate the risk of loss, making the decision to save more gives you the option to adopt a more conservative asset allocation and be less dependent on the whims of the market.

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Asset allocation does not guarantee a profit or eliminate the risk of loss.

All data provided by Invesco unless otherwise noted.

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