Diversifying your portfolio: Find an asset allocation that's right for you

No matter what you do with your money, there are risks involved. If you invest it, you could suffer losses. But if you stay in cash, inflation can erode the value of your savings. While you can't eliminate risk, you can design your portfolio so that the risk you're taking is appropriate for you. The key is asset allocation.

What's asset allocation?

Asset allocation refers to the mix of investments inside your portfolio – how much is in stocks, bonds, cash and other asset classes. It also refers to your investments within each asset class.

Although the terms "asset allocation" and "diversification" are often used interchangeably, not all asset allocations provide the same level of diversification. True diversification means investing in a mix of assets that perform differently in various economic environments. If stocks fall worldwide, for example, other assets such as bonds and cash may help buffer your portfolio against losses until stocks recover.

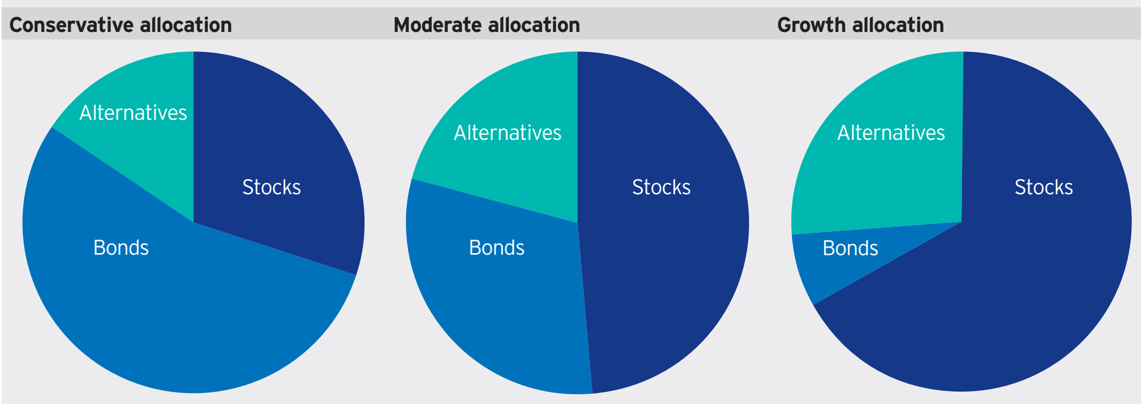
The concept behind asset allocation is simple: Don't put all your eggs in one basket.

Find your mix

The mix of assets you choose depends largely on:

- **Your time horizon.** The length of time you have to meet your financial goals.
- **Your risk tolerance.** Your financial ability and emotional willingness to take risk in pursuit of reward.

Which asset allocation works best for you?
The goal of asset allocation is to find a personalized mix of assets that may help you reach your financial goals – no matter what the markets are doing.



For illustrative purposes only

Stocks, bonds and cash have long been the building blocks of investors' portfolios. But there's an additional option: alternative investments. Essentially, alternatives include any investment that isn't a traditional stock or bond, or cash.

Alternatives may be subject to risk not associated with traditional investments and may not be suitable for all investors.

Rebalance and review

Once you establish an asset allocation that's right for you, you need to monitor it regularly. A portfolio that starts out with 60% stocks and 40% bonds, for example, may shift to a 50/50 split if bonds outperform stocks for a length of time. When your asset allocation gets out of alignment, you can rebalance your portfolio by buying and selling assets to reshuffle the mix. As you get closer to your financial goal, your ideal asset allocation will change. Generally, the less time you have before you reach your goals, the more conservative your asset allocation should be.

Rebalance your portfolio to stay on target

Stocks outperform

Reasons to rebalance
- Large stock allocation may be too risky
- Portfolio could experience greater volatility

Balanced – Opening allocation

Unbalanced – Allocation after strong stock performance

Bonds outperform

Reasons to rebalance
- Large bond allocation may be too conservative
- Portfolio could miss out on strong stock outperformance

Balanced – Opening allocation

Unbalanced – Allocation after strong bond performance

Rebalancing does not guarantee a profit or eliminate the risk of loss. For illustrative purposes only. A financial or tax advisor can help you determine transaction fees or tax liabilities that may result from rebalancing.

Next steps

Visit with your financial professional to determine the asset allocation that is appropriate for your financial goals and follow up annually to review and rebalance your portfolio.

Additionally, life changes should trigger an examination of – and perhaps a change to – your asset allocation. Talk with your financial professional if:

- Your financial goals have changed due to events such as having a baby.
- Your risk tolerance has changed due to events such as a layoff or inheritance.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

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

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