



# Find Your Match

## Probability of gain or loss varies with investment horizon and allocation

One-, five- and ten-year rolling periods, 1970–2008

			Large loss			Large gain	
			< -10%	-10% to 0%	0% to 10%	> 10%	
 <b>Aggressive portfolio</b>	Year(s)	1	<b>10%</b>	<b>13%</b>	<b>23%</b>	<b>54%</b>	
		5	<b>0%</b>	<b>3%</b>	<b>34%</b>	<b>63%</b>	
		10	<b>0%</b>	<b>0%</b>	<b>30%</b>	<b>70%</b>	
 <b>Moderate portfolio</b>	Year(s)	1	<b>5%</b>	<b>15%</b>	<b>26%</b>	<b>54%</b>	
		5	<b>0%</b>	<b>0%</b>	<b>43%</b>	<b>57%</b>	
		10	<b>0%</b>	<b>0%</b>	<b>33%</b>	<b>67%</b>	
 <b>Conservative portfolio</b>	Year(s)	1	<b>0%</b>	<b>13%</b>	<b>44%</b>	<b>44%</b>	
		5	<b>0%</b>	<b>0%</b>	<b>51%</b>	<b>49%</b>	
		10	<b>0%</b>	<b>0%</b>	<b>43%</b>	<b>57%</b>	

Percentages are rounded to the nearest whole; may not add up to 100% exactly.

### Security selection alone does not determine performance

Most investors may think that picking a good stock is the single most important factor that determines good portfolio performance. While stock selection can certainly make a difference, studies have shown that asset allocation accounts for about 90% of variability of a fund's return over time.<sup>1</sup>

One can limit the effect that any individual security or asset class may have on the performance of a portfolio by investing in a combination of asset classes. As a result, declines in the total returns of one or two assets may be offset by increases in others. The right stock-bond mix can provide potential for higher returns while maintaining a suitable level of risk.

### Determining the right allocation can make a difference

The image illustrates the percentage of gain and loss for three hypothetical portfolios that vary in risk levels. It is evident that the riskier the portfolio, the greater the chances of achieving higher returns (annual return > 10%). As the stock allocation decreases, the potential for moderate gains is concentrated, as seen by the higher percentages in the 0% to 10% gain range.

There is no standard mix that works for all investors. However, identifying an appropriate asset allocation strategy can help investors meet their investment objectives. Consult your advisor to determine which portfolio allocation and investment horizon best fit your needs.

**Past performance is no guarantee of future results.** Diversification does not eliminate the risk of experiencing investment losses. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. All portfolios illustrated herein are hypothetical. Portfolios are rebalanced annually. The aggressive portfolio consists of an 80% allocation to stocks and 20% allocation to bonds. The moderate portfolio is comprised of 60% stocks and 40% bonds. The conservative portfolio is created using 30% stocks and 70% bonds. Rolling period returns are a series of overlapping, contiguous periods of returns. For example, when examining five-year rolling periods, the first rolling period is 1970–1974; the second is 1971–1975; the third is 1972–1976; and so on. Holding a portfolio of securities for the long term does not ensure a profitable outcome and investing in securities always involves risk of loss. Government bonds are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than bonds.

<sup>1</sup>Ibbotson, Roger G. and Paul D. Kaplan, "Does Asset Allocation Policy Explain 40 Percent, 90 Percent, or 100 Percent of Performance?" Financial Analysts Journal, January/February 2000.

Source: Stocks in this example are represented by the Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general. Bonds are represented by the five-year U.S. government bond.