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Retirement Savings Education, Simplified

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Asset Allocation Explained

Asset allocation is a fundamental investing principle that refers to the way you divide your investment money among different asset classes or categories, such as stocks, bonds, or cash. Each asset class plays a unique role within your portfolio, providing potential income growth, stability, or inflation protection.

How you choose to allocate your hard-earned dollars is a personal decision and should be based on your retirement income goals, ability to tolerate market volatility, and investment time horizon.

- Your *income goals* refer to the reason that you are saving. Whether it's to maintain your current savings or to grow your investments to a specific amount for your future, your goals will affect how you invest your money and the asset allocation you choose.
- The amount of risk you are willing to take on when investing your money is defined as your *risk tolerance*. Those with a high risk tolerance are willing to risk a large portion of their investment money in hopes that they will potentially receive a higher return. Low risk tolerance is the exact opposite.
- Your *investment timeline* is the amount of time you plan on investing your money. Generally speaking, those with a longer investment timeline can handle more risk, while those with a shorter timeline may need a more conservative asset allocation.

What is an Asset Class?

An asset class is a group of similar investments. Different types of investments are often grouped together based on how they behave in the marketplace, their financial structure, and to which laws and regulations they are subject. **Each asset class has a different level of risk and responds differently during various market activity.** The most common types of asset classes are stocks, bonds, cash, real estate, commodities, and futures.

Diversification & Asset Allocation

Diversification and asset allocation are so closely related they're often confused as the same. Diversification refers to the strategy of spreading your money among different investments with the hope that if one investment loses money, another will make up for the loss. You can use your asset allocation as a way to diversify your investments but you don't have to. For example, a 22-year-old with a long working career ahead of herself may build her asset allocation entirely of stocks, while a man in retirement, wanting to preserve his savings balance, may choose an asset allocation consisting solely of cash. Both asset allocations might meet the specific needs of each person but neither strategy reduces its risk by investing in different asset classes. Asset allocation doesn't automatically mean diversification; it's simply a means to get there.

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Which allocation is right for you?

Below are five stereotypical investor risk profiles, along with a corresponding asset allocation. These profiles will help you tailor your allocations to align with your investment needs. Keep in mind these are only examples and how you decide to invest your money should be based on your personal situation and goals. **Circle the investor risk profile below that may best apply to you.**

Risk Profile	Description
Conservative	My priority is to preserve my current assets and expose them to as little risk as possible. I am willing to accept minimal to no return on my investments as long as my current capital is retained. I need or will need my investment income in the near future.
Mildly Conservative	My goal is to earn some return on my assets while exposing my investments to very little risk. I need or will need my investment income in the near future.
Moderate	My objective is to earn average returns. I am prepared to take on a reasonable amount of risk and I understand that my money will need to stay invested for the mid to long term. I will not need my investment income in the near future.
Mildly Aggressive	My expectation is that I'll receive higher returns by taking on more risk. I am willing to keep my assets invested for the long haul and understand that I will have to tolerate market volatility to achieve potential market gains. I will not need my investment income for 10 or more years.
Aggressive	My main concern is growing my investments. I am willing to take on a substantial amount of risk in order to potentially receive above average returns. I am committed to staying invested for a longer period of time, even during market fluctuations. I will not need my investment income for 20 or more years.

Why so important?

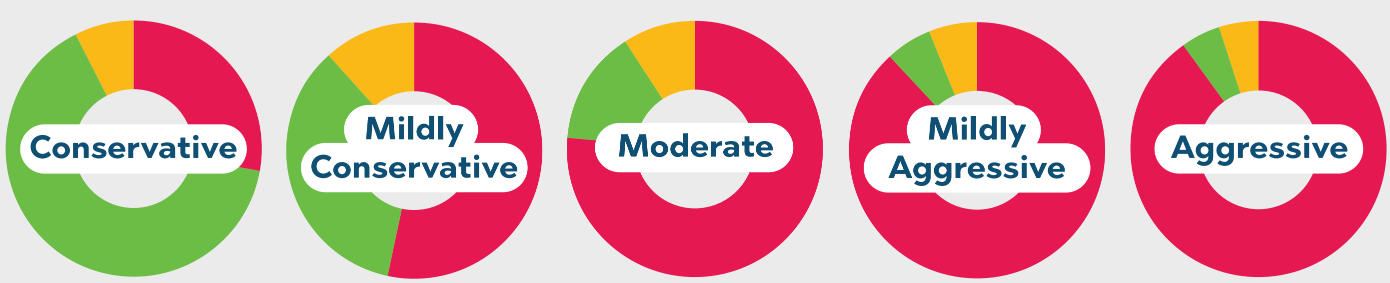
Investing involves risk; the risk of losing money, not outpacing inflation, political or social instability, interest rate fluctuations, and so on. **Your asset allocation can help you attempt to control the level of risk to which you subject your investments.** Choose an allocation that fits your personal goals, risk tolerance level, and time horizon, then review your portfolio periodically to ensure your asset allocation is still on track to meet your investment income goals. Remember that it's your money so it's important that it works in a way that best suits your future needs.

82% **of active state employees in the deferred comp plan are investing in a MO Target Date Fund.**

MO Target Date Funds

If you're unsure which asset allocation suits you best, let the professionals at the MO Deferred Comp Plan help! Deferred comp's cornerstone investment option is the Missouri Target Date Funds. Each professionally managed fund is invested more aggressively in its early years and becomes more conservative to and through each fund's target date. Choose a target date fund closest to your future retirement date and let the investment professionals handle the rest.

Risk Profiles[1]



Low Risk/Return <· · · · · · · · · · · · *Stocks* *Bonds* *Other* · · · · · · · · · · · · > *High Risk/Return*

[1] Investor risk profiles are sourced from similar Missouri Target Date Fund asset allocations.