Building a Portfolio for Any Weather

Paul Gunning
November 2015
Get more out of your retirement savings

Today’s agenda:

– Principles of asset allocation and diversification
– Characteristics of key asset classes
– How to develop an investment strategy to help you reach your financial goals
– Steps to put your plan in motion
The fundamentals of investing

Let’s explore:
– The principles of asset allocation
– Different investment types
– The importance of diversification
The principles of asset allocation

Asset allocation = combining different investment types

- **Stocks** (equities) - Higher Potential Risk, Higher Potential Return
- **Bonds** (fixed income) - Moderate Potential Risk, Moderate Potential Return
- **Cash** (short-term) - Lower Potential Risk, Lower Potential Return

Up to 91.5% of variations in returns can be attributed to asset allocation.*

* Source: "Determinants of Portfolio Performance," Brinson, Hood and Beebower, Financial Analysts Journal, July-August 1986, and "Determinants of Performance II: An Update," Brinson, Singer and Beebower, Financial Analysts Journal, May-June 1991. This represents a landmark study which has not been refuted and which stands today as a valid, widely accepted theory.
The three investment types and the role they play

**Short-term investments**
- Money market, T-bills, CDs
- Relatively stable value
- Potential to pay interest
- Lower risk, lower potential return

**Bonds**
- I.O.U.
- Debt securities issued by governments and corporations
- Potential to pay interest
- Moderate risk, moderate potential return

**Stocks**
- Share of a company, “equity”
- Long-term growth potential
- Value can go up and down
- Higher risk, higher potential return

An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although money market funds seek to preserve the value of your investment at $1 per share, it is possible to lose money by investing in these funds.
Diversification = spreading out investments within investment types

Diversification
Spread out your investments within investment types

- Stocks (equities)
- Bonds (fixed income)
- Cash (short-term)

Mutual Funds
Include a variety of stocks and/or bonds

- Stock Fund
- Bond Fund
- Cash (short-term)

Neither diversification nor asset allocation ensures a profit or guarantees against loss.
A well-diversified portfolio allows investors to reduce some of the risks associated with investing. It is impossible to predict which asset class will be the best or worst performer in any given year. The performance of any given asset class can have drastic periodic changes. By investing a portion of a portfolio in a number of different asset classes, portfolio volatility may be reduced. Fidelity Investments consultants can provide you with the information to help you choose a mix of funds that provide diversification so you may be in a better position to weather the ups and downs of each segment of the stock market.

An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although money market funds seek to preserve the value of your investment at $1 per share, it is possible to lose money by investing in these funds. Unlike mutual funds, most CDs and U.S. Treasuries offer a fixed rate of return and guarantee payment of principal if held to maturity. Unlike most bank products such as CDs, money market mutual funds are not FDIC insured.

Remember, past performance is no guarantee of future results and neither diversification nor asset allocation ensures a profit or guarantees against loss.
## Winners and losers rotate over time

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large stocks</td>
<td>5.5%</td>
<td>-37.0%</td>
<td>26.5%</td>
<td>15.1%</td>
<td>2.1%</td>
<td>16.0%</td>
<td>32.4%</td>
<td>13.7%</td>
</tr>
<tr>
<td>Foreign stocks</td>
<td>11.6%</td>
<td>-43.1%</td>
<td>32.5%</td>
<td>8.2%</td>
<td>-11.7%</td>
<td>17.9%</td>
<td>23.3%</td>
<td>-4.5%</td>
</tr>
<tr>
<td>Small stocks</td>
<td>-1.6%</td>
<td>-33.8%</td>
<td>27.2%</td>
<td>26.9%</td>
<td>-4.2%</td>
<td>16.3%</td>
<td>38.8%</td>
<td>4.9%</td>
</tr>
<tr>
<td>Bonds</td>
<td>7.0%</td>
<td>5.2%</td>
<td>5.9%</td>
<td>6.5%</td>
<td>7.84%</td>
<td>4.2%</td>
<td>-2.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>High-yield bonds</td>
<td>2.2%</td>
<td>-26.4%</td>
<td>57.5%</td>
<td>15.2%</td>
<td>4.38%</td>
<td>15.6%</td>
<td>7.4%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Short-term Investments</td>
<td>4.7%</td>
<td>1.6%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.04%</td>
<td>0.06%</td>
<td>0.02%</td>
<td>0.01%</td>
</tr>
</tbody>
</table>

Source: Strategic Advisers, 2015. Past performance is no guarantee of future results. Large stocks as measured by S&P 500®; foreign stocks as measured by MSCI EAFE®; small stocks as measured by Russell 2000®; bonds as measured by Barclays U.S. Aggregate Bond Index; high-yield bonds as measured by the BofA Merrill Lynch High Yield Master II Index, which measures the performance of the non-investment-grade U.S. domestic bond market; short term as measured by the U.S. 30-day T-bill.
Several ways to diversify your workplace savings plan investments

- Invest in stock funds with varying investment strategies
- Mix domestic and international stock funds
- Keep less than 25% of your money in a single stock fund
- Select a limited number of stock funds to keep tracking simple
Asset allocation + diversification = a smart investment mix

Combining them skillfully can help you

– Reduce portfolio risk and volatility
– Match your investment strategy to your time horizon, financial situation, and risk tolerance
– Tap into market opportunities
– Avoid the pitfalls of market timing

A Tool to Help: Complete the Investor Profile Questionnaire.

Neither diversification nor asset allocation ensures a profit or guarantees against loss.
Determine your investment approach

Let’s explore:
– Factors that can impact your strategy
– Considerations for building your investment portfolio
– How to find the right mix
Finding the right mix depends on

- Your tolerance for risk
- Your time horizon
- Your financial situation

A Tool to Help: Complete the Investor Profile Questionnaire.
The risk of inflation

<table>
<thead>
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<th></th>
<th>2005</th>
<th>2015</th>
<th>% rise in price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loaf of bread¹</td>
<td>$1.00</td>
<td>$1.44</td>
<td>44%</td>
</tr>
<tr>
<td>One dozen eggs¹</td>
<td>$1.13</td>
<td>$2.13</td>
<td>88%</td>
</tr>
<tr>
<td>College education²</td>
<td>$29,026</td>
<td>$42,419</td>
<td>46%</td>
</tr>
</tbody>
</table>

What to Do: Make sure you consider investments with the potential to outpace inflation.

² Annual cost per year (tuition and fees, room and board) at private non-profit university: The College Board, Trends in College Pricing 2014, Table 1.
It’s about solving for three factors

**Investment risk**

**How $100 grew over 50 years**

(1965-2014)

- **Stocks**: $11,256
- **Bonds**: $2,988
- **Short-term investments**: $1,169
- **Inflation**: $754

*Data Source: Ibbotson Associates, 2015 (1965–2014). Past performance is no guarantee of future results. The asset class (index) returns reflect the reinvestment of dividends and other earnings. This chart is for illustrative purposes only and does not represent actual or future performance of any investment option. It is not possible to invest directly in a market index. Stocks are represented by the Standard and Poor’s 500 Index (S&P 500® Index). The S&P 500® Index is a market capitalization–weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. Bonds are represented by the U.S. Intermediate Government Bond Index, which is an unmanaged index that includes the reinvestment of interest income. Short-term instruments are represented by U.S. Treasury bills, which are backed by the full faith and credit of the U.S. government. Inflation is represented by the Consumer Price Index (CPI) is a widely recognized measure of inflation, calculated by the U.S. government. Stock prices are more volatile than those of other securities. Government bonds and corporate bonds have more moderate short-term price fluctuations than stocks but provide lower potential long-term returns. U.S. Treasury bills maintain a stable value (if held to maturity), but returns are only slightly above the inflation rate.*
Your time horizon

It’s about solving for three factors:

Your time horizon

- Older
  - More conservative
  - More bonds/cash

- Younger
  - More aggressive
  - More stock funds

Retirement

Fidelity Investments
Then, determine what mix of investment types match your investment approach

Finding the right mix
How four hypothetical investment mixes align with different approaches to investing

Aggressive Growth
May be appropriate for investors:
• Comfortable with wide fluctuation
• > 10 years until retirement goal

Balanced
May be appropriate for investors:
• Comfortable with moderate fluctuation
• < 5 years until retirement goal

Growth
May be appropriate for investors:
• Comfortable with significant fluctuation
• > 5 years until retirement goal

Conservative
May be appropriate for investors:
• Looking to minimize fluctuation
• < 5 years until retirement goal

For illustrative purposes only.

The purpose of the target asset mixes is to show how target asset mixes may be created with different risk and return characteristics to help meet a participant’s goals. You should choose your own investments based on your particular objectives and situation. Remember, you may change how your account is invested. Be sure to review your decisions periodically to make sure they are still consistent with your goals. You should also consider any investments you may have outside the plan when making your investment choices.

These target asset mixes were developed by Strategic Advisers, Inc., a registered investment adviser and Fidelity Investments company, based on the needs of a typical retirement plan participant.
Mixing asset classes can help moderate risk

Data Source: Ibbotson Associates, 2015 (1926–2014). Past performance is no guarantee of future results. Returns include the reinvestment of dividends and other earnings. This chart is for illustrative purposes only and does not represent actual or implied performance of any investment option. Stocks are represented by the Standard & Poor’s 500 Index (S&P 500®). The S&P 500® Index is a market capitalization–weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. Bonds are represented by the U.S. Intermediate Government Bond Index, which is an unmanaged index that includes the reinvestment of interest income. Short-term instruments are represented by U.S. Treasury bills, which are backed by the full faith and credit of the U.S. government. It is not possible to invest directly in an index. Stock prices are more volatile than those of other securities. Government bonds and corporate bonds have more moderate short-term price fluctuation than stocks but provide lower potential long-term returns. U.S. Treasury bills maintain a stable value (if held to maturity), but returns are generally only slightly above the inflation rate. Foreign Stocks are represented by the Morgan Stanley Capital International Europe, Australasia, Far East Index for the period from 1970 to the last calendar year. Foreign Stocks prior to 1970 are represented by the S&P 500®.

The purpose of the target asset mixes is to show how target asset mixes may be created with different risk and return characteristics to help meet a participant’s goals. You should choose your own investments based on your particular objectives and situation. Remember that you may change how your account is invested. Be sure to review your decisions periodically to make sure they are still consistent with your goals. You should also consider any investments you may have outside the plan when making your investment choices. These target asset mixes were developed by Strategic Advisers, Inc., a registered investment adviser and Fidelity Investments company, based on the needs of a typical retirement plan participant.

<table>
<thead>
<tr>
<th>Annual Return %</th>
<th>Conservative</th>
<th>Balanced</th>
<th>Growth</th>
<th>Aggressive Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>5.97</td>
<td>7.95</td>
<td>8.94</td>
<td>9.62</td>
</tr>
<tr>
<td>Best 12-month</td>
<td>31.06</td>
<td>76.57</td>
<td>109.55</td>
<td>136.07</td>
</tr>
<tr>
<td>Worst 12-month</td>
<td>-17.67</td>
<td>-40.64</td>
<td>-52.92</td>
<td>-60.78</td>
</tr>
<tr>
<td>Best 5-year</td>
<td>17.24</td>
<td>23.14</td>
<td>27.27</td>
<td>31.91</td>
</tr>
<tr>
<td>Worst 5-year</td>
<td>-0.37</td>
<td>-6.18</td>
<td>-10.43</td>
<td>-13.78</td>
</tr>
</tbody>
</table>
Reviewing your plan’s investment options

Let’s explore:
– What type of investor are you?
– Your plan’s investment options
Hands-on or hands-off?

- Do you want to make your own investment decisions?
- Are you comfortable building your own portfolio?
- Do you have the time to actively manage your investments?

Hands-off

Lifecycle funds*
Provide an automatic investment mix that becomes continually more conservative as time goes on. Just pick the fund with the year that’s closest to the year you plan to retire.

Let us guide you
Use our investment guidance tools available on the NetBenefits Planning tab

Do-it-yourself
Access Fidelity’s research resources, and utilize our fund selection tools to build your own portfolio.

Hands-on

*Lifecycle funds are designed for investors expecting to retire around the year indicated in each fund’s name. The investment risk of each lifecycle fund changes over time as its asset allocation changes. Lifecycle funds are subject to the volatility of the financial markets, including equity and fixed income investments in the U.S. and abroad, and may be subject to risks associated with investing in high-yield, small-cap, and foreign securities. Principal invested is not guaranteed at any time, including at or after their target dates.

Neither diversification nor asset allocation ensures a profit or guarantees against loss.
Make sure your portfolio stays on target

Let’s explore:
– How an investment mix can change over time
– The importance of periodic rebalancing
– When to make a change
Gains and losses can cause your allocation to shift.

How an investment mix can change over time

Data Source: Ibbotson Associates, 2015. Stocks are represented by the S&P 500® Index, and bonds are represented by the Barclays U.S. Aggregate Bond Index for bonds. Barclays U.S. Aggregate Bond Index is a market value–weighted index that covers the U.S. fixed-rate investment grade bond market with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities with maturities of one year or more. Short-term instruments are represented by U.S. Treasury bills, which are backed by the full faith and credit of the U.S. government.

S&P 500 Index is a market capitalization–weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

Indices are unmanaged and you cannot invest directly in an index.

Past performance is no guarantee of future results.

This chart is for illustrative purposes only.
It can help keep your portfolio in line with your goals

Monitor and adjust your portfolio over time

- Stocks
- Bonds
- Cash
Two ways to help keep your portfolio in balance

**Static rebalancing**

<table>
<thead>
<tr>
<th></th>
<th>Target portfolio</th>
<th>Current portfolio</th>
<th>Change +/-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stocks</td>
<td>70%</td>
<td>74%</td>
<td>-4%</td>
</tr>
<tr>
<td>Bonds</td>
<td>25%</td>
<td>21%</td>
<td>+4%</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>5%</td>
<td>5%</td>
<td>None</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

**Tactical rebalancing**

<table>
<thead>
<tr>
<th></th>
<th>Target portfolio</th>
<th>Current portfolio</th>
<th>Change +/-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stocks</td>
<td>70% (+/- 5%)</td>
<td>74%</td>
<td>None</td>
</tr>
<tr>
<td>Bonds</td>
<td>25% (+/- 5%)</td>
<td>21%</td>
<td>None</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>5% (+/- 5%)</td>
<td>5%</td>
<td>None</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>
To get your portfolio back where you want it

- Change the way future contributions are directed
- Exchange your current account balances
- Move small amounts of money at a time

A Tool to Help: To make changes—on the spot if you’d like—through the NetBenefits contribution page.
Key indicators that a change may be necessary

- Your mix shifts from 5% to 10% from its target
- A major life event such as marriage, birth of a child, or divorce
Stay on track

Let’s explore:
– Steps to help make sure you’re properly invested
– Common pitfalls
– How Fidelity can help
Make sure you are properly invested

- Determine an appropriate investment mix
- Determine your investment style
- Select investment options that fit your target investment mix and investment style
- Review and adjust your investment mix as needed
- Simplify your finances by consolidating accounts*

What to Do: Visit NetBenefits® and use our online guidance tools.

*Be sure to consider all your available options and the applicable fees and features of each before moving your retirement assets.
Avoid common pitfalls

- Chasing “hot” performance
- Trying to time the market
- Emotional panic selling
- Avoiding the market
- Investing without sufficient research and understanding
- Viewing investing as a one-time task
We’re here to help

Schedule a complimentary one-on-one guidance consultation
1-800-642-7131 or http://getguidance.fidelity.com

Visit NetBenefits®
www.fidelity.com/atwork

Call Paul Gunning
617-258-8872
paul.gunning@fmr.com
Before investing, consider the funds' investment objectives, risks, charges, and expenses. Contact Fidelity for a prospectus or, if available, a summary prospectus containing this information. Read it carefully.

Keep in mind, investing involves risk. The value of your investment will fluctuate over time and you may gain or lose money.

The third-party trademarks appearing herein are the property of their respective owners.

Guidance provided is educational.

Past performance is no guarantee of future results.

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The S&P 500 Index is a registered service mark of Standard & Poor's Financial Services, LLC. The S&P 500 Index is a market capitalization–weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

The U.S. Intermediate Government Bond Index is an unmanaged index that includes the reinvestment of interest income.

MSCI EAFE (Europe, Australasia, Far East) Index is a market capitalization–weighted index that is designed to measure the investable equity market performance for global investors in developed markets, excluding the U.S. & Canada.

The Merrill Lynch US High Yield Master II Index (H0A0) is a commonly used benchmark index for high yield, corporate bonds. It is administered by Merrill Lynch. The Master II is a measure of the broad high yield market, unlike the Merrill Lynch BB/B Index, which excludes lower-rated securities.

Barclays U.S. Aggregate Bond Index is a market value–weighted index that covers the U.S. fixed-rate investment grade bond market with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities with maturities of one year or more.

30 Day T-Bill Index measures the annual total return of a short-term obligation that is not interest-bearing (it is purchased at a discount); can be traded on a discount basis for 91 days.

Russell 2000 Index is a market capitalization–weighted index designed to measure the performance of the small-cap segment of the U.S. equity market.