Lincoln Financial Group®

Asset allocation

Deciding on the right mix of stocks, bonds, and cash investments

RETIREMENT PLAN SERVICES

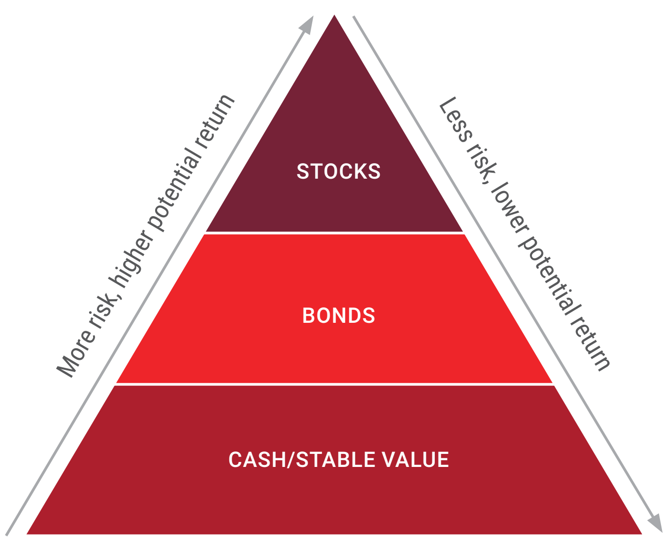
Overview

4773054

Asset allocation may help you manage investment risk

Understanding asset classes

In general, plan investments fall into three basic categories, or asset classes: stocks, bonds, and cash/stable value investments. Typically, the more aggressive the investment is, the higher the risk of potential loss and the greater the potential investment gain. The opposite is also true. Investments with lower risk have less potential for investment gain.



The basic asset classes

STOCKS are shares of ownership in a company. Stocks typically carry greater investment risk than bonds and cash/stable value options, but historically have offered the greatest potential for long-term growth.

BONDS are debt securities that pay the holder the original amount invested plus interest on a specific future date. Bonds offer more moderate risk and generally lower returns than stocks.

CASH/STABLE VALUE options are similar to bonds, but hold money for much shorter periods. They generally offer lower investment risk and potentially lower returns.

Asset allocation helps you manage investment risk

All investment options fluctuate in value in response to market conditions. Different asset classes tend to respond differently to market ups and downs.

A key element of your asset allocation is how much risk you're willing to accept in return for greater potential gains. Historically, stocks have exhibited a greater potential for both gains and losses. Conversely, bonds and cash/stable value investments have historically delivered lower returns, along with a lower risk of loss.

An investor's asset allocation should balance two factors:

Risk profile	This is a measurement of your comfort level with the risks associated with investing. Your risk profile takes into account your reaction to market volatility, the amount of time between now and retirement (your time horizon), and how long you need your savings to last.
Savings goal	This is the amount of money you want to accumulate for retirement. Asset allocation should allow your account to grow at a rate that will meet your long-term savings goal.

Creating your asset allocation

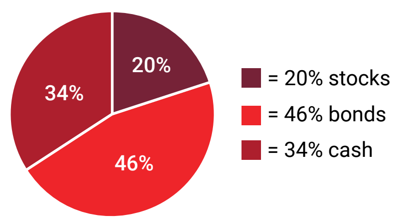
Determining your savings goal and risk profile are important first steps in creating your asset allocation. Consider working with a retirement plan representative to identify your goals, time horizon, and comfort level with risk. Once you've determined your savings goal and risk profile, you can choose a mix of plan investments that reflects your preferences.

Sample asset allocation by risk

The asset allocation strategies shown here are typical of conservative, moderate, and aggressive investors. They show sample investment mixes you may find in each type of portfolio and the relative risk and return potential of each.

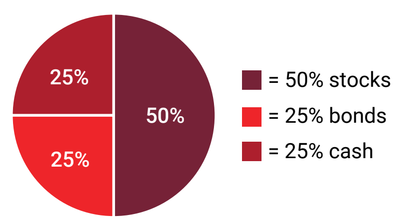
Conservative

A more conservative portfolio emphasizes bonds and cash and has a modest exposure to stocks. It's intended to preserve capital and may be more suited to funding short-term goals.



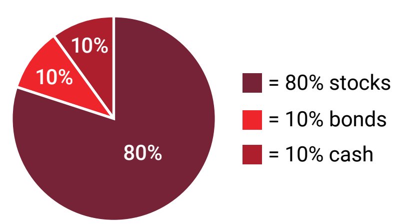
Moderate

A moderate portfolio offers moderate exposure to stock market risk. Half is stocks; the other half is equal amounts of bonds and cash. Stocks have been an effective way for many investors to preserve purchasing power over the long term.



Aggressive

A more aggressive portfolio emphasizes stocks in the mix. Stocks have historically produced the greatest average annual returns, but tend to be more volatile than bonds or cash.



Diversification or participation in an asset allocation or rebalancing program does not guarantee performance or protect against a loss.

3 investing principles that may help you save

Asset allocation, diversification, and rebalancing are related investing principles that may help you meet retirement savings goals and manage your investment risk.

All three principles work together to help you stay on track to better meet your retirement savings goals.

Diversification means investing across asset classes — generally stocks, bonds, and cash or stable value investments.

Asset allocation is the percentage of stocks, bonds, and cash or stable value investments you select to achieve your goals. Consider basing your asset allocation mix on your savings goal (how much you want to accumulate for retirement) and your risk profile (your comfort level with the risks of investing).

Rebalancing is a method of resetting when your asset allocation shifts from your desired mix. Rebalancing allows you to reset your investment percentages to the intended mix of stocks, bonds, and cash or stable value.

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To learn more about asset allocation, visit LincolnFinancial.com/Retirement or contact your retirement plan representative.

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