

Asset allocation and diversification:

Keys to long-term investing.

These investment strategies can help you fine-tune your investment mix according to your individual goals.

What is asset allocation?

Asset allocation is a strategy involving the selection of a variety of asset classes to create a diversified and balanced portfolio to suit individual investment objectives and risk tolerance. The principle behind asset allocation is that all asset classes don't move in concert. Rather, they move in different directions at different times, influenced by different aspects of the economic cycles and market conditions. Diversification, the process of helping reduce risk by investing in several different types of individual funds or securities, works hand in hand with asset allocation.

Asset classes have their ups and downs.

The chart below shows how different asset classes have lagged or led throughout time, illustrating the need for an investment allocation strategy. Past performance does not guarantee future results.

Annual total returns of key asset classes 2005 – 2020*

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Best ↑	EMERGING MARKET STOCKS 34.54%	EMERGING MARKET STOCKS 32.55%	EMERGING MARKET STOCKS 39.82%	GLOBAL BONDS 10.89%	EMERGING MARKET STOCKS 79.02%	SMALL GROWTH STOCKS 29.09%	BONDS 7.84%	EMERGING MARKET STOCKS 18.63%	SMALL GROWTH STOCKS 43.30%	LARGE GROWTH STOCKS 14.89%	LARGE GROWTH STOCKS 5.52%	SMALL VALUE STOCKS 31.74%	EMERGING MARKET STOCKS 37.75%	BONDS 0.01%	LARGE VALUE STOCKS 31.93%	SMALL GROWTH STOCKS 34.63%	Best ↑
	FOREIGN STOCKS 14.02%	FOREIGN STOCKS 26.86%	FOREIGN STOCKS 11.63%	BONDS 5.24%	HIGH YIELD BONDS 54.22%	SMALL VALUE STOCKS 24.50%	GLOBAL BONDS 6.35%	SMALL VALUE STOCKS 18.05%	SMALL VALUE STOCKS 34.52%	LARGE VALUE STOCKS 12.36%	BONDS 0.55%	HIGH YIELD BONDS 18.26%	LARGE GROWTH STOCKS 27.44%	LARGE GROWTH STOCKS -0.01%	LARGE GROWTH STOCKS 31.13%	LARGE GROWTH STOCKS 33.47%	
	LARGE VALUE STOCKS 5.82%	SMALL VALUE STOCKS 23.48%	GLOBAL BONDS 10.95%	HIGH YIELD BONDS -26.17%	SMALL GROWTH STOCKS 34.47%	EMERGING MARKET STOCKS 19.20%	HIGH YIELD BONDS 5.47%	FOREIGN STOCKS 17.90%	LARGE GROWTH STOCKS 32.75%	BONDS 5.97%	FOREIGN STOCKS 0.39%	LARGE VALUE STOCKS 17.40%	FOREIGN STOCKS 25.62%	GLOBAL BONDS -0.84%	SMALL GROWTH STOCKS 28.48%	EMERGING MARKET STOCKS 18.69%	
	SMALL VALUE STOCKS 4.71%	LARGE VALUE STOCKS 20.80%	LARGE GROWTH STOCKS 9.13%	SMALL VALUE STOCKS -28.92%	FOREIGN STOCKS 32.46%	LARGE VALUE STOCKS 15.10%	LARGE GROWTH STOCKS 4.65%	LARGE VALUE STOCKS 17.68%	LARGE VALUE STOCKS 31.99%	SMALL GROWTH STOCKS 5.60%	SMALL GROWTH STOCKS 1.38%	EMERGING MARKET STOCKS 11.60%	SMALL GROWTH STOCKS 22.17%	HIGH YIELD BONDS -2.37%	FOREIGN STOCKS 22.66%	GLOBAL BONDS 10.11%	
	SMALL GROWTH STOCKS 4.15%	SMALL GROWTH STOCKS 13.35%	SMALL GROWTH STOCKS 7.05%	LARGE GROWTH STOCKS -34.92%	LARGE GROWTH STOCKS 31.57%	LARGE GROWTH STOCKS 15.05%	LARGE VALUE STOCKS -4.8%	HIGH YIELD BONDS 14.71%	FOREIGN STOCKS 23.29%	SMALL VALUE STOCKS 4.22%	LARGE VALUE STOCKS -3.13%	SMALL GROWTH STOCKS 11.32%	LARGE VALUE STOCKS 15.36%	LARGE VALUE STOCKS -8.95%	SMALL VALUE STOCKS 22.39%	FOREIGN STOCKS 8.28%	
	LARGE GROWTH STOCKS 4.00%	HIGH YIELD BONDS 11.92%	BONDS 6.97%	SMALL GROWTH STOCKS -38.54%	LARGE VALUE STOCKS 21.18%	HIGH YIELD BONDS 14.42%	SMALL GROWTH STOCKS -2.91%	LARGE GROWTH STOCKS 14.61%	HIGH YIELD BONDS 7.53%	HIGH YIELD BONDS 1.86%	GLOBAL BONDS -3.57%	LARGE GROWTH STOCKS 6.89%	SMALL VALUE STOCKS 7.84%	SMALL GROWTH STOCKS -9.31%	EMERGING MARKET STOCKS 18.90%	BONDS 7.51%	
	BONDS 2.43%	LARGE GROWTH STOCKS 11.01%	HIGH YIELD BONDS 2.65%	LARGE VALUE STOCKS -39.22%	SMALL VALUE STOCKS 20.58%	FOREIGN STOCKS 8.21%	SMALL VALUE STOCKS -5.50%	SMALL GROWTH STOCKS 14.59%	BONDS -2.02%	GLOBAL BONDS -4.8%	HIGH YIELD BONDS -4.93%	BONDS 2.65%	GLOBAL BONDS 7.49%	SMALL VALUE STOCKS -12.86%	HIGH YIELD BONDS 14.00%	HIGH YIELD BONDS 5.48%	
	HIGH YIELD BONDS 2.26%	GLOBAL BONDS 6.12%	LARGE VALUE STOCKS 1.99%	FOREIGN STOCKS -43.06%	BONDS 5.93%	BONDS 6.54%	FOREIGN STOCKS -11.73%	BONDS 4.21%	EMERGING MARKET STOCKS -2.27%	EMERGING MARKET STOCKS -1.82%	SMALL VALUE STOCKS -7.47%	GLOBAL BONDS 1.60%	HIGH YIELD BONDS 7.03%	FOREIGN STOCKS -13.36%	BONDS 8.72%	SMALL VALUE STOCKS 4.63%	
Worst ↓	GLOBAL BONDS -6.88%	BONDS 4.33%	SMALL VALUE STOCKS -9.78%	EMERGING MARKET STOCKS -53.18%	GLOBAL BONDS 2.55%	GLOBAL BONDS 5.17%	EMERGING MARKET STOCKS -18.17%	GLOBAL BONDS 1.65%	GLOBAL BONDS -4.00%	FOREIGN STOCKS -4.48%	EMERGING MARKET STOCKS -14.60%	FOREIGN STOCKS 1.51%	BONDS 3.54%	EMERGING MARKET STOCKS -14.25%	GLOBAL BONDS 5.90%	LARGE VALUE STOCKS 1.36%	Worst ↓

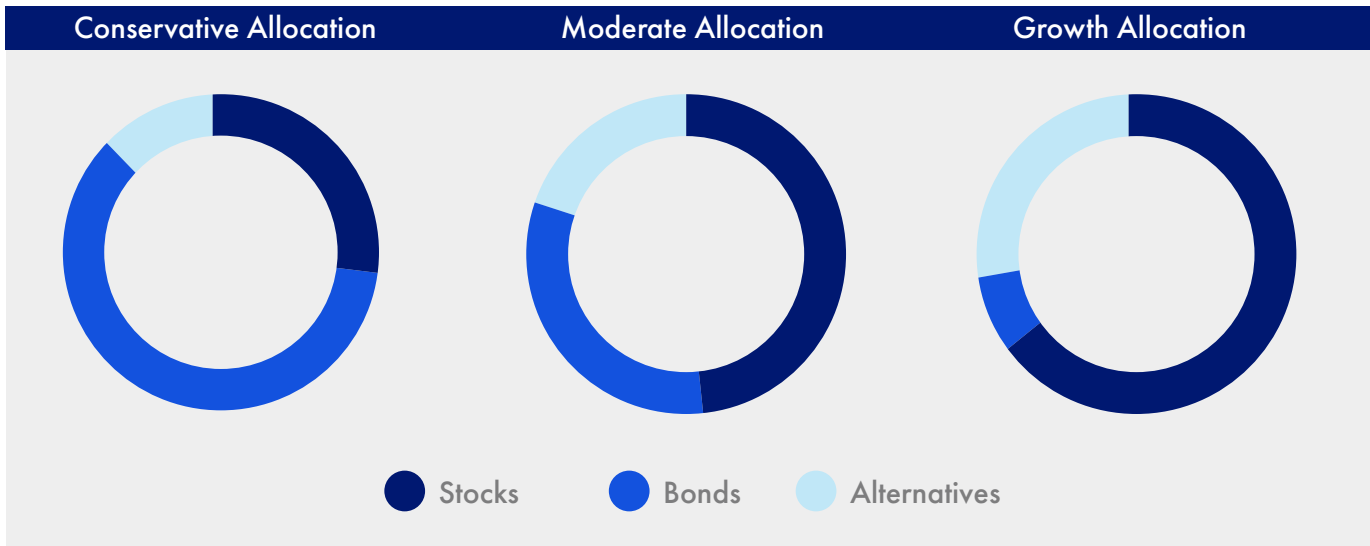
* Source: Morningstar. Large growth stocks are represented by the S&P Growth Index; Large value stocks are represented by the S&P 500 Value Index; Small growth stocks are represented by the Russell 2000 Growth Index; Small value stocks are represented by the Russell 2000 Value Index; Foreign stocks are represented by the MSCI EAFE Index; Bonds are represented by the Barclays U.S. Aggregate Bond Index; High yield bonds are represented by the Credit Suisse High Yield Index; Emerging market stocks are represented by the MSCI Emerging Markets Index; Global bonds are represented by the FTSE World Government Bond Index.

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Which asset allocation is right for you?

The asset allocation that is right for you depends on your investment time frame, goals and tolerance for risk. Because your financial goals and circumstances are unique, your financial professional and tools like our FutureFIT® calculator on aig.com/RetirementServices can help you choose an allocation strategy that fits your needs.

Sample Asset Allocations



For illustrative purposes only

	Investment Mixes According to Risk Level					
	Low		Moderate		Aggressive	
% Treasury Bills	30	30	20	10	0	10
% Bonds	40	30	30	40	30	20
% Growth	30	30	40	30	50	70
% Small Caps	0	0	0	10	10	0
% International	0	10	10	10	10	0

The chart illustrates sample portfolio asset allocations: Low Risk (those nearing or in retirement); Moderate Risk (middle-aged investors); Aggressive Risk (younger investors).

Rebalance and review.

Once you have established an appropriate asset allocation, you should monitor it over time. As your investment time frame and goals change, so may your ideal asset allocation. Generally, the less time you have before you reach your goals, the more conservative your asset allocation should be.

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“The most important thing you can have is a good strategic asset allocation mix. So, what the investor needs to do is have a balanced, structured portfolio – a portfolio that does well in different environments ... we don’t know that we’re going to win. We have to have diversified bets.”

Ray Dalio, Founder of Bridgewater Associates

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