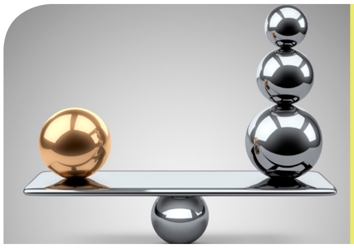
BUILDING PUBLIC SECTOR RETIREMENT SECURITY

Rebalance Your Investments to Manage Risk

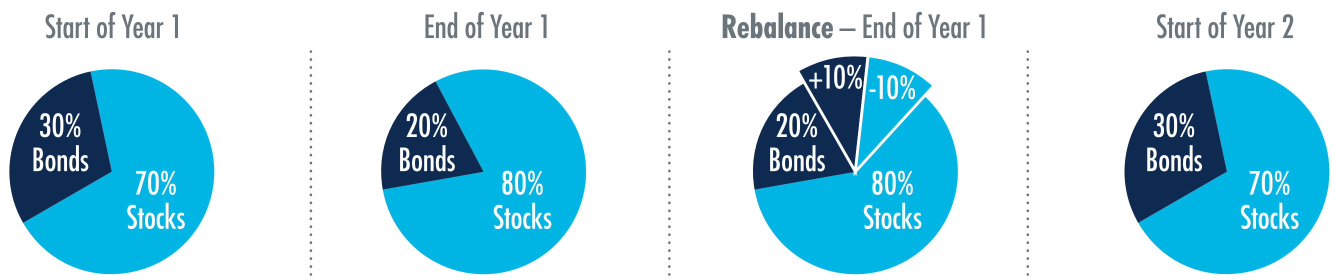


Rebalancing your investments helps you maintain a prudent level of risk by following a disciplined strategy and is widely recommended by financial professionals. Many retirement plan participants can choose investment options that automatically rebalance. Otherwise, when and how you rebalance requires some planning and periodic action.

What is Rebalancing?

Rebalancing generally involves selling investments that have recently outperformed and using the proceeds to buy investments that have underperformed so that you restore your portfolio's risk level back to its original target.

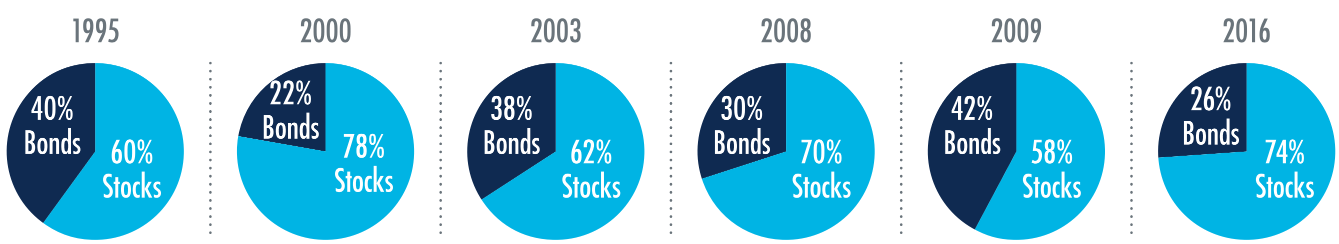
For example, let's assume you're targeting a portfolio of 70 percent stocks and 30 percent bonds. At the end of the year, your stocks have performed well and grown to represent 80 percent of your portfolio. You would rebalance by shifting some of your stocks to your bonds so your portfolio again is 70 percent stocks and 30 percent bonds.



Why Rebalance?

Rebalancing is primarily about reducing risk so that you are more likely to follow a disciplined strategy based on a level of risk that makes sense for you, rather than making emotional decisions based on the market's natural fluctuations.

For example, during the 1990s the stock market rose steadily but then tumbled during 2000-2002. Then it recovered from 2003-2007 only to fall drastically in 2008. Here's how a portfolio that was not rebalanced would have shifted over the years, magnifying the potential gains *and losses*.



For illustrative purposes only. Stocks represented by the S&P 500 Index.
Bonds represented by the Barclays U.S. Aggregate Bond Index.
Portfolio allocations as of Jan. 1 of each year.

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Rebalancing is especially important as you get older and have less time to recover from market declines. It can help keep a conservative portfolio conservative. As you near and go through retirement, the need to manage risk will likely be more important than trying to squeeze out extra growth. On the other hand, younger investors with more time until retirement may choose to "let their investments ride" and not rebalance.

It is possible that rebalancing will increase your returns but not necessarily. It may even lower returns. It all depends on the time period and the specific assets bought and sold. Ultimately, rebalancing is more about managing risk.

Rebalancing also provides an important opportunity to reflect on your investments if your situation has changed and you need to adjust your target risk level.

How Often?

There are three rebalancing strategies to consider:

1. **Rebalance on a set schedule,** such as annually. This is the easiest approach and could be done at the beginning of the year, on your birthday, or some other meaningful date.

2. **Rebalance whenever a certain asset increases or decreases by more than a certain percentage,** which could require shifting assets around multiple times within a short period of time or doing nothing for multiple years. For example, if your target portfolio is 50 percent stocks and 50 percent bonds, you might rebalance back to your 50/50 mix whenever your stock portion rises more than 5 percent points: above 55 percent or below 45 percent. This approach provides more control but requires more monitoring.

3. **A hybrid approach,** where you monitor at a regular interval, such as annually, but rebalance only if your portfolio exceeds defined thresholds.

Which Investments?

Rebalancing your overall stock vs. bond investments is key to managing risk. You also may want to rebalance within your stocks — including U.S. vs. international stocks; large company vs. small company stocks; and value vs. growth stocks — which is more likely to result in opportunities to sell high and buy low as these different areas outperform and underperform each other, while ultimately reverting to a fairly similar long-term return.

Note: For your non-retirement accounts, take taxes into consideration. How you manage potential capital gains or losses may impact the exact investments you sell and when. And for all your accounts, consider any redemption fees and brokerage commissions that may apply.

Automatic Rebalancing

Choosing investments and/or services that rebalance for you can automate and simplify maintaining your portfolio, as long as you're comfortable with giving up some control. In your retirement account, depending on your plan rules and what's available, you may have access to a few different options that help you rebalance:

- **Target-date, target-risk, balanced, and lifetime income funds** periodically rebalance according to a specific objective.
- **Managed Accounts service** manages your investments for you.
- **Automatic rebalancing service** rebalances your investments automatically every year or so.

Investors seeking alternatives to a do-it-yourself rebalancing approach may wish to utilize these options.

To learn more about investing, visit **www.icmarc.org/invest**.