Choosing funds: The basics of investment selection

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Retirement Specialists are Registered Representatives of Nationwide Investment Services Corporation, Member FINRA.
What you should know…
the basics of choosing funds

– What are investment options?
  Find out how to select investments from different investment types

– Risk! What risk?
  Learn strategies to help manage your account and fund line-up

– Who needs asset allocation?
  A mix of investment types
What are “investment (or funding) options?”
What are mutual funds?

ABC large cap fund does not sell shares of large-company stock to MSRP.

Investing involves risk including possible loss of principal.
Shares of mutual funds

<table>
<thead>
<tr>
<th>457(b) Plan</th>
<th>Current Investment</th>
<th>Ending Price</th>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>*Drey Midcap Index Fnd</td>
<td>46.00%</td>
<td>24.2200</td>
<td>62.6011</td>
</tr>
<tr>
<td>*Gdmnscs Lgcap Val Inst</td>
<td>0.00%</td>
<td>11.2100</td>
<td>6.9580</td>
</tr>
<tr>
<td>*Pimco Totalreturn Fnd Inst</td>
<td>26.00%</td>
<td>10.2800</td>
<td>120.6001</td>
</tr>
<tr>
<td>*T. Rowe Pr Sml Cap Stk Fnd</td>
<td>14.00%</td>
<td>26.5900</td>
<td>21.3986</td>
</tr>
<tr>
<td>*Vanguard Instl Index Fd Ip</td>
<td>14.00%</td>
<td>106.5800</td>
<td>5.5905</td>
</tr>
<tr>
<td><strong>Total Percent</strong></td>
<td><strong>100.00%</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Shares are what you own—no matter the price.

Prices go up and down every day. Losses aren’t “real” unless shares are sold.
Different kinds of mutual funds

Three main categories of underlying investments

Investing involves market risk, including possible loss of principal.

**Bonds**
Contract that pays interest on money loaned for a period of time

**Short-term**
Money that has a lesser chance of losing value

**Stocks**
Share of ownership in a company
What they each do ...

<table>
<thead>
<tr>
<th></th>
<th>Short-term</th>
<th>Bonds</th>
<th>Stocks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job they do…</td>
<td>Readily available</td>
<td>Pay income</td>
<td>Grow in value</td>
</tr>
<tr>
<td>Advantage</td>
<td>Maintain value</td>
<td>Produce income</td>
<td>Protection from inflation</td>
</tr>
<tr>
<td>Disadvantage</td>
<td>Vulnerable to inflation</td>
<td>Little growth</td>
<td>Value fluctuates</td>
</tr>
</tbody>
</table>
Add six to the mix

Asset allocation does not guarantee profits nor insulate from losses in a down market.
Risk! What risk?
Expected potential risks or rewards

- Bonds
- Balanced
- Large Cap
- Mid Cap
- Small Cap
- International
- Short-term
Stock mutual funds investment styles

The size of the companies the fund invests in:

- Under-valued
- Income
- High/rising sales
- Riskier
- Climbing share price

Keep in mind, any investment involves risk, and there is no assurance that the investment objective of any fund will be achieved.
Managing investment risk

Strategies to help manage your investment risk

1. Match funds to time horizon
2. Contribute regularly (dollar cost averaging)
3. Select a mix of funds (asset allocation)
Look to history for perspective

Bull markets, on average, last nearly five times as long as bear markets

While down (bear) markets may be more memorable, the truth is they have been historically brief compared to up (bull) markets.

- Since 1950, the nine bear markets have each lasted, on average, just 13 months. The nine bull markets over that same period have each lasted an average of 60 months.
- Market downturns can actually provide investing opportunities for those ready to take them.

The average bull market gained 141%

The average bear market lost 32%

*Source for index data: Commodity Systems, Inc. The Standard & Poor’s (S&P) 500 Index is an unmanaged, capitalization-weighted index of 500 widely held stocks of large U.S. companies that gives a broad look at how the stock prices of large U.S. companies have performed. It doesn’t incur the fees and expenses that an actual portfolio would incur, which would reduce performance if included. You can’t invest directly in any market index. Past performance of an index is not an indicator of future results.
Regular contributions (dollar cost averaging)

<table>
<thead>
<tr>
<th>Amount</th>
<th>Price</th>
<th># of eggs</th>
</tr>
</thead>
<tbody>
<tr>
<td>$50</td>
<td>1.00</td>
<td>50</td>
</tr>
<tr>
<td>$50</td>
<td>0.50</td>
<td>100</td>
</tr>
<tr>
<td>$50</td>
<td>1.25</td>
<td>40</td>
</tr>
<tr>
<td>$50</td>
<td>0.25</td>
<td>200</td>
</tr>
<tr>
<td>$200</td>
<td>3.00</td>
<td>390</td>
</tr>
</tbody>
</table>

Average store price per egg
$3.00 divided by 4 = 75 cents

Average price paid per egg
$200 divided by 390 = 51 cents*

*D rounded

Dollar cost averaging does not assure a profit and does not guarantee against loss in a declining market.
Who needs asset allocation?

Asset allocation does not guarantee profits nor insulate from losses in a down market.
Two ways to mix

| Confident choosing & managing investments | ✓ | ✓ |
| Want complete control of level of risk | ✓ | ✓ |
| Want professional asset allocation | ✓ | ✓ |
| Want automatic re-balancing | ✓ | ✓ |

Fund prospectuses can be obtained by calling 800-545-4730. Before investing, carefully consider the fund’s investment objectives, risks, and charges and expenses. The fund prospectus contains this and other important information. Read prospectuses carefully before investing. Investing involves market risk including possible loss of principal.
Targeted Retirement Funds
What are they?

• One-step approach for those who lack time or desire to select and monitor their account
• One fund selected based on estimated retirement date or estimated date on which withdrawals may commence
• Asset allocation monitored and adjusted by professional money manager
• Fund is automatically adjusted over time

Target Maturity Funds, also known as target date funds, are asset allocation funds that are based on a targeted date as to when an investor plans to begin to withdraw money. These funds use a strategy that reallocates equity exposure to a higher percentage of fixed investments over time. As a result, the funds become more conservative over time as you approach retirement. It’s important to remember that no strategy can assure a profit or prevent a loss in a declining market. The principal value of the fund(s) is not guaranteed at any time, including at the target date.
Traditional investment approach

• Investment options listed from most conservative to most aggressive in *Spectrum of Investment Options*
• Prospectuses and fund profiles available from **MarylandDC.com**
• Create a mix that corresponds with your risk level using an asset allocation model
Complete Interactive Guide to Asset Allocation

- Step 1 Consider Your time horizon
- Step 2 Find your risk tolerance
- Step 3 Identify your investor profile
- Meet with a Representative today to make your changes!
Traditional investment approach
Match your funds to an asset allocation model

Asset allocation does not guarantee profits nor insulate from losses in a down market.
Traditional investment approach
Review your asset allocation annually

Does your current allocation match your desired asset allocation model?

Asset allocation does not guarantee profits nor insulate from losses in a down market.
Rebalancing service

• Maintains your desired asset allocation. There is no additional fee for this new service.

• Evaluates your account(s) on the same date every three months, or the first business date thereafter. If necessary, your balances are adjusted to the levels you selected.

• Mails a confirmation when a transaction occurs because of asset rebalancing. The transaction also will be reflected on your statement.

• To enroll in this free service, call 1-877-350-0303.
Now you know…
the basics of choosing funds

– **What are investment options?**
  Select from mutual funds and a fixed-rate pool—each type has a specific job to do.

– **Risk! What risk?**
  Reward is the flip side of risk. There are strategies to help **manage** your investment mix or account portfolio based on your risk tolerance.

– **Who needs asset allocation?**
  A **mix** of investments may help potentially increase profits while reducing losses.
Simplify with a single account

Qualified retirement plans, deferred compensation plans and individual retirement accounts are all different, including fees and when you can access funds. Assets rolled-over from your account(s) may be subject to surrender charges, other fees and/or a 10% penalty if withdrawn before age 59½.
Continue your investment education
Resources available to Maryland public employees

• Financial education seminars and One-on-One Counseling

• MarylandDC.com

• Educational Information in Statement and ENews

• Help and guidance available by phone at 800-545-4730

• Information provided by retirement specialists is for educational use only and is not intended as legal, tax or investment advice.