NAVIGATING TURBULENT TIMES

How **Events** Influenced Stocks

Challenges Facing the U.S. Economy

Fundamental **Investment Tactics**

Foreword

Market bubble. Recession. Geopolitical events. Unemployment. Individual and government debt. Bull and bear markets. Currency swings. Inflation. These are just a few of the challenges that have affected the financial markets over the past decades.

The fact is that the markets are frequently beset by challenges. Expecting them and being prepared may be the best defense when events roil the markets. This might also help reduce the potential for making emotion-based investment mistakes.

Did you know that there are strategies to help anticipate, manage, and potentially benefit from the inevitable ups and downs of the financial world? Plans and expectations for your financial future shouldn't have to depend on daily fluctuations in the stock market.

Of course, losses and gains are part of investing. By taking a deliberate, time-tested approach, you may be able to pursue your goals without feeling as though you have to constantly adjust your portfolio to react to today's news.

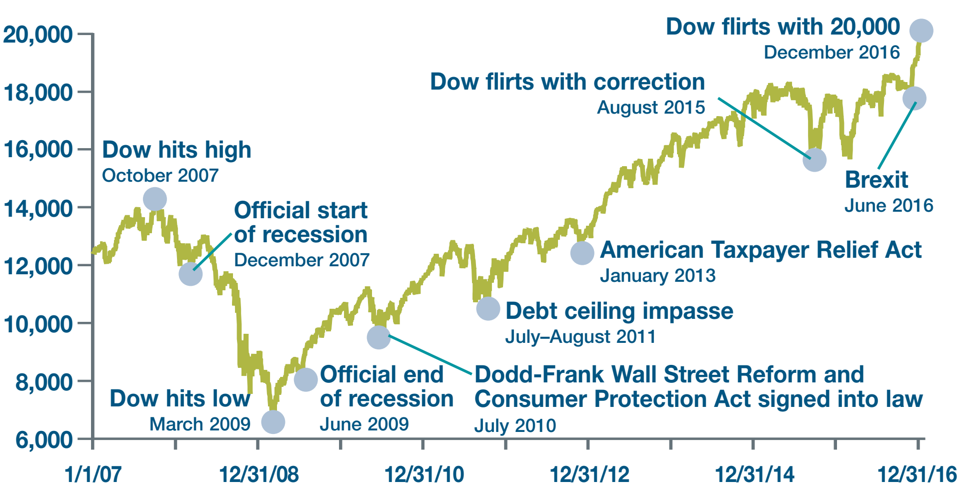
Investing During Turbulent Times

During the Great Recession, Americans witnessed one of the most difficult times in U.S. economic history. Many people lost their savings, jobs, homes, and confidence.

How Events Influenced Stocks

Stocks fell precipitously in 2008 but recovered much of their losses in the last three quarters of 2009. However, investors who reduced their exposure to equities after the financial crisis may not have participated fully in the market rebound.

In succeeding years, the Dow Jones Industrial Average moved to new highs, flirting with 18,000 in December 2014. In August 2015, the Dow fell to its lowest level since 2007. Stocks had nearly recovered by the end of 2015 but then experienced their worst-ever start to a new year in 2016, with the Dow down about 10% in the first three weeks and entering bear territory. But the Dow managed to continue moving steadily higher through year-end except for losing 611 points on June 24, 2016, the day after U.K. citizens voted to leave the European Union (Brexit).



Sources: Yahoo! Finance, 2017, Dow Jones Industrial Average for the period 1/1/2007 to 12/31/2016; msn.com, January 21, 2016; MarketWatch, June 24, 2016

The Dow Jones Industrial Average is generally considered to be representative of U.S. stocks. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Past performance does not guarantee future results. Actual results will vary.

Changes in Market Conditions

Market changes may occur more frequently than you realize. Recognizing that markets move in cycles might help keep you from overreacting to short-term market swings.

A **pullback** is typically defined as a 5% dip in a market index from a recent high. It might take one month for the decline to unfold and two months for the market to return to its earlier level.

When an index closes 10% below its 52-week high, it is considered to be a **market correction**. The 10% slide in the Dow in August 2015 — a result of China's economic slowdown, currency devaluation, and stock market dive — met the criteria for a correction.[1]

A **bear market** is defined as a period in which the prices of securities are generally falling, resulting in a downturn of 20% or more in several broad market indexes (such as the Dow Jones Industrial Average and the Standard & Poor's 500 index), typically over a period of several months or longer.

Bear markets, just like bull markets, are inevitable. Fortunately, on a historical basis, bear markets are typically shorter in duration than bull markets. Even so, a bear market could maul your retirement savings. The most recent bear market, which lasted 17 months from October 2007 to March 2009, was the worst bear market since the Great Depression.[2]

A **bull market** is often defined as a period during which the market is rising, resulting in a gain of about 20% or more in several broad market indexes, and generally accompanied by investor optimism. The most recent bull market hit its eighth birthday on March 9, 2017.

Sources: 1) time.com/money, August 25, 2015; 2) CNBC, August 24, 2015

The bull market that started in March 2009 on the heels of the Great Recession is the second longest since 1945. Stocks have averaged 19.45% on an annual basis.

InvestmentNews, March 6, 2017

Are You Where You Want to Be?

Considering history and past events, when it comes to your personal finances and your investment portfolio, are you where you want to be? Are you confident that you have positioned yourself to potentially benefit from changes in the economy and the financial markets?

If you are not sure, you aren't alone. Many investors are concerned about how recent events may affect their finances and their futures. With the number of challenges facing the economy and the financial markets, as well as the ever-changing political landscape, investors need to position themselves financially for an uncertain future.

In January 2017, Americans said the most important issues facing the nation were the economy in general (11%) and dissatisfaction with government (11%).

Gallup, 2017

Challenges Facing the Economy and Financial Markets

- Economic recovery
- Jobs, unemployment conditions, and wage growth
- Inflation and adjustments to monetary policy
- Home prices
- Oil prices
- GDP growth and business investment
- Student debt
- Medicare and Social Security commitments
- Vulnerability to global events

Uncertainty about these challenges can affect consumer attitudes and investor behavior.

How Do You Navigate in Turbulent Times?
1. Develop a Sound Financial Strategy

Developing a sound financial strategy can help keep you from being stampeded into making poor investment decisions — especially during uncertain times.

Have a Clear Understanding of Your Investment Objectives

What are you trying to achieve by investing? Are you working toward a comfortable retirement, a college education for family members, a cabin in the mountains, or a trip around the world?

Your personal financial goals can help determine the appropriate mix of assets for your investment portfolio depending on which objectives you are pursuing:

- Capital preservation
- Income
- Growth
- Tax benefits

What are your personal financial goals?

Identifying your goals is an important first step to achieving them.

1. ______________________________
2. ______________________________
3. ______________________________

Know Your Investment Time Horizon

The amount of time you have before you need to reach your goals can have a tremendous effect on the investment categories you choose. That's because fluctuations in the financial markets can affect the short-term value of certain types of investments.

For example, if your goal is saving for a down payment on a house next year, your goal is a specific amount of money and your time frame is very short. Therefore, you wouldn't want to invest all your money in aggressive investments that carry a lot of risk. You simply wouldn't have time to recover from heavy losses if they occurred.

Understand Your Risk Tolerance

Determining your risk tolerance involves evaluating how much risk you are willing to take to reach your financial goals, including the ability to watch the value of your investments fluctuate without becoming queasy.

Generally, the more potential for growth offered by an investment, the more risk it carries. Market performance over the last few years has tested many investors' risk tolerance and driven home the fact that risk tolerance is an essential consideration of a sound investment strategy.

What are your personal feelings about investment risk?

___ I am willing to accept substantial risk to pursue significant growth potential.

___ I am willing to accept moderate risk to pursue moderate growth potential.

___ I am willing to accept a small amount of risk to pursue some growth potential.

___ I am not willing to accept any investment risk.

Sources of Risk

- ***Economic instability.*** For example, during a recession, the stock values of industries that cannot easily cut costs can decline dramatically.
- ***Interest rates.*** Bonds and other fixed-income investments tend to be sensitive to changes in interest rates. When rates rise, the value of these investments falls, and vice versa.
- ***Market fluctuations.*** When the broader market declines, it can pull down the value of even healthy companies.
- ***Company-specific issues.*** Management decisions, product quality, and ownership behaviors can affect stock values.
- ***Inflation.*** Rising prices can reduce the purchasing power of your investment earnings and affect the amount of money you have available to invest.

How Do You Navigate in Turbulent Times?
2. Choose Solid Investment Vehicles

When it comes to choosing solid investment vehicles, most people think of these four main types of investments:

- Stocks
- Bonds
- Cash alternatives
- Mutual funds

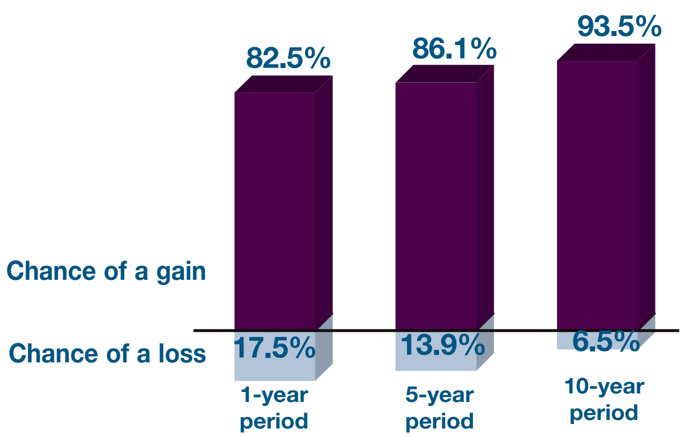
Stocks

Historically, stocks have had a strong performance record over long periods of time, providing an 11.07% average annual return over the last 40 years. Even so, keep in mind that stocks can lose money. During the five-year period from 2004 through 2008, stocks had a *negative* cumulative return (–10.47%).

Past performance is not a guarantee of future results. Shares, when sold, may be worth more or less than their original cost.

Lower Risk Over the Long Term

S&P 500: 1977–2016



Source: Thomson Reuters, 2017, S&P 500 Composite index total return for the period 12/31/1976 to 12/31/2016. Ranges consider the 40 one-year periods, the 36 five-year periods, and the 31 ten-year periods from 1977 through 2016. The S&P 500 is an unmanaged index that is generally considered to be representative of the U.S. stock market. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Actual results will vary.

What Factors Drive Stock Prices?

• **Current and future earnings.** In theory, if a company experiences a period of increasing revenues and profits, the value of the company's stock will appreciate — perhaps proportionately and perhaps not — to reflect the increased earnings.

• **What investors are willing to pay for those earnings.** When the price that investors are willing to pay for a stock becomes disproportionate to the underlying company's earnings, the stock may be referred to as "overvalued" or "undervalued." In other words, the market has placed either a premium or a discount on access to that company's present and future earnings.

Bonds

• **Generally considered to be less volatile than stocks.** Bonds are often used to help counterbalance stock market fluctuations. Bad news for the stock market may be good news for the bond market — but not always.

• **Essentially a loan.** The investor lends money to the bond issuer in exchange for the promise of interest payments and the return of principal at a specific point in the future (the maturity date), unless the issuer defaults.

• **Subject to interest-rate risk.** Many bonds are traded on the open market before their maturity dates. This means that the price at which a bond can be sold will rise or fall in response to changes in interest rates. Someone who sells a bond before it reaches maturity may end up getting more or less than the original face value of the bond, or the original investment.

Bonds with short-term maturities tend to be less sensitive to interest-rate fluctuations than bonds with longer-term maturities.

Generally, the more growth potential offered by an investment, the more risk it carries.

Cash Alternatives

Of the major investment vehicles, cash alternatives tend to be the "safest" — meaning there is little fluctuation in the value of the investment. So they do provide some protection during turbulent economic periods. But in times like these when interest rate are low, they may not offer a high degree of appreciation.

Cash alternatives are savings vehicles that include:

Bank savings accounts. Usually offer high safety but a relatively low rate of return. They don't require a large initial investment, and the funds in them are readily accessible.

Certificates of deposit. Short-term loans to a bank, credit union, or savings association. They offer a moderate rate of return and high safety. CDs usually require a larger initial investment than savings accounts, and you must leave your principal invested for a set term in order to avoid early-withdrawal penalties.

Money market funds. Money market funds invest in a diverse portfolio of short-term debt securities; they can usually be liquidated fairly easily.

Money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although a money market fund seeks to preserve the value of your investment at $1 per share, it is possible to lose money by investing in such a fund.

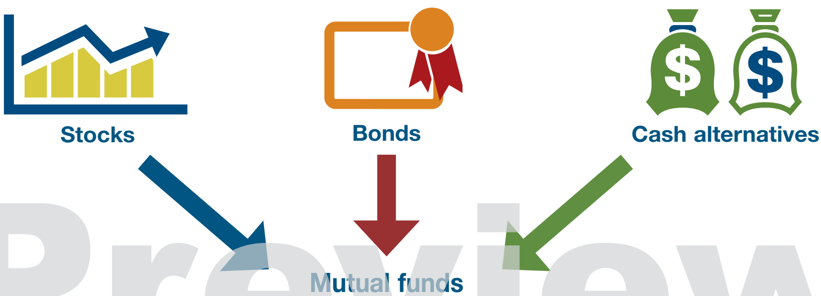
Bank savings accounts and CDs are FDIC insured for up to $250,000 per depositor, per insured institution, and offer a fixed rate of return, whereas the value of money market mutual funds can fluctuate.

Although cash alternatives are less risky than stocks and bonds, they may be highly vulnerable to the **risk of inflation**. For the 30-year period ending in December 2016, inflation averaged 2.64%. This means an investment that did not return 2.64% annually over this time period would not have kept pace with inflation.

Source: Thomson Reuters, 2017, Consumer Price Index for the period 12/31/1986 to 12/31/2016

Mutual Funds

Mutual funds pool money from investors and use it to build a portfolio that may combine stocks, bonds, cash alternatives, and other securities. A professional investment manager is responsible for buying and selling individual investments for the fund according to the fund's specific objectives.



Benefits offered by mutual funds:

Professional management. Portfolio managers supply the knowledge and technical expertise for buying, monitoring, and selling securities on a daily basis.

Flexibility. Mutual funds let you customize your investment portfolio. You can choose from a wide variety of investment styles and objectives to suit your investing profile. You can also adjust quickly to changes in your lifestyle or your market outlook.

Diversification. By investing across a wide range of securities, industries, or asset classes, mutual funds may help reduce investment risk and enhance long-term return potential. Of course, diversification does not guarantee a profit or protect against loss; it is a method used to help manage investment risk.

The return and principal value of mutual fund shares fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, is available from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

How Do You Navigate in Turbulent Times?
3. Employ Fundamental Investment Tactics

Some basic investment tactics may help improve your potential for financial success, help manage investment risk, and potentially protect your portfolio from dramatic ups and downs.

Diversification

Diversification involves splitting money among different investment vehicles in order to help limit exposure to losses in any one sector of the market.

Different types of investments may react to changing market conditions in different ways. For example, an unfavorable news story that pushes stock prices lower may help bond values rise, or vice versa. When you divide your money among various asset classes and investment vehicles, gains in one area can help compensate for losses in another.

The example below compares two $1 million portfolios. One portfolio relies on a single type of investment. The other is split equally into five different investment categories, each with a different potential for return and accompanying risk.

If the single investment continues to be volatile, the value of the portfolio may continue to fluctuate widely. The diversified portfolio, on the other hand, may be able to take advantage of potential rallies with some of the investments. In the event that a specific investment type suffers a downturn, only a portion of this portfolio would be vulnerable.

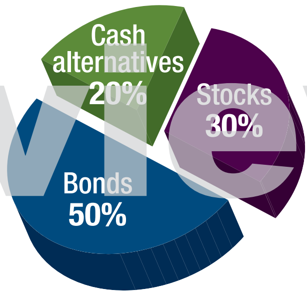
This hypothetical example is used for illustrative purposes only. Actual results will vary. Diversification does not guarantee a profit or protect against loss; it is a method used to help manage investment risk.

Asset Allocation

Asset allocation involves strategically dividing your portfolio into different asset categories — typically, stocks, bonds, and cash — to seek the highest potential return for your risk profile. It uses sophisticated statistical analysis to determine how different asset classes perform in relation to one another. The goal is to achieve the appropriate balance of security and growth potential for your situation. Asset allocation does not guarantee a profit or protect against loss; it is a method used to help manage investment risk.

Sample Allocation for a Conservative Portfolio

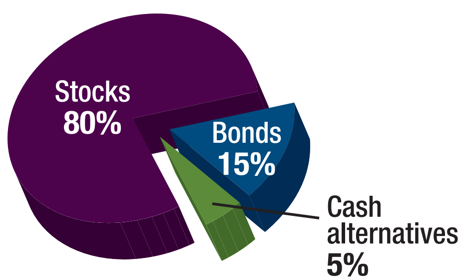
Primary goals:
Asset preservation, some growth



The conservative portfolio's primary goal is to preserve assets until needed for retirement, but also to pursue some growth to help ensure a comfortable lifestyle.

Sample Allocation for an Aggressive Portfolio

Primary goal:
Pursue growth



The aggressive portfolio's primary goal is to accumulate sufficient retirement assets. It assumes more volatility in exchange for higher growth potential.

These hypothetical examples are used for illustrative purposes only. Actual results will vary. Investments offering the potential for higher rates of return also involve a higher degree of risk of principal.

Dollar-Cost Averaging

Dollar-cost averaging involves investing a fixed amount in an investment at regular intervals, such as every month. Because share prices typically fluctuate on a daily basis, this strategy generally enables investors to buy more shares when prices are low and fewer shares when prices rise. As illustrated in the table, the result can be a lower average cost per share over the long run.

In this example, a hypothetical investor wants to invest $3,000. If she were to invest the entire amount when the share price was $100, she could afford to buy 30 shares. By opting to invest $500 a month over six months, she was able to realize a lower average cost per share.

Month	Amount invested	Share price	Shares acquired
1	$500	$100	5.0
2	$500	$90	5.6
3	$500	$60	8.3
4	$500	$70	7.1
5	$500	$60	8.3
6	$500	$70	7.1
Total	**$3,000**	**$450**	**41.4**

Average price per share: $75.00 ($450÷6)
Average cost per share: $72.46 ($3,000÷41.4)

This hypothetical example is used for illustrative purposes only and does not represent any specific investment. Actual results will vary.

Dollar-cost averaging does not ensure a profit or prevent a loss. Such plans involve continuous investments in securities regardless of fluctuating prices. You should consider your financial ability to continue making purchases through periods of high and low price levels. However, this can be an effective way for investors to accumulate shares to help meet long-term goals.

This guide was designed to help you become aware of some strategies that may help protect you from — or help you take advantage of — market volatility. But it should be stressed that this is not a how-to guide. The concepts in this booklet are general and not intended to be used as a basis for financial decisions.

Working with your financial professional, you can determine which strategies might be appropriate for you based on your financial situation, appetite for risk, and time frame. Although there is no assurance that working with a financial professional will improve investment results, a financial professional can offer education, serve as a knowledgeable sounding board, and provide an objective viewpoint as you weigh investment opportunities and pursue your objectives. This could have a substantial effect on your long-term financial situation.

Preview

This material was written and prepared by Broadridge Advisor Solutions.

KIT-049-07-000000