

Asset Allocation: Finding the Right Mix

Today's complex financial markets require a carefully crafted investment strategy. In fact, you can potentially reduce your investment risk and increase your chances of meeting your investment goals by practicing "asset allocation" — the process of strategically dividing your money among each of the major asset classes based on your financial goals, risk tolerance, and time horizon. Asset allocation does not ensure a profit or protect against a loss. Here's a quick look at the three asset classes:

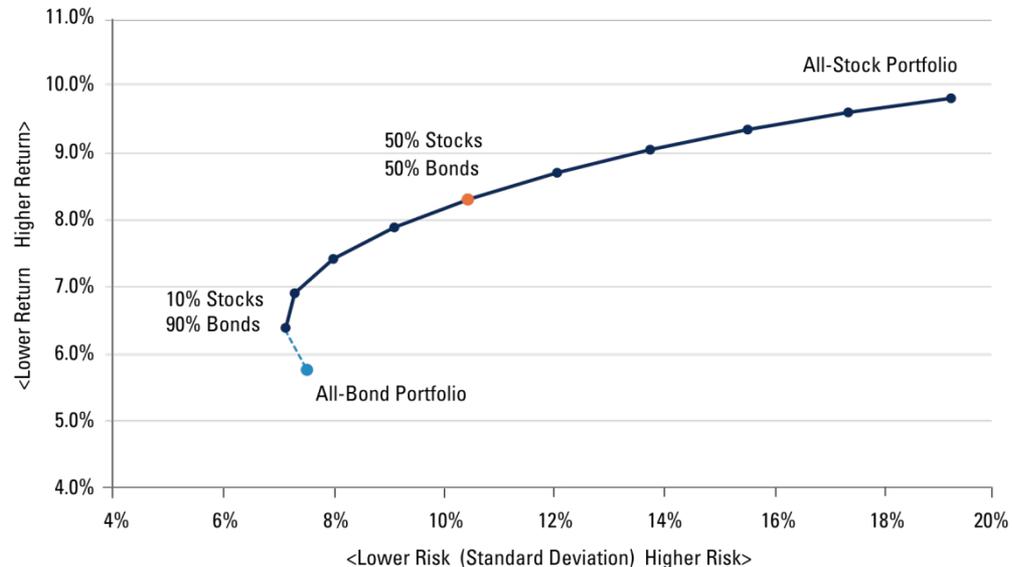
Stocks have historically earned higher returns than other asset classes, but they also carry higher levels of risk. Stocks are generally most suitable for long-term financial goals.

Bonds typically offer less return potential than stocks, but they may also be less risky. Bonds may potentially help offset some stock volatility in a long-term portfolio and also provide income for shorter-term needs.

Money market instruments usually offer the lowest return and are the least risky of the asset classes. They may be appropriate for short-term financial goals or emergency savings.

The right mix of these asset classes will depend on your needs. For example, a 35-year-old who is investing for retirement and tolerates higher levels of volatility might choose an asset allocation of 70% stocks, 20% bonds, and 10% money markets — he or she may have time to ride out market fluctuations while pursuing growth potential. Down the road, a less aggressive asset allocation might be required.

As this chart demonstrates, the precise mix of asset classes you choose can have a significant impact on your risk exposure and return potential.



Source: McGraw-Hill Financial Communications. Stocks are represented by Standard & Poor's Composite Index of 500 Stocks, an unmanaged index that is generally considered representative of the U.S. stock market and cannot be invested into directly. Bonds are represented by total returns of long-term government bonds (10+ years), constructed from a composite of yields, published by the Federal Reserve, and the Barclays Long-Term Government Bond Index. Stock investing involves risk, including loss of principal. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values usually decline as interest rates rise and are subject to availability and change in price. Past performance is not a guarantee of future results. (CS000026)

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