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5 Things you Need to Know About: Asset Allocation

Asset allocation is fundamental to achieving investment goals. In fact, asset allocation is likely to have a bigger impact on the performance of a portfolio than the selection of individual investments.

1. ASSET ALLOCATION

Asset allocation is the process of balancing risk and return in a portfolio by investing across different asset classes. The major asset classes include bonds, stocks and cash.

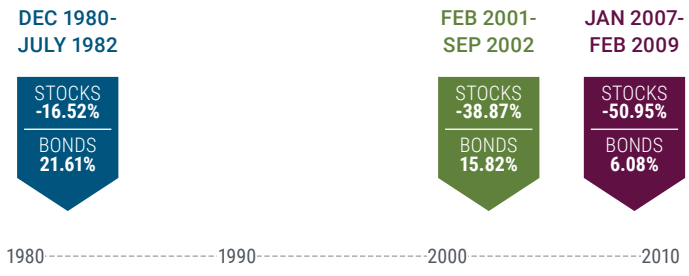
Seek to balance risk and return potential by investing in different asset classes

Diversification does not ensure against loss.
Source: PIMCO

2. BONDS MAY HELP OFFSET EQUITY VOLATILITY

Traditional asset allocation strategies seek to mitigate overall portfolio volatility by combining asset classes with low correlations to each other, meaning that they don't tend to move in the same direction at the same time.

Bonds have moved in different directions than stocks in periods of stock market stress

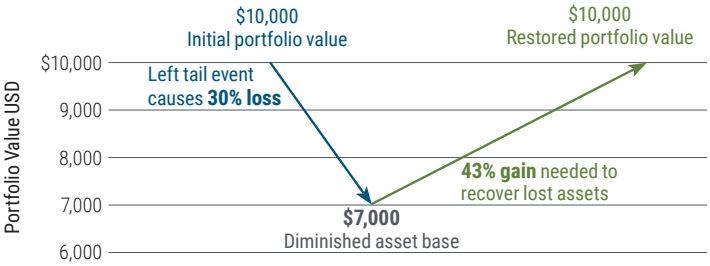


Past performance is not a reliable indicator of future performance. Stocks are represented by the S&P 500 Index; Bonds are represented by the Bloomberg US Aggregate Bond Index.
Source: PIMCO

3. TAIL RISK

Recovering from left tail events, or extreme portfolio declines, can be challenging because any future gains will be made on a diminishing base of assets. Tail risk hedging helps investors proactively guard their portfolios.

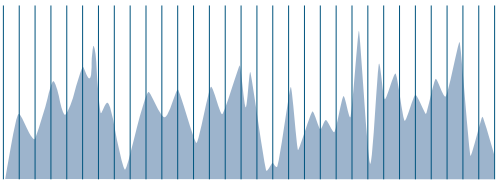
Regaining portfolio losses after a market crisis may cost more than you would expect



For illustrative purposes only.
Source: PIMCO

4. STAYING INVESTED

Investors are more likely to reach their long-term goals if they remain invested and avoid short-term decisions that may take them off course.



No one knows when the markets will move or by how much

Source: PIMCO

5. RISK FACTOR DIVERSIFICATION

Even highly diversified portfolios may not adequately cushion market volatility. Understanding the underlying risk factors that many asset classes share can create a more efficient risk managed portfolio.

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Past performance is not a guarantee or a reliable indicator of future results.

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