

The power of asset allocation

Asset allocation is a rational strategy for investment selection. Simply put, it is the process of diversifying your investment dollars across different asset classes. It enables you to optimize your return potential while reducing your risk.

How your investments are diversified depends on your willingness to tolerate risk. In general, the greater the risk, the greater the potential return.

By diversifying a portfolio, you can pursue attractive performance potential while simultaneously spreading out your investment risk.

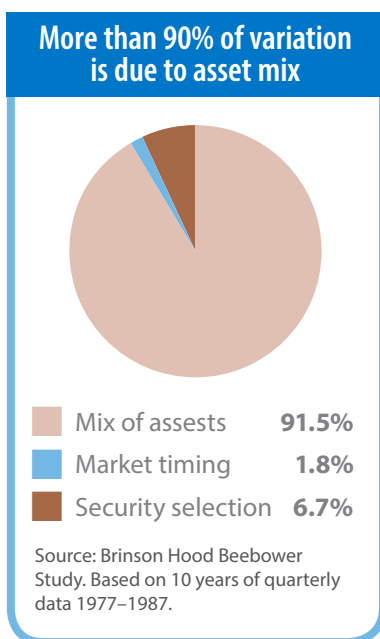
How important is asset allocation to your investment success?

Industry research has shown that more than 90% of the variation in portfolio return is determined by asset allocation.

In short, while picking specific investments and deciding when to buy and sell those investments can have an impact on your overall return, a well-diversified portfolio may be the critical factor in determining how well your portfolio performs in the long run.

What type of investor are you?

The questionnaire on Pages 3–4 will help you determine your investment style. It was developed by Wilshire Associates, a nationally recognized investment management firm. If you're not sure whether your investment style is conservative, moderate or aggressive, the questionnaire can help you determine which portfolio model may be right for you. Just complete the questionnaire on the following pages to review your investment style, fund asset classes and investment options. Allocation choices may be listed for reference, but you will have to select the allocation you prefer on your *Retirement Plan Selection Form*.



A personal asset allocation strategy is built on two key elements:

Your time horizon

A shorter horizon, for example, would result in a more conservative portfolio strategy.

Your risk tolerance

For example, an aggressive portfolio may not be suitable for a person with a low tolerance for risk, even if he or she has a long-term time horizon.

WHAT TYPE OF INVESTOR ARE YOU?

To complete the questionnaire, circle the number next to the response that most resembles yours. Circle only one number per question.

1. Your current age is:

Circle one

- 1 Over 70
- 4 60–70
- 8 50–59
- 12 35–49
- 16 34 or younger

2. When do you anticipate taking regular cash distributions from your account?

Circle one

- 2 Less than five years
- 5 Five to nine years
- 7 10 to 15 years
- 10 More than 15 years, or I do not anticipate taking cash distributions

3. In addition to your current employer-sponsored retirement plan, do you have other retirement plan benefits such as a defined benefit pension or defined contribution profit-sharing plan?

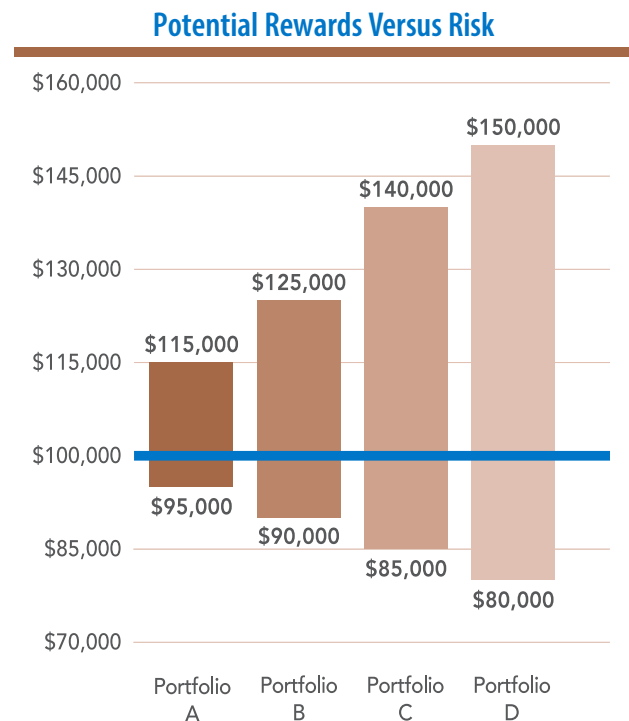
Circle one

- 0 No
- 20 Yes

4. The chart below shows the possible performance range of four different sample portfolios. Let's say you invested \$100,000 at the beginning of the year. Each bar shows the range of potential values at the end of one year. Which portfolio best describes your tolerance for risk?

Circle one

- | | |
|---------------------------------------|----------------------------------------|
| 1 Portfolio A
(\$95,000–\$115,000) | 7 Portfolio C
(\$85,000–\$140,000) |
| 4 Portfolio B
(\$90,000–\$125,000) | 10 Portfolio D
(\$80,000–\$150,000) |



5. While riskier than bond investments, stock investments offer the potential of higher long-term investment returns. What is your feeling about investing a portion of your money in stock investments?

Circle one

- 1 | I am concerned that stock investments are too risky and would prefer a higher allocation to bonds
- 5 | I understand there is additional risk with stock investments and would consider a more balanced allocation to stocks and bonds
- 9 | I understand there may be some additional risks in stock investing, but the opportunity to achieve long-term growth with a higher allocation to equities is worth a serious consideration
- 12 | I understand the risks, but recognize there are growth opportunities in stock markets, and would like to maximize those opportunities

6. Given the volatility of the capital markets, your account value will fluctuate over time. The three choices below show potential account value ranges after a three-year investment period. If you were to invest \$50,000, which portfolio would you select?

Circle one

- 2 | Account value range of \$48,000–\$53,000
- 6 | Account value range of \$45,000–\$58,000
- 10 | Account value range of \$40,000–\$60,000

Use your questionnaire scores to find your investment style.

Calculate Score	
Question 1	_____
Question 2	+ _____
Question 3	+ _____
Question 4	+ _____
Question 5	+ _____
Question 6	+ _____
Total =	_____

Response Point Total	Potential Rewards Versus Risk
0–16	Conservative
17–26	Moderately Conservative
27–39	Moderate
40–57	Moderately Aggressive
58–78	Aggressive

Portfolio Models

Asset Class	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive
International Stocks	9%	14%	19%	24%	30%
Small-cap Stocks	1%	2%	4%	5%	5%
Mid-cap Stocks	4%	6%	7%	9%	11%
Large-cap Stocks	16%	23%	30%	37%	44%
Bonds	40%	38%	28%	18%	7%
Capital Preservation	30%	17%	12%	7%	3%
Total	100%	100%	100%	100%	100%

The Investment Style Key

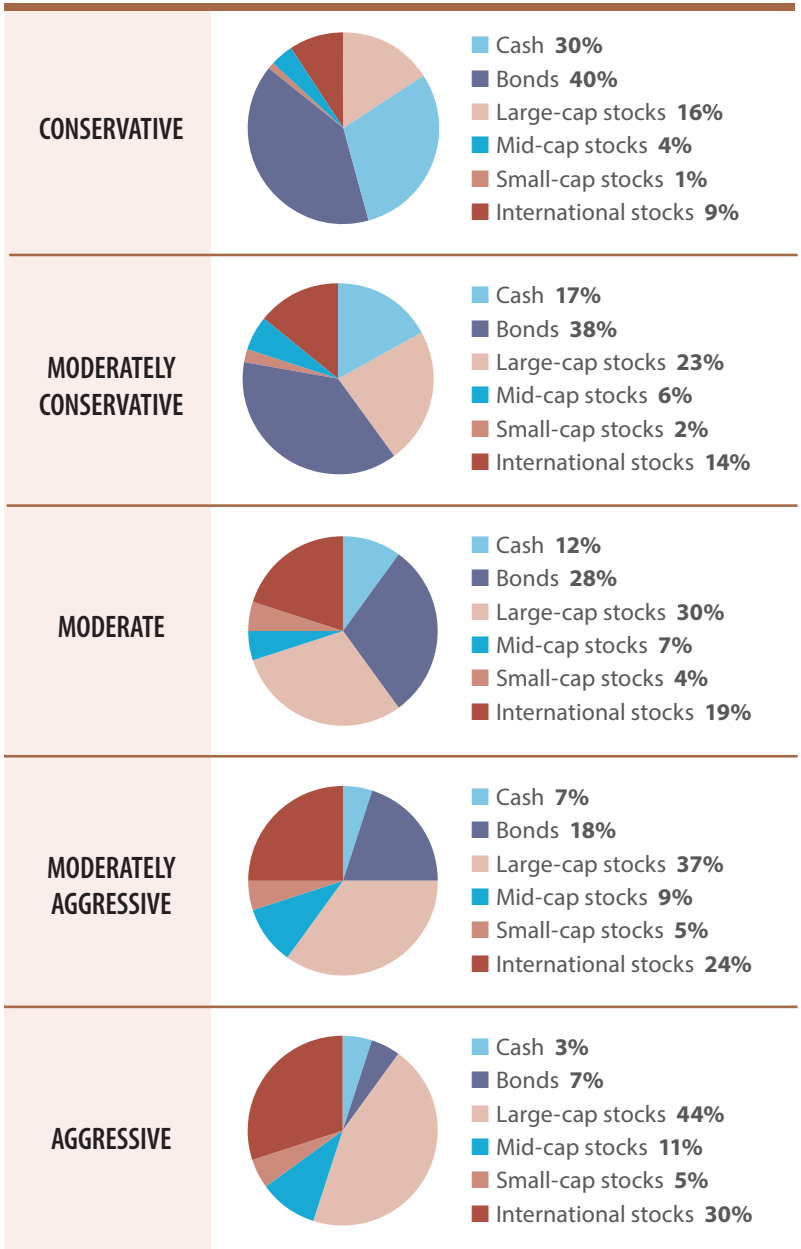
C	Conservative
MC	Moderately Conservative
M	Moderate
MA	Moderately Aggressive
A	Aggressive

Identify an allocation strategy for your Defined Contribution or Combined Plan

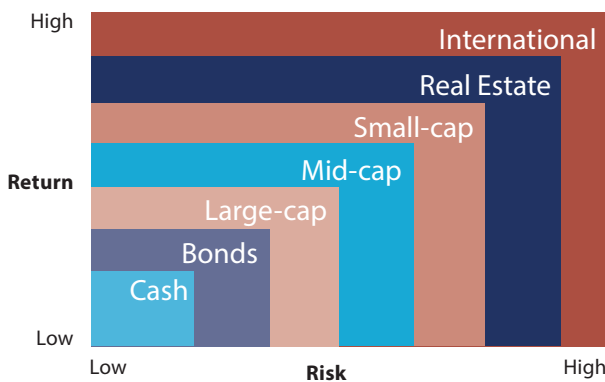
As explained earlier, asset mix is a critical factor in determining investment success. As this chart illustrates, Wilshire Associates has identified five potential portfolios that spread holdings across six general asset classes. Now that you have determined your investment style, you can match it with an investment portfolio that best fits your needs based on your responses to the questionnaire. This can serve as a guide to you as you pursue your own allocation strategy. If any of the asset classes are unfamiliar to you, refer to the Glossary on Pages 21–22.

Investment Style

Asset Classes (allocation)



Investment Risk Versus Return



Making your own investment choices

STRS Ohio offers 16 choices to determine how your retirement funds will accumulate — all managed by the same STRS Ohio investment professionals who manage the system’s defined benefit assets. These options vary in degrees of risk among different types of stock investments, bonds and cash equivalents.