



“...determining the right asset allocation is critical to your investment success.”

compliments of:



The Benefits of Asset Allocation

It's All in the Mix

The financial world is full of investment opportunities, offering countless avenues to pursue. Selecting the right combination of these opportunities is the challenge. How do you choose an investment mix that will help you to achieve your financial goals? It all depends on your needs and objectives, time horizon, and risk tolerance. Whatever your objective, allocation among asset classes is critical in structuring a successful portfolio. Since it's impossible to predict the future or determine the next best-performing asset class, asset allocation increases the odds of having a portion of your assets "in the right place at the right time."

What is Asset Allocation?

Asset allocation is a time-tested approach to portfolio management. It means spreading your investments among multiple asset classes such as stocks and bonds. This strategy helps to lessen the effects of market volatility, manage risk and provide the potential to maximize overall returns. Experts explain that the success of an investment strategy generally depends on a long-term commitment. Volatility, or the "ups and downs" associated with investing, often threatens investors' willingness to stick with their programs. Through asset allocation, a portfolio's losses in a poorly performing asset class may be offset by gains in an asset class that's performing well, effectively "smoothing out" some of the bumps inherent in investing. This reduced volatility could remove the temptation to "panic sell," and make it easier to stay the course for the long haul. In order to determine an asset allocation strategy that's right for your specific needs, it's essential that you speak with your financial services representative.

Asset Allocation & Mutual Funds

Since mutual funds are composed of a broad portfolio of securities, investing in them is a good first step toward reaping the benefits of diversification. Asset allocation takes diversification one step further by investing

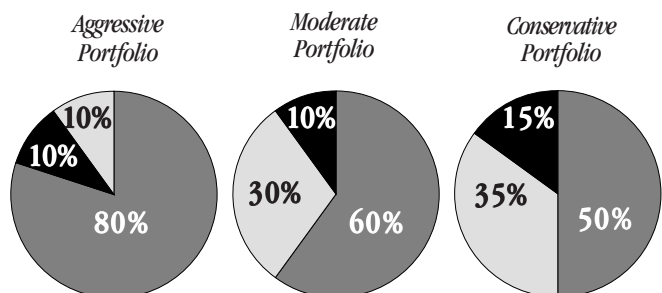
in a variety of funds from different asset classes and investment objectives. By spreading your investments among stock, bond and money market mutual funds, you minimize your exposure to any particular class. Economic, financial, and political changes generally affect each asset category differently. Therefore, an event such as an economic slowdown may hurt returns to one asset class – stocks – but may help the returns of another – bonds. In any market condition, a long-term investment strategy that includes asset allocation among mutual funds can improve your chances of reaching your financial goals.

How Do You Allocate Your Assets Appropriately?

Asset allocation is a highly personalized investment strategy built around your risk tolerance, time horizon and investment goals. In order to create a suitable portfolio, it is important to determine the extent to which you are an aggressive, moderate or conservative investor. But how do you know what type of investor you are? Deciding how much risk you are willing to accept, while taking into account such factors as your age, income level and financial objectives, is a key factor in developing your investment philosophy. For example, young people looking to build funds for retirement may be willing to assume greater risk because they have a longer time horizon.

3 Asset Allocation Models*

- Stock Funds
- Bond Funds
- Money Market Funds



* These allocations are presented only as examples and are not intended as investment advice. The investment mix that is appropriate for you depends on your age, investment horizon, goals and attitude about risk. Please consult your financial services representative if you have questions about these examples and how they relate to your own financial situation. The investor profile is hypothetical.

Therefore, they might be comfortable with a more aggressive portfolio heavily weighted with growth-oriented stock funds. This is because historically, stock funds have produced higher long-term returns with higher short-term volatility.* On the other hand, recent retirees looking to preserve the nest egg they have accumulated may take a more conservative approach, structuring a portfolio that includes more bond funds. While bond funds have historically produced lower returns, they tend to be less volatile than stock funds, and generally provide monthly income. The goal of asset allocation is to create a mix of different asset categories that can provide the potential for satisfying returns at a level of volatility that is comfortable for you.

What Is Your Time Horizon?

Risk tolerance is only part of the equation. Your time horizon must be considered in conjunction with your risk tolerance. The amount of time that you have until you need to access your investments seriously affects your portfolio strategy. It is generally agreed that to get the most out of mutual fund investing, investors should plan to have a time horizon of at least three to five years. An investor with a longer time horizon can usually afford to assume greater short-term risk in exchange for greater potential long-term returns. Thus, it may be wise for that investor to place a larger emphasis on stock funds, which have historically earned higher returns over time.

However, as you approach the time when funds are needed (e.g., as a child nears college age or you near retirement), it may be a good idea for you to begin transferring some assets into bond or money market funds. The shorter your investment time horizon, the less volatility you'll want in your portfolio. With your investment goal within reach, you don't want a sharp stock market downturn to erode the assets you've worked so hard to accumulate. While a 25-year-old may have many years to ride out market cycles and overcome short-term losses, the same is not true for a 65-year-old who may need money for immediate expenses. While you'll want to reduce volatility by paring down stock market exposure, you generally should keep a portion of your portfolio in investments with strong growth potential, such as stock funds, to stay ahead of inflation. Remember, you may spend 20 years or more in retirement, and just because you have retired doesn't mean inflation has.

**Past performance is not indicative of future results.*

What Are Your Investment Goals?

Are you saving to build a secure retirement? Or are you planning to send your children or grandchildren to college? Maybe you're saving for a down payment on a new home, or looking forward to a more comfortable lifestyle sometime in the future. No two people are alike and no two financial strategies need to be alike.

For example, the investment portfolios of a retiree, parents of a newborn baby, and newlyweds saving for their first home will differ markedly. If you are retired, you are probably interested in regular income to cover immediate needs and may want to consider bond and money market funds. If you are a parent of a newborn baby who is seeking to build a college fund, you may want a portfolio predominately consisting of growth-oriented stock funds since your time horizon is 18 years. For medium-term goals, such as saving for the purchase of a home, you may take a moderately aggressive approach, investing in funds with moderate risk and the potential for growth. And, if you wish to reduce your tax bill, you may want to invest more in municipal bond funds, which can provide triple tax-free income if you live in the state in which the underlying bonds are issued. Whatever your situation, your representative can help you develop a plan that's as unique as you are.

Rebalancing Your Portfolio

Your financial strategy does not have to be set in stone. As your financial circumstances change, your portfolio allocations should change as well. In addition, your portfolio allocations may become inconsistent with your overall investment plan as different asset classes increase or decrease in value with shifting market conditions. For example, if you begin an investment program with 75% of your money in stock funds, 20% in bond funds and 5% in money market funds, several years of superior stock market returns (like those of the late-1990s) could boost your stock holdings to more than 85% of your assets in just a few years. The resulting unplanned over-exposure – or in negative conditions, under-exposure – to an asset class may not be in keeping with your risk tolerance, investment goals and time horizon. That's why it is important to maintain an ongoing dialogue with your representative to rebalance your portfolio and ensure that your overall investment plan is still "on target" with your current needs and investment time horizon.

Contact Your Representative

In order to help you maintain your asset allocation strategy, your financial services representative will be available to meet with you on a regular basis in order to review your investments. As your needs and investments change, your representative will review and assess your financial plan with you to ensure that your allocations remain appropriate. From the first steps in your investment process through the fine-tuning of your portfolio, your representative will give you the kind of personal guidance that you have come to expect from First Investors.

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