Beware of Overlap

If you own several different funds, you may think you are diversified.[1] But how diversified are you if each fund holds stock in Company ABC? That's called *overlap*—and it's common. For example, recent data show that 4,978 different funds own Microsoft stock.[2]

The more overlap you have, the less you're reaping the benefits of diversification. Check for overlap by reading your funds' periodic reports to see the stocks each one owns. For a quick check, look at the top 10 holdings of every fund. If your funds own the same few stocks, look for other funds that offer the diversification you need. ■

[1]Diversification does not ensure a profit and does not protect against loss in declining markets. Allocating your assets among several investments with different objectives can help reduce the chance that one investment can hurt you with poor performance.

[2]Morningstar.com, May 2, 2013. The data on the number of funds owning stock of a given company is based on the most recent periodic report from each fund.

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Finding the Right Mix

Putting asset allocation to work for you

As an investor, you face a number of risks. Two of the most basic are **volatility**, the market's nerve-wracking ups and downs that can hurt your portfolio's value, and **shortfall**, the danger that your investments won't grow enough to meet your long-term goals. Asset allocation—dividing your portfolio holdings among a combination of stock, bond and cash investments—can help you manage both of these risks.[1] That's because different asset classes typically don't rise and fall in value at the same time. So, having a mix of various types of assets helps smooth out the impact of market volatility while improving the growth potential of your portfolio over the long term.

Finding the right combination of assets for you depends on three key factors:

Your total savings goal

How much do you need to save to generate enough income for a retirement that may last 20 years or longer? Opting for a less expensive retirement lifestyle or delaying retirement can help you close a savings gap. For example, a 65-year-old with $80,000 in savings who contributes $500 a month to his or her retirement plan could amass an extra $16,500 in savings by working until age 67.[2]

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Your time horizon

The amount of time you have until you need to start withdrawing your retirement savings can affect your investment strategy. Generally speaking, the more time until you retire, the more likely you can achieve your savings goal by making regular contributions and keeping a broad mix of stock and bond investments. With less time until retirement, you may need bigger contributions and/or more exposure to stock investments to reach the same target.

Your risk tolerance

Young adults are often more risk-tolerant because they have more time to recover from market losses. Investors nearing retirement, on the other hand, are often less risk-tolerant, because they need to protect their savings from the possibility of an extended market downturn. That said, considering that retirement could last 30 or more years, investors may want to keep a moderate-risk allocation—typically meaning more than 60% in stock investments—in their portfolios well into their retirement years.

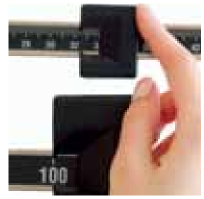
Because your situation changes over time, it's sensible to monitor your asset allocation periodically and make needed adjustments. Your workplace retirement plan's web site may provide tools and other resources to help you determine an asset allocation strategy that matches your needs and goals. ■

[1]Asset allocation does not ensure a profit and does not protect against loss in declining markets.
[2]Savings Calculator on finra.org. FOR ILLUSTRATIVE PURPOSES ONLY. This hypothetical example assumes a 6% annual return on investment. The illustration does not represent the performance of any particular investment options. It assumes investment of earnings and no withdrawals. Rates of return may vary. The illustration does not reflect any charges, expenses or fees that may be associated with your Plan. The tax-deferred accumulation shown above would be reduced if these fees had been deducted.

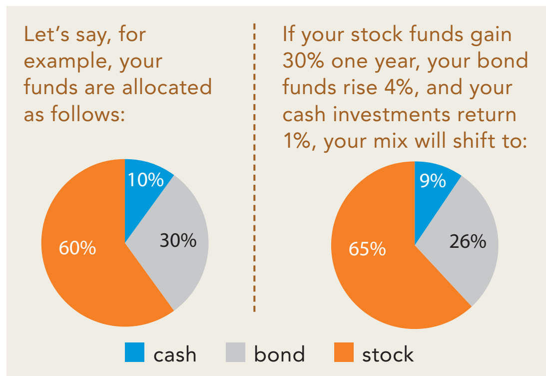
Having a mix of various types of assets helps smooth out the impact of market volatility while improving the growth potential of your portfolio over the long term.

When Should You Rebalance?

Market moves can throw your allocation off target



Changes in financial markets affect your investment mix over time. As markets fluctuate, one asset class may occupy a greater share of your portfolio while another consumes less. When this happens, consider "rebalancing"—returning your portfolio to your target asset allocation. Rebalancing can help optimize your portfolio by trimming back on asset classes that have recently outperformed and increasing those that have underperformed and may be ready to grow.[1]



Check your portfolio's allocations at least annually. If they have changed by more than five percentage points, adjust them back to your intended targets. In the example above, you could shift 5% out of stock funds, allocating 4% to bond funds and 1% to cash investments.

Your workplace retirement plan may automatically rebalance at certain levels. Contact a Great-West Financial℠ representative with questions or to get help.[2] ■

[1]Rebalancing does not ensure a profit and does not protect against loss in declining markets.
[2]Representatives of GWFS Equities, Inc. are not registered investment advisors and cannot offer financial, legal or tax advice. Please consult with your financial planner, attorney and/or tax advisor as needed.