Diversification: A good defense in a tough market

Portfolio diversification reduces exposure to individual company events.

Recently, America has witnessed the fall of several corporate titans. The bankruptcies and acquisitions of these fallen companies are changing the business landscape, and shareholders are suffering significant losses. Retirement plan participants are understandably worried about exposure to these companies and how it may affect their accounts.

Mutual funds and investments

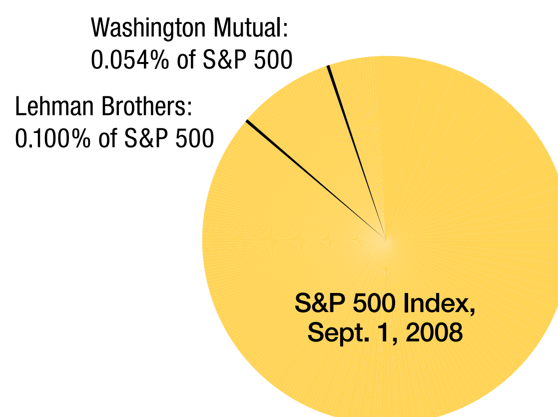
Retirement plan accounts usually hold mutual funds or similar investments. These funds often are broadly diversified, meaning they are made up of many different companies. A single mutual fund made up of large corporations (sometimes called a "large cap" fund) might hold stakes in dozens of companies representing many different industries.

A small percentage

The well-known companies that were casualties of the recent market upheaval were very large and held by many funds, especially large cap funds. However, in the vast majority of cases, these companies made up a relatively small percentage of a fund's total holdings.

For example, some funds imitate popular indexes like the S&P 500. The S&P 500 Index is a value weighted index of the prices of 500 large cap common stocks traded in the United States.

Let's examine how two companies included in the S&P 500 in September 2008 affected the index.



This chart is for illustrative purposes only and represents the holdings of two companies in the S&P 500 as of September 1, 2008. This chart does not represent any specific investment vehicle or fund. Past performance is no guarantee of future results. Investments are subject to market risk and fluctuate in value. An investment cannot be made directly in an index.

Funds that replicate the S&P 500 would have held shares of Lehman Brothers and Washington Mutual at the beginning of the month, but these companies failed shortly after and their stock values fell to zero.

However, these companies amounted to a very small percentage of the S&P 500. So, while Lehman Brothers and Washington Mutual received a lot of media attention, the failures of these companies had a minor affect on the entire index.

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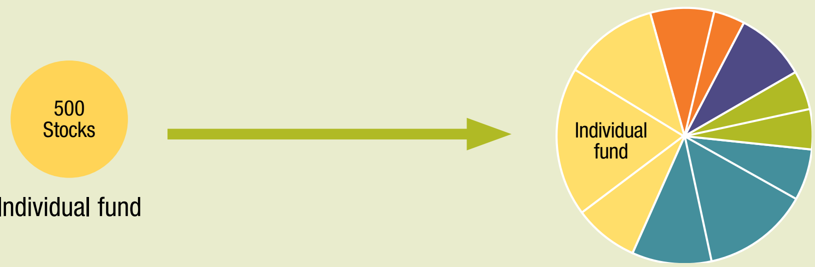
Diversified Funds Make Diversified Portfolios



Individual fund
A mutual fund, or similar investment, includes shares of many individual investments. A fund representing the S&P 500, for example, includes stocks from 500 different companies.

Portfolio
You can further diversify by including funds from different asset classes, such as stocks, bonds and cash equivalents.

These examples are hypothetical and for illustrative purposes only and are not indicative of the performance of any specific investment. Current and future portfolio holdings are subject to market risk and fluctuate in value.

Most retirement plan participants have more than one fund in their portfolios, further reducing their exposure. Poor performance in one fund can potentially be offset by stronger performance in another fund.

Portfolio diversification, while not ensuring a profit or protection against loss in a declining market, substantially reduces exposure to individual company events. In general, widespread fluctuations in the markets are needed to significantly affect the performance of a diversified portfolio.

Newspaper headlines are alarming and the ongoing financial crisis is having a negative impact on the market. Although past performance is no guarantee of future results, history has shown that the market tends to recover after a financial crises. Diversified portfolios should be in a strong position once the current market turbulence passes.

Plan sponsors and participants should carefully consider the investment objectives, risks, charges and expenses of the investment options offered under the retirement plan before investing. The prospectuses for the individual mutual funds and The Standard's Group Variable Annuity Contract and each underlying investment option in both the group variable annuity and group annuity contain this and other important information. Prospectuses may be obtained by calling 877.805.1127. Please read the prospectus carefully before investing.