Retirement on the Brain

Navigating Specialty Sector Investing

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Whether you're new to investing or have been building your retirement account for decades, navigating all the options can be confusing and stressful. It's easy to get sidetracked by trends, news topics or your friends' not-so-hot tips. That's why The Standard created the Retirement on the Brain series.

You can think of this brochure as the next tier in your investing education. It goes beyond the basics to feature more advanced investment choices and information. Use it as a starting point and proceed with care. The following six "compass points" can help guide your first explorations into specialty funds and sectors. Here's an overview – read on for more insights:

Six Compass Points To Guide Investing Choices

1. Be realistic
2. Build a balanced portfolio
3. Invest your time first
4. Consider what you know best
5. Stay alert
6. Understand the environment

6 Compass Points To Chart Your Course

1. Be Realistic About Your Knowledge, Time And Interest

Your retirement plan offers you a variety of investment options to build a well-balanced portfolio that suits your investment style and goals. If you're new to investing or have little time or interest, you may want to choose a pre-mixed portfolio with asset allocations designed to fit your tolerance for risk and your timeline to retirement.

More experienced investors seeking higher potential returns and who are committed to actively managing their portfolios may want to explore specialty sectors[1] such as funds focused on real estate,[2] precious metals, emerging markets and other defined categories.

However, it's essential to do your homework first, even when the investment options you're considering are offered through your employer's retirement plan.

What's more, experts suggest that, depending on your circumstances, it's not prudent to put more than 2 to 10 percent of your portfolio into specialty sector funds.[3]

Compass Point 1
Be Realistic

2. Build A Well-Balanced Portfolio

Trends and economic indicators – from monthly or quarterly jobless rates and Gross Domestic Product (GDP) reports, to consumer confidence numbers and retail store sales figures – affect the market in complex ways. For instance, interest rate changes influence bonds and stocks differently. Historically, interest rates and bond prices move in inverse directions. As interest rates go down, bond values typically go up and vice versa. Stocks may go down at first along with interest rates, then up.

As you build your portfolio, keep the principle of diversification[4] in mind. In other words, don't put all your eggs in one basket. Spreading out your savings over a variety of investments such as stocks, bonds,[5] mutual funds, index funds[6] and cash equivalents can reduce your exposure to risk.

Compass Point 2
Build A Balanced Portfolio

Know The Pros And Cons Of Specialty Sector Investing

PROS

- Diversification
- Potentially higher returns
- Take advantage of your specialized knowledge

CONS

- High risk
- Volatility
- More time required to monitor

1 Funds that focus on certain sectors may involve a greater degree of risk than other funds that provide broader diversification.

2 Real estate investment funds are subject to risks, such as market forces, that may affect the values of their underlying real estate assets.

3 "Sector funds: Are they right for you?" by Shelly K. Schwartz, Bankrate.com: www.bankrate.com/finance/investing/sector-funds-right-for-you.aspx#ixzz35UmI4BIP

4 Diversification does not ensure a profit or protect against a loss in a declining market.

5 Funds that invest in bonds are subject to certain risks including interest-rate risk, credit risk and inflation risk. As interest rates rise, the prices of bonds fall.

6 An investment cannot be made directly in an index.

Another aspect of diversifying is asset allocation, in which you determine what percentage of your portfolio you intend to hold in different investment categories. If you haven't already, visit **www.standard.com/retirement/education** and take the Investor Profile Quiz to determine your tolerance for risk. The quiz also considers your time horizon until retirement to help you choose appropriate asset allocations. A well-diversified account can help you manage volatility and enjoy growth potential over time. Of course, past performance is no guarantee of future results.

Compass Point 3
Invest Your Time First

3. Invest Your Time Before Your Money

Successful investing in specialty sectors requires more knowledge and time than other investment types. You'll also want to follow the markets more closely, because these categories may experience more volatility.

Evaluate your personal needs, interests and the time you're willing to commit, as well as your investment strategy, to see if specialty funds could provide diversification and opportunity for your overall retirement portfolio. Before you invest your money, do your own research or talk to your advisor to see if these types of funds fit into your investment goals.

Compass Point 4
Consider What You Know Best

4. Draw On Your Own Experience – Cautiously

If you have knowledge of a particular industry or category, your experience may help you make more informed investment decisions. For example, if you work in the health care field, an investment in that sector may make sense if you know the business and have a natural inclination to follow the news in that industry.

The same goes for expertise in real estate, technology or international markets. However, beware of overconfidence or relying on rumors, tips or advice from friends and coworkers.

Compass Point 5
Stay Alert

Compass Point 6
Understand The Environment

5. Stay Alert To News And Trends

Be aware of how information from the investment markets and news in general can affect your portfolio. For example, the price of gold could be affected by events — politics, the outbreak of war or natural disasters — in a region where the precious metal is mined. And the investment values and returns in emerging markets[7] may be vulnerable to political unrest.

6. Understand The Environment

Below is a brief description of specialty sector choices that may be available in your retirement plan. Be sure to educate yourself, talk to a financial advisor and carefully consider the investment objectives, risks, charges and expenses of the investment options before investing.

Take Special Care With These Specialty Investments

- Exchange-Traded Funds
- Real Estate Investment Trusts
- Precious Metal Funds
- Emerging Market Funds
- Brokerage Accounts
- Specialty Bond Funds

Exchange-Traded Funds (ETFs) are like mutual funds in that each fund is made up of a group of stocks. The difference is in how they are purchased and sold. ETFs can be traded at a market-determined price throughout the day while the stock market is open. In contrast, mutual fund shares may only be purchased or sold at the fund's net asset value, which is calculated at the end of the trading day. Many ETFs fall into the specialty category because they are based on an index, sector, industry group, country, commodity or other criteria.

Real Estate Investment Trusts (REITs) trade like stocks and allow individuals to invest in commercial properties such as office buildings, apartments, storage facilities, warehouses and industrial complexes. REITs tend to be either growth- or income-oriented and may appeal to real estate investors looking for centralized management, limited liability and transferable ownership. Returns are also driven by the supply and demand for the properties' locations, change in value and rental incomes. REITs receive special tax considerations and are required to pay 90 percent of their taxable income to their shareholders each year. Keep in mind that the real estate sector is subject to various risks, including fluctuations in underlying property values, expenses, rising taxes and interest rates and environmental liabilities.

Precious Metal Funds are commodity index funds based on contracts or agreements to buy gold and other precious metals. In general, the value of precious metals tends to rise when stock prices drop, which can make these funds attractive during periods of market volatility.

Emerging Market Funds invest primarily in equity investments in countries with emerging or developing economies. While these funds may offer high growth potential, international investing involves certain risks such as currency fluctuations, economic instability and political developments. These risks may be accentuated in emerging markets.

Brokerage Accounts, which may be available through your plan, can provide a virtually unlimited ability to pick open market funds outside of the plan's core fund lineup. Because The Standard and your plan's advisor are not involved in the selection and monitoring of funds outside the plan, use extra care if you make your own selections. Also, additional fees may apply.

7 International investing involves certain risks, such as currency fluctuations, economic instability and political developments. These risks may be accentuated in emerging markets. Real estate investment funds are subject to risks, such as market forces, that may affect the values of their underlying real estate assets.

Specialty Bond Funds[8] are professionally managed portfolios that invest in individual fixed-income securities, guided by a stated objective. They tend to focus on a particular sector, such as corporate or Treasury bonds; a broad category, such as investment-grade or high-yield securities; or a specific time horizon, such as short-, intermediate- or long-term bonds.

The credit risk is dependent on the quality of the underlying securities in which the fund invests. For example, high-yield bond funds invest primarily in lower-credit-quality securities, which can potentially provide higher income and returns than investment-grade bonds, but also have the potential for greater risk and volatility.

Global bond funds invest in bonds issued by U.S. government agencies. International bond funds invest in a range of taxable bonds issued by foreign governments and corporations. While designed to provide high current income, safety of capital and preservation of value, these funds are also subject to currency exchange risk and market risk and are generally more volatile than domestic bond funds.

Learn More About Investing

The Standard and your employer are committed to helping you achieve retirement readiness. For more information, timely articles and resources on investing, check out **www.standard.com/retirement/education**.

8 Funds that invest in bonds are subject to certain risks including interest-rate risk, credit risk and inflation risk.

9 TIAA-CREF (www.tiaa-cref.org/public/advice-guidance/is-an-actively-managed-or-index-fund-best-for-you)

Actively And Passively Managed Funds

In an actively managed fund, a professional fund manager uses analytical research, experience and judgment to build a portfolio of individual securities. The goal is to outperform the general market or indexes. Expenses are typically higher than with passive funds because it is labor intensive to research, analyze and manage on a daily basis. The rationale is that active management can offer the chance of higher returns over time and justify the higher fees.

In a passively managed or indexed fund, a manager tracks the performance of a benchmark. Thus managers of indexed funds are not attempting to beat the market, but rather to keep pace with it.

In 2012, the average expense ratio for actively managed funds was 92 basis points, compared with 13 basis points for equity-indexed funds.[9]

Many mutual fund companies offer both types of funds. And many investors find uses for both indexed and actively managed funds within their portfolios.

Employers and plan 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 each available investment option in the group annuity contain this and other important information. Prospectuses may be obtained by calling 877.805.1127. Please read the prospectus carefully before investing. Investments are subject to market risk and fluctuate in value.

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Retirement on the Brain – Navigating Specialty Sector Investing
RP 17208 (8/14)