DAP
A lifelong retirement plan

Heads Up

CommunityAmerica CREDIT UNION

Directed Account Plan 401(k) Plan Quarterly Review

October 2018

Understanding Risk Tolerance, Asset Allocation and Diversification

This article provides education on the common investing principals of risk tolerance, asset allocation and diversification for do-it-yourself investors. Financial advisors use these tools to build investment portfolios for their clients.

Starting September 2018, all DAP participants have access to a personal CommunityAmerica Credit Union financial advisor for advice related to their DAP assets at no charge to the participants or the DAP. You will find all of the information you need to contact a personal financial advisor for your DAP assets in the box on this page.

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Financial Advisory Services

Effective September 2018, all DAP participants have access to **no-fee financial planning services** offered through CommunityAmerica Credit Union (CACU).

This free service only applies to your asset holdings in the Directed Account Plan. Learn more about the CACU Financial Advisory Services Team, including their credentials and individual contact information at:

www.communityamerica.com/financial-advisors

A CACU financial representative can help you with asset allocation and diversification in the Directed Account Plan. The direct phone number to this team is **913-905-3600**.

Risk Tolerance

When it comes to investing, there is typically a parallel relationship between risk and reward. Generally, the more risky an investment is, the more potential it has to provide higher returns, and the less risky an investment is, the more likely it is to provide lower returns.

All investments have some level of risk, and it's up to each individual investor to decide how much risk they are willing to take on compared to the potential returns they may get. Because you have a variety of investments to choose from within the DAP, you can create a portfolio that may help you balance your risk/return ratio.

One thing that may increase your risk is putting too much of your savings in just one investment option. The good news is that there is a quick and easy tool to help determine your personal risk tolerance. Just take the short risk tolerance quiz available at **www.dap401k.com** on the home page *Plan Messaging* section. Once you know your risk tolerance, you can take advantage of a strategy to help create a portfolio that fits your risk tolerance.

Asset Allocation

Investing too heavily in one fund brings to mind the saying "Don't put all your eggs in one basket." You can avoid doing that through an investment practice known as asset allocation. Investments, like the core funds in the 401(k) Plan, are categorized into different asset class categories such as stocks, bonds and cash equivalents.

Stock funds usually carry the highest level of risk and volatility but also may provide the highest returns over the long term. Bond funds are generally less risky than stock funds but have historically lower returns. Cash equivalents typically have the lowest risk of the asset classes and the lowest historic returns. Knowing that, you can see how mixing and matching investments from these different asset classes in your portfolio may help you manage your risk/return ratio.

Diversification

Spreading your investments across different asset classes may be a great place to start. Now you can take your investment strategy a step further by diversifying your portfolio within the asset classes. Asset allocation and diversification are sometimes mistakenly taken to be one and the same, but they are very different. The simplest way to think about the difference is that asset allocation involves investing in different asset classes while diversification means investing in different funds within an asset class. The investment objective of a stock fund indicates what type of stock the fund will invest in.

Investing in different types of funds offered within an asset class helps you further diversify because different types of funds have different investment objectives and risk/return profiles. For example, within the stock fund asset class, available fund options differ based on the size, or market capitalization of the companies in which the fund is primarily investing. The table on page 2 lists the different categories of funds offered within the stock fund asset class and a general description of the types of companies in which they tend to invest.

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Diversification continued

The table below shows four stock fund categories along with their investment objectives. A diversified portfolio consists of an allocation of different categories of stock funds along with bond, fixed income, and cash equivalent funds.

Categories of Stocks Funds

Large-cap stocks - Large-cap companies typically have a market capitalization of $10 billion or more. These large companies have usually been around for a long time. Investing in large-cap companies does not necessarily bring in huge returns in a short period of time. Due to their size, large-cap stocks are generally believed to be safer, but they may not offer the same opportunities for growth as small-cap and mid-cap stocks.	**Mid-cap stocks** - Mid-cap companies generally have a market capitalization of between $2 billion and $10 billion. Mid-cap companies are established companies that operate in an industry expected to experience rapid growth. They carry inherently higher risk than large-cap companies because they can be more volatile than stocks of more established companies.
Small-cap stocks - Companies that have a market capitalization of between $300 million and $2 billion are generally classified as small-cap companies. These small companies could be young in age and/or they could serve niche markets and new industries. These companies are considered higher risk investments due to their age, the markets they serve, and their size. Equity securities of small companies may be more volatile than securities of larger, more established companies.	**International stocks** - Stocks of companies located outside the U.S. may or may not be traded on a U.S. stock exchange. As with any investment, international investing carries risks, including some unique to international markets, such as currency risk or changes to economic, political, or regulatory conditions. These risks can be magnified in emerging or developing countries due to their less regulated markets and economies.

Additional Investment Strategies

Beyond the three common principles already discussed, taking the following steps can also help you keep your portfolio aligned with your goals:

Rebalancing is a tactic you may use to help keep your portfolio on track with your goals. When market performance affects your asset allocation, rebalancing can help bring your allocation back in line with your intended investment objectives. Of course, this may require a more hands-on approach from you in terms of managing and monitoring your investments.

Asset Allocation Funds are designed to provide a well-allocated and diversified investment through a single fund. The investor can select a fund based upon anticipated retirement date through the Vanguard Target Retirement Funds or risk preference through the Target Risk Funds. The asset allocation funds are hands-off investment options that take care of rebalancing for the investor.

LEARN MORE

Complete details of your investment menu, asset allocations, expenses, and performance

www.dapretirement.com
under the resources & planning tab

Customer Service Representatives - 1-844-861-4327
Plan Office - 314-739-7373

Customer Service Phone Center Hours - The telephone voice response system is available 24 hours a day for balance and account information. DAP representatives are available 8:00 a.m. to 10:00 p.m Eastern Time Monday through Friday (excluding New York Stock Exchange holidays) and are also available on Saturdays 9:00 a.m. to 5:30 p.m. ET. Call 1-844-861-4DAP (1-844-861-4327).

Account Access Web Site:
www.dap401k.com

Informational Web Site:
www.dapretirement.com

* Market capitalization is determined by multiplying the number of outstandiing shares of a company by the share price.

The intent of this communication is to provide useful information, not investment advice. Each participant in the Directed Account Plan is ultimately responsible to make his or her own investment decisions.

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