INSIGHTS

First Investors

Fall 2011

Stock Funds vs. Bond Funds:
The Age-Old Question

Choosing the right mix of stock and bond mutual funds for your portfolio is one of the most important decisions that an investor faces. But it can also be one of the most difficult. Every portfolio should include both equity and fixed-income holdings. But a more personal question is, how much of each should you hold?

CEO's Corner
By Christopher Pinkerton

The Progress Continues

Since our last issue in the spring, First Investors has continued to make progress as the newest member of the Foresters™ family. As you may recall, First Investors joined forces with Foresters in January. A life insurance provider headquartered in Toronto, Canada, Foresters also has offices in the United States and the United Kingdom.

Since then, many First Investors Financial Services Representatives have become licensed to sell Foresters insurance products. Together the two companies will be able to offer a diverse portfolio of mutual funds, life insurance and annuities that will help every investor meet their financial goals.

In this issue's cover story, "Stock Funds vs. Bond Funds: The Age-Old Question," we discuss the merits of including both stock and bond mutual funds in your investment portfolio.

This issue of *First Investors Insights* also explains why active management and a professional manager can benefit your mutual fund portfolio. "Insurance Is There Because Life Happens" talks about September's observance of Life Insurance Awareness Month and tells the story of how life insurance helped Melissa Wandall and her daughter when the unthinkable happened. "Are You Both Ready To Make The Leap To Retirement?" emphasizes the importance of having a coordinated retirement strategy.

If you require assistance with these or any other investment or life insurance needs, please contact your representative. Our goal at First Investors is to allow you to make the investment and life insurance decisions that will help to ensure a sound financial future for you and your family.

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While stocks offer you the best chance to earn returns that exceed the rate of inflation, their performance can be volatile. Bonds offer greater stability, but over the long term they typically provide lower returns. Ultimately, maintaining a diversified fund portfolio that includes a combination of stock and fixed-income funds is the best way to help you meet your long-term financial goals.

Tolerance for Risk

In general, whether your portfolio should include more stock or bond mutual funds will depend on how much risk you are comfortable with and how long you have until you need the money. Some say that you should distribute your money between equity and fixed-income holdings based on your age. That means the younger you are, the more you should invest in stock mutual funds. The older you are, the more you should invest in bond mutual funds.

Following this rule, if you are age 30, for instance, 30% of your portfolio should be in fixed income and the remaining 70% in equities. By the time you reach age 60, 60% of your portfolio should be invested in fixed income and 40% in equities. Your allocation is primarily a function of age because experts expect your tolerance for risk will decline as you get older and move closer to retirement. Continuing to maintain some exposure to stock mutual funds even after you retire will provide your portfolio with the growth potential it needs to help you maintain your lifestyle.

Why You Should Diversify

Mutual funds that invest in stocks offer investors unlimited potential for growth from capital appreciation, plus divi-

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The Value of Active Management

First Investors mutual funds are actively managed. That means each fund has one or more portfolio managers who individually select the securities the fund purchases. Active managers typically rely on security selection and in-depth research as they seek to outperform a named benchmark. Passive managers take a buy-and-hold approach, purchasing the securities in a particular index as they aim to replicate its performance.

With all of the do-it-yourself investment advice available today, it's important to understand the benefits a professional manager can offer mutual fund investors, including the ability to:

- **Manage risk by creating a diversified investment portfolio.**
- **Access outside subadvisers to manage a particular fund when specific investment expertise is required.**
- **Maintain an investment strategy that is both objective and consistent through various market cycles.**
- **Take advantage of market inefficiencies in order to generate returns.**

When you invest in an actively managed mutual fund, you leverage the experience of investment experts who use research, market forecasts and their own judgment and experience to identify stocks or bonds that they believe will perform better than similar securities in the market.

Clark D. Wagner, Director of Fixed Income for First Investors Management Company, Inc., points to the municipal bond market, which he says is "not an efficient market." It has, he says, "tens of thousands of bond issuers and many different types of investors. Active management allows us to identify inefficiencies in the market and take advantage of them, which benefits our funds."

At First Investors, we recognize that investment management is not a hobby. Rather it requires full-time specialists who have the vision and expertise necessary to do the job properly. First Investors fund managers and analysts perform research on a daily basis to identify candidates for inclusion in the funds they manage.

This may involve in-person visits or teleconferences with senior management, according to Edwin D. Miska, Director of Equities at First Investors Management Company, Inc. "Our goal is to better understand a company's business, the potential upsides that an investment strategy offers and the associated risks and challenges."

The goal of this painstaking research, he says, "is to build our funds one investment at a time by identifying the best stocks and bonds we can find that fit the fund's objectives."

The intent, according to Mr. Miska, is to exploit market inefficiencies by trying to be better informed and make wise trading decisions. "Ultimately, we want better performance for shareholders through a differentiated point of view. While this approach inevitably leads to fluctuations versus the market, over time we believe the strategy adds value."

Stock Funds vs. Bond Funds: The Age-Old Question *(continued from cover)*

dends. While bond funds can also appreciate in value, the returns they provide are generally more modest. Most of the return on bond funds comes from the interest they pay, with some capital appreciation.

The Importance of Rebalancing

Once you choose the stock and bond funds that meet your objectives, it's important to rebalance your portfolio regularly to make sure the breakdown between equity and fixed-income funds remains close to its original allocation. Since stocks and bonds grow at different rates, checking your allocation at least once a year will help you remain on track. Keep in mind that it's not a good idea to change your allocation in reaction to short-term market conditions, but instead make deliberate changes based on your risk tolerance, time horizon and financial needs.

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At First Investors, we put the needs of our clients first. If you would like to communicate with us directly about any matter, including a complaint, you can call Shareholder Services at **800-423-4026** *or write to us at:* **First Investors Corporation, Raritan Plaza 1, PO Box 7837, Edison, NJ 08818-7837, Attn: Correspondence Department**.

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Insurance Is There Because Life Happens

September 2011 was Life Insurance Awareness Month (LIAM), an annual event sponsored by LIFE, a nonprofit organization. First Investors Life was proud to participate in LIAM for the eighth year in a row. As you may know, the United States is experiencing a growing life insurance crisis, with 30% of U.S. households saying they have no life insurance protection at all, according to LIMRA, a financial services marketing group. Consider this story about the important role that life insurance can play in a family's life.

No one knows what the future holds. One moment life is unfolding exactly as you have planned, and the next, you're handed a life-changing event. That's what happened to Melissa Wandall. Nine months pregnant, she decided to put her feet up and relax after work instead of going out to eat. Mark, her husband of one year, gave her a kiss as he left to dine out with Melissa's brother. Mark never returned.

As a young insurance agent, Mark Wandall didn't need to be convinced to buy life insurance. But even Mark would be amazed at what the insurance proceeds on his life have done for his family and for many other people he never met.

Mark was just 30 when he was killed in an auto accident less than a mile from his Bradenton, Florida home. He was the passenger in a car that was broadsided by a driver who ran a red light. He died less than a week after celebrating his first wedding anniversary and just 19 days before the birth of his daughter, Madison Grace. In what seemed like a blink of an eye, Melissa went from newlywed and mother-to-be, to a widow and single mother.

The insurance on Mark's life allowed Melissa to remain in the family home, take time off from her career so she could be a full-time mother and put money into a college fund for Madison Grace.

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The insurance also gave Melissa the opportunity to keep Mark's spirit alive through two important causes. She formed the Mark Wandall Foundation to raise money for worthy causes in her community. She was also the driving force behind a coalition that advocated for a new state law, the Mark Wandall Traffic Safety Act, which allows Florida police departments to post cameras to capture information about drivers who run red lights. The Act was signed into law in 2010.

Life insurance provided Melissa with options that wouldn't otherwise have been available to a young, single mother. "Without it, I don't think I would have had the time or energy to put into the foundation and the coalition," says Melissa. "It has allowed me to do these things and to be home with my daughter."

Personalized Service

While it's a good idea to understand the basic rules for putting together a diversified portfolio, one of the best tools available for helping with this task is your financial services representative. He or she will take your personal circumstances into consideration and recommend a mix of stock and bond funds designed to help you meet your long-term financial objectives.

Facts About Life 2011

Today, fewer American adults own life insurance. In fact, since 2004, the likelihood of being without life insurance has dramatically increased for every age group. Consider these statistics about the ownership of life insurance by men and women.

- **Women of all ages average smaller amounts of individual life insurance coverage than men of similar ages. On average, women have $129,800 of coverage while men have $187,100.**
- **Since 2004, the likelihood of husbands having any life insurance at all has declined across every income level—low, middle and affluent.**
- **Women ages 55 and older are considerably less likely than men of the same age to own life insurance. Women with personal incomes of $100,000 or more are less likely to have individual or group life insurance than men with similar incomes.**

Source: LIMRA, September 2011

Are You Both Ready To Make The Leap To Retirement?

Today more than ever, couples need to work together as they plan for their retirement. Consider these questions. Have you and your spouse talked about when you will retire, where you might live and whether one or both of you will continue to work part-time? If not, you are not alone. However, that's a discussion you should have soon—even if you have 10 or more years until your projected retirement date. Most successful savings and investment strategies depend heavily on the number of years until retirement. You don't want to make plans to retire in 10 years if your spouse really wants to retire in 5 years.

Defining Your Retirement

A recent survey by Fidelity points out some of the current disagreements that couples have about their plans for retirement:

62%
of couples can't agree on what age they will retire.

47%
don't agree on whether they will continue to work during retirement.

33%
say they don't agree—or don't know—where they will live during retirement.

Even as you begin to save for retirement in earnest, it's important to agree on the fundamental issues that will define that period of your life.

Once you have decided on the basics, the next step is to make sure you are both comfortable making financial decisions. According to the results of the Fidelity survey, many couples are not fully engaged in preparing for retirement. In 59% of couples, only one person makes retirement decisions, usually the husband. In fact, only 17% of couples said that either spouse was prepared to assume sole responsibility for retirement planning. Since women tend to live an average of three years longer than men, both spouses need to be prepared to deal with issues related to retirement.

Solving the Problem

So what's the answer? Both spouses should meet regularly with their financial services representative to discuss plans for retirement and should make investment decisions together. As part of that meeting, talk to your representative about key issues such as:

- **where you will live** *(some areas cost more than others)*,
- **when you expect to retire** *(a few years less savings can make a significant difference in the capital you accumulate)*,
- **whether one or both of you will work part-time** *(extra earnings can reduce how much you need to save)*, and
- **whether to postpone the start of Social Security benefits** *(waiting can increase your benefits)*.

This discussion should also include a conversation about how much you and your spouse can afford to save in IRAs, 401(k)s and other retirement plans, as well as how much money you can set aside outside these vehicles. Remember, when it comes to saving for retirement, every dollar counts!

First Investors Can Help

Are you a member of an organization whose members need assistance in planning for their retirement? First Investors can provide it. We have a number of retirement-related seminars we can present to your group or organization including "Weathering Stormy Seas" and "Options for Retirement Plan Distributions." Contact your representative today to talk about scheduling a free educational seminar. The members of your organization will thank you for it.