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First Investors

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Put Asset Allocation Into Practice

Rebalancing Your Portfolio: Asset Allocation is More Than "Set It and Forget It"

Now may be a good time for investors to do a little "spring cleaning" and review their asset allocation to make sure it remains in line with the objectives outlined in their original investment strategy. Particularly in recent years, mutual fund categories have grown—or declined—at significantly different rates. Over time, this may put your asset allocation out of alignment with your original strategy. That makes it a good idea to regularly reassess how the assets in your portfolio are allocated and rebalance them as needed. This will help you stay on track to reach your short- and long-term financial goals.

How Asset Allocation Works

Asset allocation involves dividing your investment portfolio among the major asset categories of stocks, bonds and cash. Within those categories most investors make further divisions such as small cap, large cap or international stocks or corporate or government bonds. For example, you may decide to invest 60% in stocks, 35% in bonds and 5% in cash. You may then further diversify your stock portfolio among the wide variety of domestic and international mutual funds. Of course, investment strategies such as diversification and asset allocation do not guarantee a profit, nor do they eliminate the risk of loss of principal.

The three major asset classes tend to react differently to economic events and market conditions. For example, when stocks decline in value, fixed income investments often rise. Over time, the component parts of your portfolio will change value at different rates and may even move in different directions. This skews your original asset allocation, potentially exposing you to more risk than you realize. This is especially true given the market turmoil of the last few years. While it may seem counterintuitive, rebalancing typically involves selling some of the asset classes that have done well, and moving the proceeds to asset classes that haven't done quite as well. This ensures that your portfolio does not

emphasize one asset category over another. Because all markets and sectors don't move in lockstep, rebalancing can help your portfolio survive tumultuous times.

The mix of investments you select should typically reflect factors such as your tolerance for risk, your investment timeframe and your liquidity and income needs. Other factors to consider include your age, your financial goals and your overall financial situation. The portfolio of a retiree who is in her late 60s might emphasize income-generating bond funds. The portfolio of a teacher in his mid 30s, on the other hand, will likely emphasize stock funds, a reflection of the fact that he needs the growth potential they offer in the 30 years or more he has until retirement. With this longer timeframe, he also has enough time to weather the inevitable

market downturns that will occur.

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CEO's Corner

By Christopher Pinkerton

A Continuing Promise of Service

As most of you know, in late January First Investors Corporation joined forces with Foresters™, a life insurance provider headquartered in Toronto, Canada with offices in the United States and United Kingdom.

At Foresters, we're excited about the opportunity to combine our over 135-year commitment to the well-being of families with First Investors' more than 80 years of providing investment management and life insurance services to clients across the United States. We believe the acquisition will position First Investors for significant growth and success in the future.

While First Investors is now part of a new company, one thing won't change: our commitment to steadfastly meeting the financial needs of our clients. Your representative will continue to be available to provide you with the same guidance and level of service as before.

In this issue's cover story "Rebalancing Your Portfolio: Asset Allocation is More Than 'Set

It and Forget It,'" we talk about why you need to regularly review your asset allocation strategy and rebalance as needed to make sure your allocation remains in line with your original objectives.

This issue of *First Investors Insights* also highlights the importance of understanding your tolerance for risk, particularly in light of the recent economic roller coaster. "It's Time for a Life Insurance Checkup" explains the benefits of reviewing your life insurance coverage. Survey results show that as many as 30% of U.S. households have no insurance coverage. "Adjusting Your Retirement Plans" talks about the possibility of saving more and working longer to help fund your retirement.

Please contact your representative if you need help with these or any other investment or life insurance issues. At First Investors, our goal is to help you make the tough decisions necessary to ensure a sound financial future.

Foresters™ is a trademark of The Independent Order of Foresters, a fraternal benefit society.



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What's Your Risk Tolerance?

When you assemble an investment portfolio, how much risk are you willing to take? Risk tolerance is the amount of additional risk you are willing to accept in exchange for the possibility of a higher return. Among the many lessons the last few years have taught us is that our risk tolerance may not be as high as we think. The Financial Planning Association says evaluating your risk tolerance should include taking into account the economic turmoil of the last few years to determine the impact it has had on your portfolio.

Risk vs. Reward

As you develop an investment strategy, it's important to keep your risk tolerance in mind.

An individual's tolerance for risk will vary depending on factors such as his or her age, income needs and financial goals. A 75-year old retiree will typically have a lower risk tolerance than a wealthy 35-year old business owner. The latter has more resources and more time to make up for any losses he or she may experience. The further you are from retirement, the more likely you will be to take risks.

For most investors, the key to keeping risk in balance is to develop a financial strategy that allows your assets to grow in value without causing you undue emotional distress. To grow your assets, however, it may be necessary for you to accept more risk. To temper your emotional response to risk, it's a good idea to put together a balanced portfolio that can help mitigate the risks inherent in investing.

Are Stocks the Answer?

As you allocate your funds among different investment options, remember that stocks have historically produced higher total returns than bonds, but with greater volatility. However, research by T. Rowe Price found that an investor who started with an 80% allocation to stocks at age 50 and shifted to a 55% stock allocation by age 65 had his or her portfolio perform nearly as well as an all-stock investor, with significantly less risk of suffering large losses.

Your assessment of how much risk you are willing to take will land you somewhere on the risk tolerance scale—conservative, moderately conservative, moderate, moderately aggressive or aggressive. Knowing where you fall will help you and your representative build an investment portfolio that's right for you.

Conservative investors are willing to give up the opportunity for high returns to increase their chances of avoiding large declines in the market. These people sometimes err on the side of caution, investing in things like certificates of deposit that provide a small return but no real opportunity for growth. The biggest risk they end up facing is outliving their money in retirement. Aggressive investors, on the other hand, are more likely to take a bold approach to investing, accepting higher risks in return for even higher yields. Taking too much risk, however, increases volatility and exposes you to the potential of large declines. It also increases the chance that you will be tempted to sell during or after one of those drops.

Learning About Risk

Most investors will find they like the upside of risk and the higher returns it offers. But they don't like the downside—volatility and the potential for loss. If you find that you are uncomfortable with investment risk, your representative can help you learn more about how risk and reward are related. The ultimate goal is to help you create a portfolio whose level of risk will allow you to stay invested for the long term.

Put Asset Allocation Into Practice *(continued from cover)*

The Role of Cash

It's important to consider the role that cash should play in your portfolio. You should always have a cash reserve equal to three to six months of living expenses to cover emergencies. A cash reserve can also help you avoid raiding your long-term investments when you have a short-term need for cash. Larger cash reserves may be a good idea as your investment horizon shortens as retirement approaches. Cash is generally not a desirable long-term investment strategy.

How Often Should You Rebalance?

Because the value of your investments will move up and down, it's generally a good idea to review

your asset allocation regularly to make sure it stays in line with your investment objectives. After all, why take the time to create an asset allocation strategy if you are simply going to "set it and forget it" and let the market take control? While experts disagree on how frequently investors should rebalance their portfolio, you should do so at least annually—or more frequently if circumstances require it, such as when market values rise or fall rapidly. To make it easier to remember when to rebalance, consider choosing a date you can't forget, such as your birthday.

Rebalancing will bring your portfolio back to its original asset allocation. It can also help you

IT'S TIME FOR A LIFE INSURANCE CHECKUP

A 2010 survey by LIMRA, a market research organization that supports the life insurance industry, says ownership of individual life insurance has hit a 50-year low. Only 44% of U.S. households have individual life insurance coverage and 30% have no life insurance at all. One major reason? Some 40% of Americans say tighter budgets are forcing them to focus on other financial priorities.

These statistics are just one reason why doing a life insurance checkup is an integral part of an overall review of your financial affairs. The process can be as simple as reviewing and updating your beneficiary designations. Or it can be as complicated as sitting down with your representative to determine if you need additional life insurance coverage, or if the insurance you already have is sufficient. Given the critical financial security that life insurance provides to you and your family, it's important to regularly review and update your coverage.

Keep Beneficiary Designations Updated

The first thing you should do is make sure your beneficiary designations are up-to-date. Perhaps you have a new spouse who needs to be named as the primary beneficiary of a policy. Or maybe your beneficiary has a new address and contact information. Or you've drafted a new will and created an insurance trust. Either way, it's a good idea to check all of your policies to make sure the beneficiary designations reflect your current wishes. The last thing you want is for the policy proceeds to go to the wrong person.

Do You Need More Insurance?

In the LIMRA survey, half of the households surveyed said they thought they needed more life insurance coverage. With many families commonly experiencing changes such as marriage, divorce, remarriage or the birth or adoption of a child, it wouldn't be unusual to find you need additional insurance coverage.

Your representative can help you determine how much life insurance you and your family should maintain. In the meantime, here are some questions to help you get started:

- How much insurance do I need to cover debts, funeral costs and other final expenses?
- How much insurance does my family need to help maintain its current standard of living when I'm gone and to help pay for things such as my children's education?
- How much insurance do I need to cover gifts to charity and other bequests in my will?

Especially if you are young with a growing family, you will need to make regular adjustments to your life insurance coverage over time. Compare your projected life insurance needs to your current coverage. If you think you may need more coverage, talk to your representative about it today.

Other Steps You Can Take

An insurance review can also reveal other steps you might need to take concerning your life insurance coverage, including:

- If you have one or more variable life insurance policies, is the current selection of policy subaccounts still appropriate for you in today's financial markets?
- Is it time to consider converting existing convertible term policies to whole life?
- Should you pay premiums annually instead of monthly to save money?

While these are questions that you can deal with at any time, an insurance review is an appropriate time for you to take a step back and make sure your life insurance coverage is doing everything it can to meet the financial needs of your family both today and in the future. Call your representative today to schedule a life insurance checkup.



ASK FOR HELP:

Rebalancing your portfolio can be a complicated process. But you don't have to do it alone. Talk to your representative, who can offer guidance on the steps you should take to realign your investments. Don't let market fluctuations shift the focus away from your long-term financial goals.

maintain a consistent level of risk and may help you be on the "right" side of the cyclical nature of the markets.

Don't Forget About Taxes

Remember when you rebalance the assets in a taxable account, selling certain securities has the potential to trigger capital gains taxes. Examine your portfolio carefully before you decide which securities to sell in an effort to keep the tax consequences to a minimum. First Investors representatives do not provide legal, tax or estate-planning services. You should consult your personal tax and legal adviser for such advice.

Rebalance Retirement Accounts, Too

When you do take the time to rebalance your portfolio, don't forget to include retirement plan accounts such as IRAs, 401(k)s and 403(b)s. For many people, retirement plans are their largest assets. Since they rise and fall like any other investment, they need to be regularly rebalanced as well. Rebalancing tax-deferred accounts is generally easier because there are no income tax consequences to worry about.

For more information about First Investors funds, Class A and Class B shares, you may obtain a free prospectus (including a summary prospectus), by contacting your financial services representative, writing to the address on page two, calling (800) 423-4026 or visiting our website at www.firstinvestors.com. You should consider the investment objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other information, and should be read carefully before you invest or send money. An investment in a fund is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency.



Adjusting Your Retirement Plans

Retirement in America is changing. Workers are retiring later and living longer. Fewer people can expect to receive an employer-provided pension to fund their retirement. And many still worry about whether Social Security will be available when it's time for them to collect benefits.

The last few years have taught us that there are many things about preparing for retirement that we can't control, not least how well the financial markets perform. That means we should concentrate our attention on dealing with those things we can change. For most people, that means saving more, and working longer, in order to fund a comfortable retirement.

Saving More

In late 2010, a survey by Nyhart, an employee benefits consultant, found that:

- **81% of adults wouldn't be able to afford to retire by age 65.**
- **The average employee who relies on a 401(k) plan as a primary source of retirement income wouldn't be able to retire until age 73.**

The leading cause of this inability to retire at age 65 is our failure to save enough of our income. The solution is just as simple—contribute more to your retirement savings. The Nyhart survey said that employees between ages 45 and 55 would have to contribute an average 19% of their pay to retire by age 65. But if employees under age 30 increased their retirement plan contributions by just 4% of their pay before age 30, twice as many would be able to afford to retire by age 65.

Working Longer

Postponing retirement is another important way to help ensure a comfortable retirement. In the 2010 *Retirement Confidence Survey* by the Employee Benefit Research Institute, 24% of workers said the age at which they expected to retire had increased. They cited the poor economy, a change in their employment situation and inadequate finances as the primary reasons.

Working longer has a number of important benefits—

- **It gives you more time to build up your retirement account balance.**
- **A larger retirement benefit will be available from Social Security.**
- **You'll spend less time in retirement and need to depend less on your savings.**

Working longer can help to increase your retirement plan balance. Let's say you earn \$75,000 a year and save 10% for your retirement. In five years, you can save an additional \$46,000 if the account earns 8%. In 10 years, you can save more than \$115,000.

For anyone born after 1937, the full retirement age for purposes of receiving Social Security benefits is increasing. For those

born between 1943 and 1954, the full retirement age now is 66. For those born in 1960 and later, full retirement age is 67. And for those born between 1955 and 1959, full retirement is between ages 66 and 67.

The longer you wait to collect Social Security, the higher your benefits. For those born in 1943 or later, benefits increase by 8% for each year you delay retirement, up to age 70. In contrast, early retirement cuts benefits. If your full retirement age is 67, for example, benefits are reduced by 20% if you collect them at age 64.

Retiring later also means you won't have to live on your savings for as many years. If you postpone retirement from age 63 to 66, for example, your life expectancy will be shorter, reducing the time period during which your retirement savings will need to last.

Are You Ready?

As survey after survey illustrates, many people today are woefully unprepared for retirement. Talk to your representative about what steps you can take to make sure you have the resources available when *you* choose to retire.

THREE ADDITIONAL DAYS

It's time to make your 2010 IRA contribution. This year, the good news is that many taxpayers have three additional days to do so. The filing date for most 2010 tax returns is April 18, 2011. Talk to your representative today about making your IRA contribution for 2010.

EXTRA RETIREMENT SAVINGS HELP

Looking for extra cash to help fund your 2011 IRA contribution? Look no further than your own paycheck. The 2010 Tax Relief Act cut your share of Social Security withholding to 4.2% from 6.2% for 2011 on wages up to \$106,800. If you earn \$60,000, for example, that means you'll save \$100 a month, or \$1,200 a year. Talk to your representative about setting up a Money Line account, which allows you to invest as little as \$50 via deductions directly from your bank account.