Investing in the Wake of an Election

A long-term investment strategy can help you meet your financial goals—regardless of which party is in the White House.

THE IMPACT OF A NEW PRESIDENTIAL ADMINISTRATION ON FINANCIAL MARKETS CAN EXTEND WELL BEYOND ELECTION DAY.

Uncertainty about how a new president will govern and how potential policy changes may affect the economy can increase market volatility.

That volatility can be unsettling, and may even tempt you to make investment decisions based on how one party or the other has affected markets. But jumping in or out of the market based on who is in the White House is not a sound strategy.

While domestic policy can have an impact on market returns, it’s just one of many factors—including global economic conditions, interest rates and inflation—that drive stock prices and, ultimately, your portfolio’s performance.

The chart below shows the growth of an initial amount of $10,000 invested in the market from 1953 through 2015, and also the same amount kept in the market during only Democratic or Republican presidencies. The outcome: Keeping that money fully invested in the stock market over the entire 63 years would yield vastly superior returns compared with a strategy that invested only when one party was in the White House.

Hypothetical Illustration of Compounding

<table>
<thead>
<tr>
<th>Growth of $10,000 Invested in the S&amp;P 500 Index</th>
<th>ANNUAL TOTAL RETURN: 1953–2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000,000</td>
<td>$823,836</td>
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<tr>
<td>$800,000</td>
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<td>$600,000</td>
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Return if invested only during Republican presidencies

36 Years

Return if invested only during Democratic presidencies

27 Years

Return if fully invested during both Republican & Democratic presidencies

63 Years

This hypothetical chart is for illustrative purposes only and does not represent any specific type of investment. It does not include the impact of expenses or fees, which would have reduced the results of the illustration. Source: S&P Capital, 2016

Continued on page 2
Asset allocation and diversification do not assure a profit or protect against a loss. Automatic investment plans do not assure a profit or protect against loss.

**Time in the market**

As the chart suggests (page 1), rather than strategically timing your investments, the key to healthier portfolio returns is time itself. The 2016 Quantitative Analysis of Investor Behavior report by market research company DALBAR illustrates this concept by comparing the average mutual fund investor’s returns with those of the broader market and the mutual funds in which they invest. From 2001 to 2015, the average equity fund investor underperformed the S&P 500 by a margin of 3.5 percentage points (4.7% vs. 8.2%). Those investors would have nearly doubled their returns over that period by buying and holding an index fund tracking the S&P.

Those statistics suggest that investor behavior is a considerable threat to investment performance. Investors who attempt to “time the market”—that is, try to predict in which direction the market is headed—tend to make the wrong decisions at precisely the wrong times. They often sell when the market is low, unloading their assets at depreciated values. And they often buy when the market is at its peak, locking in high prices that will offset long-term returns. What’s more, investors trying to time the market may miss out on periods of unexpected growth after pulling their money out.

**Consider a long-term investment strategy**

You can’t control the stock market’s ups and downs, but you can control how you invest. Historically, the market has rewarded investors with patient, long-term strategies and well-diversified portfolios. In addition to helping you harness the power of compounding—the ability to generate growth by reinvesting your returns—keeping money invested over the long term can help you avoid transaction expenses resulting from frequent buying and selling, and has tax advantages over short-term investment strategies.

However, a long-term strategy doesn’t necessarily mean setting and forgetting your investment allocation. Consider talking with your investment professional about rebalancing your portfolio annually, based on your changing needs. That way you ensure that you’re on track to meet your goals and taking the appropriate amount of risk to reach them.

Whether you’re elated or disheartened by election results, it’s important not to let those emotions shape your investment decisions. Governments change, but a strategy that keeps your money invested consistently over time could be the key to helping to realize your goals for the future—long after the administration has come and gone.

Before investing, consider the funds’ investment objectives, risks, charges and expenses. Contact State Farm VP Management Corp (1.800.447.4930) for a prospectus or summary prospectus containing this and other information. Read it carefully. AP2017/04/0240
The Federal Reserve raised interest rates twice, in late 2016 and early 2017, causing bond prices to fall. With more increases expected, it’s natural for investors to be concerned about what the Fed’s action — and decreasing bond prices — may mean for their fixed-income holdings.

### How Interest Rates Affect Bond Prices

**New Bonds**

- Higher interest rates generally lead to **Higher Yields** for new bond issues, making them more attractive to buyers.

**Existing Bonds**

- As a result, existing bonds, with their relatively lower yields, are less compelling to investors, and their **Prices Drop**.

### The Importance of Yield on a Bond’s Total Return

Keep in mind, however, that a **Bond’s Yield** — rather than its price — **Is the Primary Component of the Bond’s Total Return**.

Over the last 36 years, the yield, or income return (in teal), has provided the vast majority of the total return (in green) for bonds, representing 85% to 97% of their annualized total returns.

That’s why a **Bond’s Beginning Yield** has historically been the single **Best Indicator of Its Future Return**. Consequently, the lower (or higher) a bond’s starting yield, the lower (or higher) its future return is likely to be.

### How Do Mutual Funds Fit In?

Over time, in a rising rate environment, as the bonds in a portfolio mature, portfolio managers will **reinvest the proceeds in newer bonds with higher interest rates**, which helps **increase the average yield** on the fund.

Maintaining a well-diversified portfolio may **minimize the impact of rising interest rates**.

Bonds are subject to interest rate risk and may decline in value due to an increase in interest rates.

For more information about State Farm™ Bond Funds, go to [st8.fm/bondfunds](http://st8.fm/bondfunds).
MOVING JOBS? WHAT TO DO WITH YOUR 401(K)

Consider these four options for managing a retirement account from a previous employer.

THERE’S A LOT TO THINK ABOUT WHEN YOU LEAVE A JOB. You may be preparing for a new position, or perhaps you’re retiring and planning the next phase of your life. Amid these changes, don’t forget one important decision: what to do with your 401(k).

When it’s time to decide, typically you have four options: You can leave your 401(k) where it is, roll it into a new 401(k), roll it into an IRA or cash it out. Each option has benefits and potential drawbacks. Choosing the right strategy to keep your 401(k) working for you may depend on factors such as your personal financial situation and whether you plan to keep working.

Here’s what to consider as you weigh these four options:

1. KEEP YOUR 401(K) WITH YOUR FORMER EMPLOYER
If your old plan allows it, you may be able to keep your money where it is. Among this tactic’s advantages are that it may be your simplest choice and your assets continue to benefit from tax-advantaged growth. However, keep some things in mind. First, find out whether any fees are associated with keeping your 401(k) with your old employer, and ask the company’s HR department or plan administrator if you have to maintain a minimum balance. Also, be sure to understand the plan’s distribution rules. For example, balances that don’t meet a minimum requirement may be automatically distributed to you.

2. ROLL YOUR ASSETS INTO YOUR NEW EMPLOYER’S PLAN
You can roll your 401(k) into your new workplace plan, if the new plan allows it. Once rolled over, the account continues to enjoy its tax-advantaged status, and you don’t owe any taxes if it’s a direct plan-to-plan rollover. Consolidating your plans can be a convenient way to help keep your retirement accounts organized. Another advantage to keeping your assets in a 401(k) is if you plan to work past age 70½, you can continue making tax-deferred contributions without taking any required distributions.

3. ROLL YOUR ASSETS INTO A TRADITIONAL IRA
In addition to tax-deferred growth, rolling your 401(k) into a traditional IRA can give you a wider array of investment options. Also, consolidating your various retirement plans into one IRA can make it easier to manage your accounts. (However, review the differences in investment options and fees before you switch.) Another thing to consider is that you may be able to get a loan from an employer-sponsored 401(k) account, but never from an IRA. However, IRAs may also give you more flexibility in how you can make penalty-free withdrawals. For example, you can withdraw funds without penalty before age 59½ for a qualified first-time home purchase or higher-education expenses. One note: You must start taking minimum required distributions from your IRA at age 70½.

4. CASH OUT
Cashing out your 401(k) should be your last resort. If you withdraw from your 401(k) before reaching age 59½, the money typically is subject to income tax and a 10% early withdrawal penalty. There is an exception to this rule: Commonly, your 401(k) allows you to make penalty-free withdrawals if you leave the workforce after age 55 and before you turn 59½. Regular income tax still applies, and the money you withdraw loses its ability to benefit from tax-advantaged compounding.

The bottom line: It’s important to keep your 401(k) working for you. Whether you continue in your career or retire, that likely means keeping your assets in a tax-advantaged account. Carefully evaluating these four options can help you make the decision that may be best for you.

Prior to rolling over assets from an employer-sponsored retirement plan into an IRA, it’s important that customers understand their options and do a full comparison on the differences in the guarantees and protections offered by each respective type of account as well as the differences in liquidity/loans, types of investments, fees, and any potential penalties.
STATE FARM MARKET RECAP  As of April 30, 2017

EQUITIES RECAP

► Global equity markets moved higher in April, supported by global economic growth and a strong start to the first-quarter corporate earnings season in the U.S.

► U.S. equities finished the month of April in positive territory, with all of the major indices posting positive returns. Small-cap stocks, as measured by the Russell 2000® Index, led the indices higher, returning 1.1% for the month. Large- and mid-cap stocks, as measured by the S&P 500® Index and Russell Midcap® Index, closely followed, returning 1.0% and 0.8%, respectively.

U.S. EQUITIES

► In the U.S., equity markets rallied in the second half of the month, supported by better-than-expected first-quarter earnings reports and investor optimism over the recently proposed tax plan. For the month, the benchmark S&P 500 Index gained 1.0% and increased its year-to-date total return to 7.2%.

► Since the November 8, 2016, presidential election, the S&P 500 Index was up 11.6% (price return) and set 21 new closing highs, 13 in 2017. The Dow Jones Industrial Average and technology-heavy Nasdaq Composite (both not shown) climbed even higher, gaining 14.3% and 16.4%, respectively.

GLOBAL EQUITIES

► European equity markets surged higher in April, after the European Central Bank surprised the markets by keeping its monetary policy unchanged—leaving the main refinancing rate at zero, the deposit rate at -0.4%, and continuing with its quantitative easing program. In April, the MSCI EAFE Index advanced 2.5% and increased its year-to-date return to 10.0%. Meanwhile, emerging markets performance was led by China, which reported strong first-quarter economic growth and an increase in trade activity. For the month, the MSCI EM Index (not shown) gained 2.2%, and 13.9% year-to-date.

FIXED INCOME RECAP

► The U.S. fixed income markets returned to positive territory in April, with the Bloomberg Barclays U.S. Aggregate Bond Index posting a 0.8% total return and advancing its year-to-date gain to 1.6%. Over the longer 1- and 5-year time periods, investment grade bonds recorded annualized total returns of 0.8% and 2.3%, respectively.

► U.S. municipal bonds moved modestly higher in March, as investor demand outpaced supply. For the month, the Bloomberg Barclays U.S. Municipal Bond Index posted a 0.7% total return. Over the longer 1- and 5-year periods, municipal bonds recorded annualized total returns of 0.1% and 3.2%, respectively.
U.S. Equities: The Bull Market Turns 8 Years Old

In March 2009, few investors would have predicted that a record-setting equity bull market would unfold over the next eight years. At the time, the U.S. economy was struggling under the worst recession since the 1930s, and the major stock market indices had retreated to price levels not seen in 12 years. Investors were worried, as the benchmark S&P 500® Index had lost approximately 57 percent in the prior 17 months.

Fast-forward to spring 2017: The U.S. has undergone a period of economic expansion and consumers’ finances and confidence levels have greatly improved. The S&P 500 Index has more than tripled in value from 677 in March 2009 to 2,384 as of April 30. For investors who remained in the market during the financial crisis lows, the equities market rebound helped them not only recoup their paper losses but also added to their retirement and other investment accounts.

Investors who pulled money out of the market have missed out on receiving all of the rally’s gains. Consider this: At the end of 2007, when the market was near what was then its most recent peak, total assets invested in stock mutual funds was $6.4 trillion, according to the Investment Company Institute. At the end of 2016, that figure was $8.6 trillion, an increase of just 34%, despite the S&P 500 Index having gained over 50% during the same period. If those invested in stock funds at the end of 2007 had simply kept their money where it was and made no additional contributions, total assets would’ve risen by roughly an additional $1.1 trillion to $9.7 trillion.

While no one knows whether this bull market will continue, we suggest investors stay focused on their long-term personal investment goals, their savings rate, and staying invested through the short-term market fluctuations.


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- Past performance is no guarantee of future results.
- It is not possible to invest directly in an index.
- Diversification, Automatic Investment Plans and Asset Allocation do not assure a profit or protect against loss.
- Investing involves risk, including potential for loss. Current and future portfolio holdings are also subject to risk.
- Bonds are subject to interest rate risk and may decline in value due to an increase in interest rates.
- The stocks of small companies are more volatile than the stocks of larger, more established companies.
- Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations.
- Emerging markets involve greater risks than U.S. investments due to lower trading volume, political and economic instability, and other governmental limitations on foreign investment policy.
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- The Russell 2000® Index tracks the common stock performance of the 2,000 smallest U.S. companies in the Russell 3000 Index.
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- The NASDAQ Composite Index® is the market capitalization-weighted index of approximately 3,000 common equities listed on the Nasdaq stock exchange.
- The Morgan Stanley Capital International Europe, Australasia and Far East (MSCI EAFE) Index captures large and mid cap representation across Developed Markets countries around the world, excluding the U.S. and Canada.
- The MSCI EM (Emerging Markets) Index is a capitalization-weighted index of stocks from 26 emerging markets that only includes issues that may be traded by foreign investors.
- The MSCI Japan Index is designed to measure the performance of the large- and mid-cap segments of the Japanese stock market.
- The Bloomberg Barclays 1-5 Year U.S. Treasury Index measures the performance of short-term U.S. Treasury Securities maturing within one to five years.
- The Bloomberg Barclays U.S. Aggregate Bond Index represents debt securities in the U.S. investment-grade fixed-rate bond market.
- The Bloomberg Barclays Municipal Bond Index is an unmanaged index representative of the tax-exempt bond market.
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