

Let's Start Today

Just the Facts: Investing

1. Are you ready to start investing?

Find out. Take an inventory of where you are today.



Protect yourself with savings in case you encounter:

- Losing your job
- Medical expenses and emergency travel
- Unexpected car repair
- Unexpected home repair



What types of debts should you focus on getting rid of first?

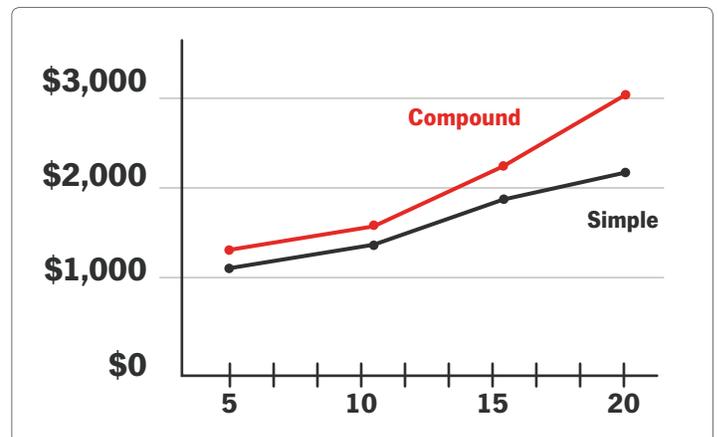
- Credit Cards
- Private Loans
- Collections

2. Why start now?

Compound interest.

Compound interest is basically interest on interest. Check out the table below comparing simple interest to compound interest. In both cases, you start with \$1,000 and earn 6% interest.

Year	Simple Interest	Compound Interest
1	\$1,000	\$1,000
2	\$1,060	\$1,060
3	\$1,120	\$1,124
4	\$1,180	\$1,191
5	\$1,240	\$1,262
6	\$1,300	\$1,338
7	\$1,360	\$1,419
8	\$1,420	\$1,504
9	\$1,480	\$1,594
10	\$1,540	\$1,689
15	\$1,840	\$2,261
20	\$2,140	\$3,026

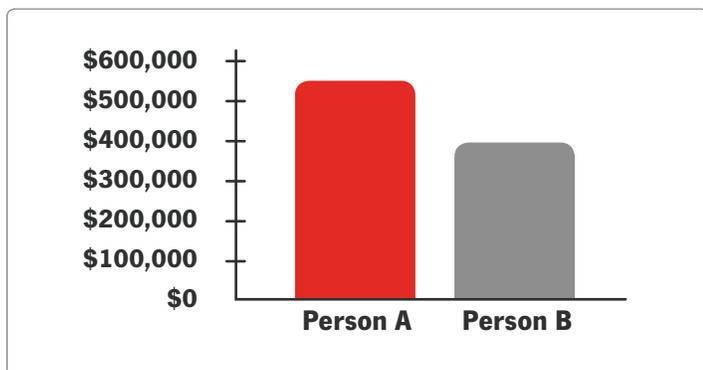


3. What is the impact of starting early?

Let's look at a hypothetical illustration that shows the power of compound interest and the importance of starting early.

	Start	Monthly Investment	Return
Person A	Now	\$400	6%
Person B	5 years from now	\$400	6%

Let's assume this money is for retirement. Look at the difference after 35 years:



	Years Invested	Total Investment	Value
Person A	25	\$168,000	\$569,884
Person B	20	\$144,000	\$401,806
Difference	5 years	\$24,000	\$168,078

After 35 years, the \$24,000 difference is worth approximately \$168,000 more thanks to compound interest. It's really pretty amazing.

This is a hypothetical example of compounding. This 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.

The following quotes are often attributed to Albert Einstein:

“Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it.”

“Compound interest is the greatest mathematical discovery of all time.”

4. Key Factors: Risk and Time Horizon

Think about risk vs. reward.



Risk is the possibility you can lose money.

How much risk are you willing to take?



Reward is the possibility you can gain money.

What are your expectations around reward?

Risk and reward move together; you normally need to take more risk to get more reward.

How do you balance risk and reward?

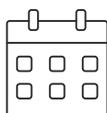
Determine your risk tolerance.



Risk tolerance is the amount of volatility and uncertainty you are willing to accept from an investment in seeking your financial goals.

What is your risk tolerance?

Think about time horizon.



Shorter Time Horizon

Generally, if you need access to your invested money in the short term, the conservative approach might be good to consider.

Longer Time Horizon

If you can let your invested money work for you longer term, a moderate or aggressive profile may make sense.

5. What is your risk profile?

There are three common risk tolerance profiles.

Conservative Risk Profile

Not losing money on an investment is more important to you than making money.

Moderate Risk Profile

You'll take on a little risk to make more money, but if things start to go badly, you may adjust your investments to less risky positions.

Aggressive Risk Profile

You understand that to make the most on your investments, you have to take the most risk with your money.

A risk tolerance quiz can help you think about your comfort level with risk. Let's take a look at two sample questions:

1. When deciding how to invest your money, which do you care about more?

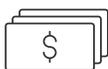
- A. Maximizing gains
- B. Minimizing losses
- C. Both equally

2. The global stock market is often volatile. If your entire investment portfolio lost 10% of its value in a month during a market decline, what would you do?

- A. Sell all of your investments
- B. Sell some
- C. Keep all
- D. Buy more

These are just two sample questions. To determine your risk tolerance, take a full risk tolerance quiz which will be more comprehensive.

6. What are the common investments available?



Cash Equivalents

Think SAVINGS ACCOUNT.

Cash equivalents are highly liquid assets that pay you interest for holding your money in them. They are a low-risk, low-reward investment.



Bonds

Think LOAN.

Bonds are loans investors make to governments or corporations. The bond issuers promise to pay back the investor the full loan amount plus interest. Investors like bonds because they generally give a fixed interest rate.

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



Stocks

Think OWN.

When you buy stock, you are buying a share of the company. You make money when the stock price goes up and lose money when the stock price goes down. The company may also issue you a dividend, which is the company sharing its profits with shareholders.

Historically, stocks have produced the best long-term results of the three asset classes, but they have also experienced the biggest short-term price swings. Generally, they carry the most risk of the asset classes.

There are different types of bonds.

U.S. Government Bonds

These are issued by the government to get money for a wide range of governmental activities or to pay off the national debt. Government bonds generally hold a low risk as an investment because the government is less likely to fail.

Municipal Bonds

These are issued by towns or cities to pay for public projects, such as schools, or to support operating budgets. A municipal bond has different risk depending on the town or city issuing the bond.

Corporate Bonds

These are issued to raise money for a company expansion or takeover, or even changes in management structure. Corporate bonds may hold more risk than other types of bonds, depending on the company.

There are different types of stocks.

Large-cap stock

A big company. Less risk here that the company will fail.

Mid-cap stock

A medium-sized company. May have greater growth potential than a bigger company, but also still carries the possibility of losing money.

Small-cap stock

A smaller and sometimes newer company. It still has the possibility of big gains, but at a much higher risk of failure.

As you can see, within the bond and stock asset classes, there are investments with different levels of risk.

The stocks of small companies are generally more volatile than the stocks of larger, more established companies.

7. Why is diversification important?

Diversification is a strategy where you spread the money you invest across different investment types within the asset classes to control risk and provide variety.

Think of diversification as not putting all your eggs in one basket.

Not Diversified



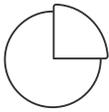
Diversified



Diversification does not assure a profit or protect against loss.

8. Is there an easy way to get diversification?

There are two types of funds to know about that can help you with diversification.



Mutual Fund

A mutual fund is an investment where you pool your money with other investors with a similar goal and have greater buying power than you would on your own.

Exchange-Traded Funds (ETFs)

ETFs are very similar to mutual funds in that they represent a basket of different investments, but exchange-traded funds are bought and sold throughout the day on the stock market. They also may be cheaper to own because they are not as actively managed as a mutual fund, but you may pay a brokerage commission each time you buy and sell an ETF.

Some of the types of funds you may see are:

- **Bond funds** invest in different types of bonds, but the risk may vary based on the goal of the fund.
- **Stock funds** invest primarily in stocks, but the risk may vary based on the goal of the fund.
- **Hybrid funds** invest in more than one investment type.

Notes

9. How do I build a portfolio?

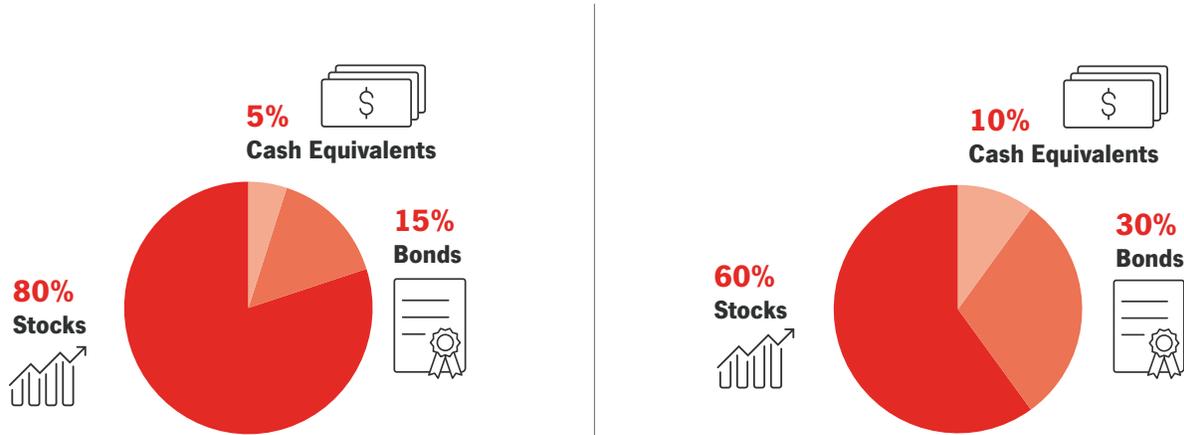
Determine your asset allocation.

Asset allocation is the process of deciding how to invest money among asset classes such as stocks, bonds and cash equivalents.

Asset classes react differently to market conditions and in relation to one another. By spreading your investment dollars among the asset classes, while some of your investments may be down, others may be up, thereby diminishing the effect of the highs and lows.

Sample Allocations

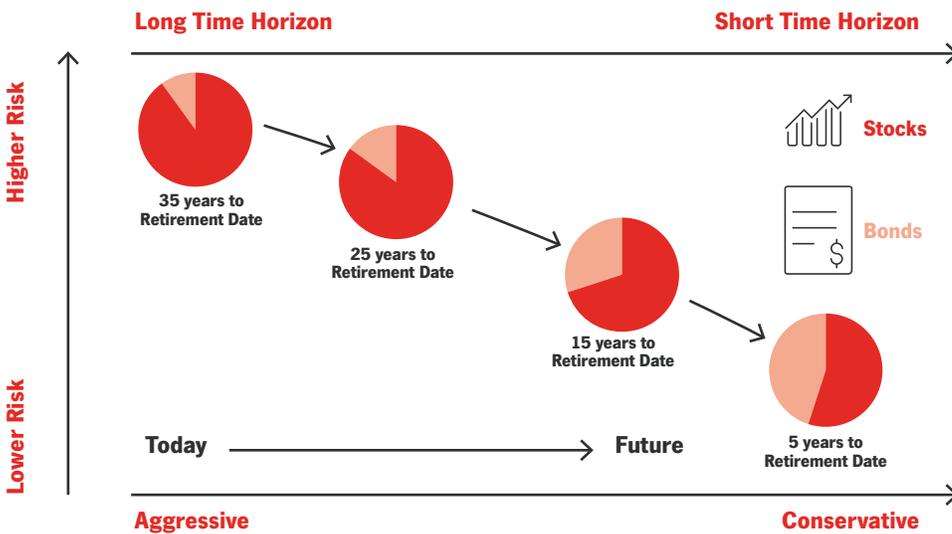
Risk tolerance and time horizon will play a part in determining your asset allocation.



Asset allocation does not assure a profit or protect against loss.

10. Building Your Retirement Portfolio

After thinking through your risk tolerance and time horizon you can start to build your own portfolio by choosing an asset allocation. Often in retirement plans, you build your asset allocation by choosing different mutual funds, which is a predetermined basket of investment options. Below are some examples of different asset allocations. Your investment mix can have a big impact on your retirement savings, and it is likely to change over time, as shown below.



This chart is for illustration purposes only and does not represent true allocations. Refer to the specific fund prospectus for more information.

11. Next Steps

1. Determine if you're ready to start investing.
2. Think through the goal or goals you want to achieve with investing and the risk you're willing to take with your investments.
3. Take a quiz to determine your risk tolerance level.
4. Check the asset allocation of your current investments and make any changes as needed.
5. Keep monitoring your investing plan and adjust as your goals change.

Notes

Securities distributed by State Farm VP Management Corp.

Securities, insurance and annuity products are not FDIC insured, are not bank guaranteed and are subject to investment risk, including possible loss of principal.

State Farm VP Management Corp. is a separate entity from those State Farm entities which provide banking and insurance products.

Neither State Farm nor its agents provide tax, or legal advice. AP2018/09/1094

State Farm VP Management Corp., One State Farm Plaza, Bloomington, Illinois 61710-0001.