



Transamerica

Investing in a  
**VOLATILE MARKET**

TRANSAMERICA.  
MASTER RETIREMENT.®

*POWER CHOICE FREEDOM*

 **TRANSAMERICA**  
RETIREMENT SERVICES

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Not FDIC Insured	May Lose Value
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No Bank Guarantee	
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# Coming to terms



## Coming to terms with stock market volatility

There's no getting around it. The stock market is volatile. Every day the stock market goes up and down in reaction to any number of issues involving business, the economy, or geopolitical events. Most of the time investors take the market's ups and downs in stride. It's only when the market declines substantially that investors can become unnerved and make decisions that can be harmful to their long-term retirement portfolios.

To understand market volatility, it's important to look at history. Since World War II, the stock market, as measured by the S&P 500 Index, has had average declines of 34% during bear markets, but it has risen 175% during subsequent market advances. As a result, investors who stayed the course during turbulent times were usually rewarded with better performance.

While market downturns are a fact of life for investors, there are steps you can take to minimize these declines to the value of your portfolio. These include: putting time on your side, diversifying your portfolio, investing regularly, and sticking with your plan through good times and bad. These are the fundamental principles of investing; and by creating an investment strategy based on these basic tenets, you will build up your portfolio's defenses against market volatility. This will allow you to keep your eye on long-term trends, rather than short-term market fluctuations.

## When will you need your money?

The answer to this question can help you determine the investment choices you select for your retirement plan portfolio. You'll often hear this referred to as your "time horizon." If you are 35 and plan to retire and begin withdrawing money from your plan at 65, your time horizon is 30 years. Your investment choices may be very different from someone who is 60 and has a five-year time horizon.

Time is your ally when it comes to investing. The rule of thumb is the longer you have to retirement, the more aggressive you can afford to be and the less you have to be concerned about short-term market downturns. A decline in the stock market that lasts for a relatively short time is unlikely to have a significant impact on your retirement plan account over the long term. If you have a relatively long time frame, you might consider investing most of your retirement dollars in stocks.\*

### The language of market declines

0% to 5% decline	Normal market volatility as investors digest gains
5% to 10% decline	Usually referred to a "pullback"
10% to 20% decline	This is called a "correction," as the market corrects some upside excesses
20% or more decline	A bear market

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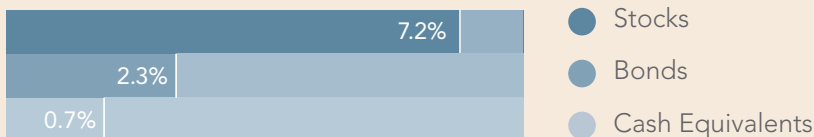
\*See inside back cover for important disclosures.

# Market basics

## Stocks are the engine of growth in a portfolio

Stocks have been the investment of choice for retirement plan participants with long-term time horizons. Why? Because stocks, more than any other investment, have the greatest potential for growth over time. There's no doubt that stocks are the most volatile investments, and history has shown that they have risen and fallen to a higher degree than bonds or cash equivalents. Still, over the past eight decades, stocks have produced greater returns than bonds or cash equivalents. While past performance is no indication of future results, the chart below shows the powerful returns on stocks over more than a half century. While there were several substantial short-term stock market declines during this time period, stocks outperformed other types of investments by a wide margin.\*

### Asset class performance 1926-2006



\*THESE NUMBERS ARE ADJUSTED FOR INFLATION.  
SOURCE: MORNINGSTAR, INC., PRINCIPALS OF INVESTING,  
RETURNS BEFORE AND AFTER INFLATION: 1926-2006.

## Diversification and asset allocation—defenses against market volatility

Among investors, the words “diversification” and “asset allocation” are often used interchangeably, but there is a difference. If you put all of your retirement dollars in different types of stock—for example, investment choices that favor large-company, mid-sized company, and small-company stocks—you’ve *diversified* your assets among stocks, but you haven’t *allocated* them. If stocks go into a decline, it is likely that your whole portfolio, made up entirely of stocks, will lose value.

When you allocate your retirement plan contributions, you spread them around three main types of investments: stocks, bonds, and cash equivalents. With this type of strategy, you reduce the risk that the poor performance of any one asset class will affect your entire retirement portfolio. Ideally, no matter how volatile the market becomes, at least one asset class should do well. If the stocks in your portfolio are declining, your bonds may be on the rise. At a time when bonds are lagging, your stocks may be moving higher. And, of course, cash equivalents\* usually provide a steady stream of income to your portfolio.

## Why stocks grow in value

THERE IS A SAYING AMONG STOCK INVESTORS THAT “STOCK PRICES FOLLOW EARNINGS.” IT IS THE CONTINUED LONG-TERM GROWTH OF EARNINGS, WHICH ARE A CORPORATION’S AFTER-TAX INCOME, THAT HAS BOOSTED THE VALUE OF STOCKS OVER TIME. WHEN YOU PUT MONEY IN STOCKS, YOU ARE INVESTING IN THE EXPECTATION THAT DOMESTIC AND OVERSEAS BUSINESSES WILL CONTINUE TO CREATE NEW PRODUCTS AND EXPAND AND MANAGE THEIR COMPANIES IN A WAY THAT WILL MAKE YOUR INVESTMENTS GROW OVER TIME.

\*See inside back cover for important disclosures.

# Asset allocation

How much of your retirement plan contributions you allocate to each type of investment is entirely up to you. Your analysis should consider your time horizon and your tolerance for risk. If you are going to tap into your retirement account in the next four or five years or if every dip in the stock market is unsettling, you may want to offset the potential volatility of stocks in your retirement plan account with a fairly large commitment to bonds or cash equivalents, a conservative portfolio may be for you.

If you're the type of person who can tolerate the ups and downs of the stock market, but you also want a measure of stability in your portfolio, then a moderate to moderately-aggressive portfolio may be for you.

If retirement is a long way off and you can accept the highest amount of volatility in exchange for potentially higher returns, you may want to invest more aggressively.

## Invest regularly

As a participant in your employer's retirement plan, you are benefiting from one of the basic principles of investing, "dollar cost averaging." Using the dollar cost averaging technique means you contribute a certain amount of money to your retirement account at regular intervals, through thick and thin, in up and down markets. When the market is declining, you pay less per share for an investment; therefore, your contribution buys more shares. During up markets, you pay more per share, and your contribution buys fewer shares of an investment. Over time, however, with dollar cost averaging you will reduce the average cost per share of your investment and lessen the impact of market fluctuations on your account.

## Dollar cost averaging at work

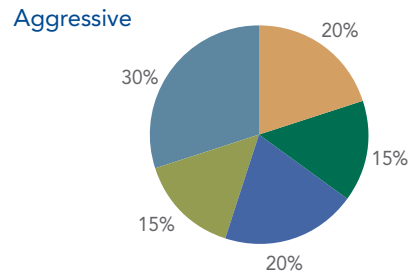
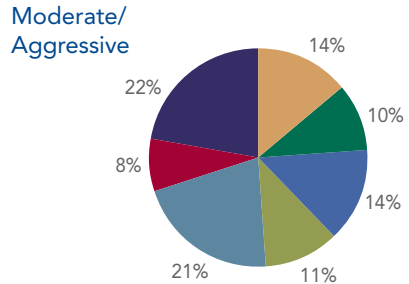
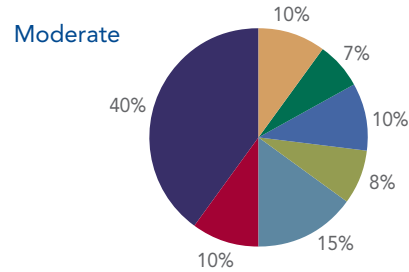
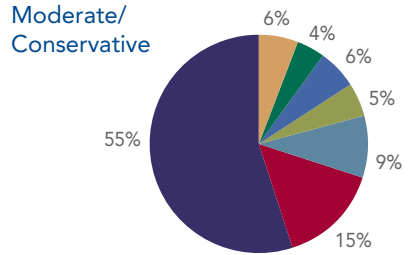
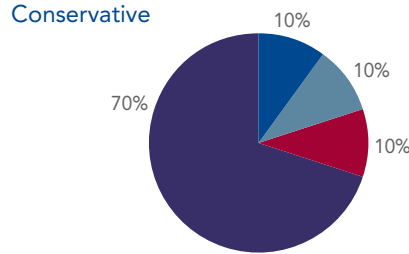
The following chart is a hypothetical illustration about a dollar cost averaging strategy that allocated \$100 each month into the same investment over a period of six months in a fluctuating market.

Date	Investment amount	Share price	Shares purchased	Total shares owned
Month 1	\$100	\$10	10.00	10.00
Month 2	\$100	\$8	12.50	22.50
Month 3	\$100	\$5	20.00	42.50
Month 4	\$100	\$10	10.00	52.50
Month 5	\$100	\$16	6.25	58.75
Month 6	\$100	\$10	10.00	68.75
Total Amount Invested: \$600				
Average Price Per Share: \$9.83 (\$59/6 months)				
Account Value on Month 6: \$687.50				
Average Cost Per Share: \$8.73 (\$600/68.75 shares)				

The chart above is a hypothetical example and is for illustrative purposes only. This data is not intended to represent the performance of any particular investment choice. Please note that while the account in this illustration has gained value, a dollar cost averaging strategy does not guarantee a profit or protect you from a loss. Source: Investment Company Institute®.

\*See inside back cover for important disclosures.

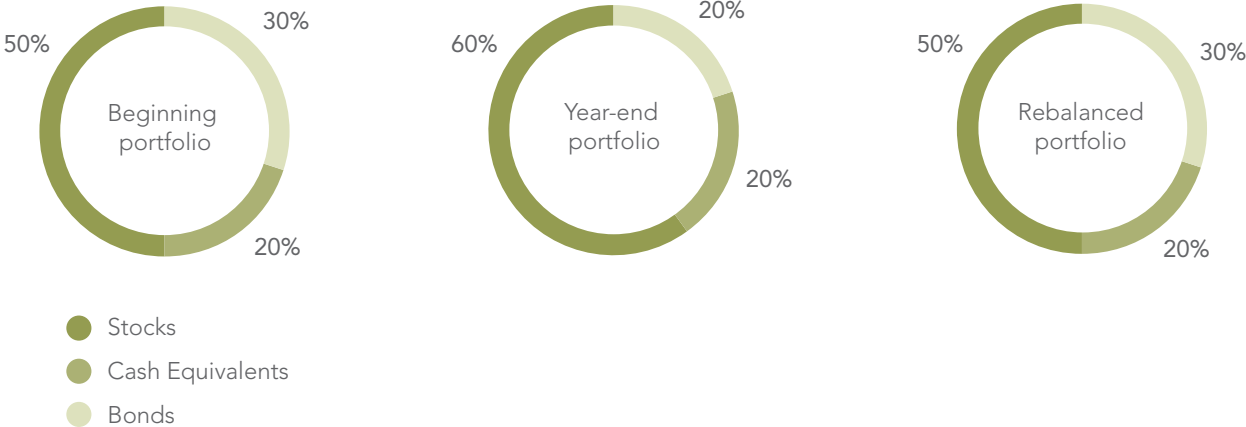
## Sample Investment Allocations\*



- Cash Equivalents
- Large/Mid Value Equity
- Bond
- High Yield Bond
- Large/Mid Blend Equity
- Large/Mid Growth Equity
- International Equity
- Small Company Equity

# Rebalancing

## Rebalancing your portfolio (See example)



### Your annual retirement account check-up

Over the course of a year, the market's gyrations are likely to throw off your diversification strategy. To make sure that your original diversification plan hasn't strayed too far off course, it's a good idea to review your portfolio each year with an eye to "rebalancing." The goal of rebalancing is to re-allocate your investments, so that your portfolio goes back to its original diversification strategy.

The example above shows how rebalancing works. Initially, the investor wanted 50% of his/her portfolio in stocks; 30% in bonds; and 20% in cash equivalents. Because of your investments that appreciated, at the end of the year the portfolio had 60% of its assets in stocks and only 20% in bonds. To get back to the original diversification strategy, the investor reallocated 10% of assets out of stocks and into bonds.

# Understanding risk

## Understanding risk

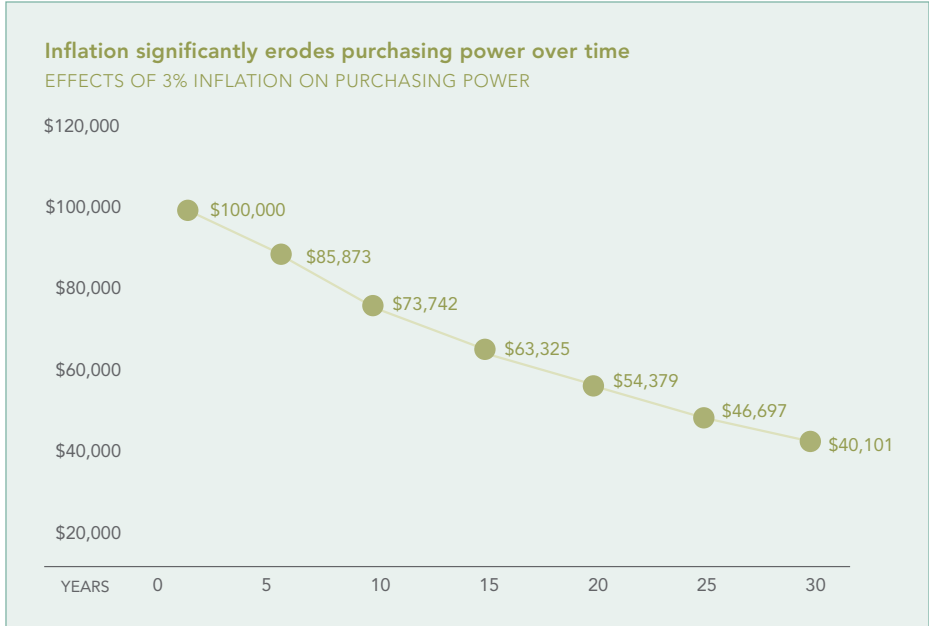
How risky is it? This is usually the first question retirement plan participants ask when selecting investments. Risk is real and no investment is risk free, but risk can be hard to define and there's no single way of measuring it. Some investors have a high tolerance for risk and are relatively unfazed by steep market declines. For other investors, a small pullback in the value of their portfolio can keep them up at night. The key to managing risk is to determine what your tolerance for it is and invest accordingly. When selecting investments, consider the following types of risk.

**Inflation risk** Inflation is the general rise in the prices of goods and services over time. Inflation erodes the value of your money and decreases your purchasing power. When it comes to investing, "inflation risk" is the chance that any gains you make will be reduced or even eliminated by the effects of inflation. For example, if your investments are earning a 4% annual rate of return and the annual inflation rate is 3%, then your real rate of return is only 1%.

If retirement is a long way off and most of your money is invested in cash equivalents or bonds, inflation risk is very real for you. You may find that your retirement plan account is producing a yearly rate of return that

is less than or barely keeping up with the inflation rate. In this situation, you may want to consider adding growth investment choices, such as stocks to your portfolio. By putting more of your retirement money in stocks, you will increase your portfolio's potential to grow faster than the rate of inflation over time.\*

**Market risk** This is the type of risk that is most often associated with investing. Because the financial markets move up and down, many people shy away from volatile investments, such as stocks. If stocks continue on an upward trend, in the long term, this type of risk can have a minimal effect on your portfolio.



This chart is for illustrative purposes only, and your circumstances may differ from this example. This chart assumes a 3% rate of inflation.

\*See inside back cover for important disclosures.

# Investment terms

## Defining the terms

As a participant in your employer's plan, you have several investment choices available to you. These investment choices usually invest in three types of asset classes—stocks, bonds, and cash equivalents.

**Stocks** represent ownership, or equity, in a company; therefore, when you invest in a stock you share in the ups and downs of the underlying company. Investment choices that focus on stocks usually invest in many different companies in a variety of industries.

Your retirement plan probably offers several different kinds of stocks. Some of your investment choices may be called “growth” investment choices which invest in companies whose earnings are likely to grow faster than the overall market or more than other companies within their industry.

Some of your investment choices may be called “value” investment choices, which invest in stocks that are undervalued relative to similar types of stocks. Value investment choices purchase stocks that are fairly inexpensive with the idea that their prices will rise.

Your plan may also offer “blend” investment choices, which emphasize both growth and value stocks in the same portfolio.

## Growth and value stocks can fall into different market capitalization groups.

**Large-capitalization** investment choices invest in the stocks of big corporations that have solid earnings and a large number of stocks outstanding. The names of large-capitalization stocks are often familiar to investors. Some of the best known large-capitalization stocks are part of the Dow Jones Industrial Average.

**Mid-capitalization** investment choices invest in the stocks of medium-sized companies.

**Small-capitalization** investment choices invest in the stocks of relatively small companies. They tend to be more volatile than their larger-capitalization counterparts.

If you have several years to retirement, putting most of your money in stocks, which have the potential to grow, may be appropriate.\*

**Bonds** represent debt, or money borrowed from corporations or from governments (federal, state, local). There are four common types of bonds: U.S. Government Securities, Mortgage Backed Securities, Municipal Bonds, and Corporate Bonds. Investment choices that invest in bonds are often referred to as “fixed-income” investment choices because the rate of interest paid on bonds is “fixed” at the time the bonds are issued. Sometimes bonds are called “income” investment choices because they provide income to a portfolio in the form of interest payments.

Bond prices tend to fluctuate less than stock prices; therefore, having some of your retirement money in bonds can provide stability to your retirement plan account during periods of stock market volatility.\*

**Cash equivalent** investments are usually “money market” investment choices or “stable value” investment choices. These investment choices pay income which is reinvested in your account, and the value of these investment choices usually grows steadily. Because these are very conservative investment choices, they are usually appropriate for people nearing retirement or as an element of diversification in a more aggressive portfolio.\*

## A word about balanced investment choices

**Balanced investment** choices usually invest in a combination of stocks which provide growth and bonds which provide income. During periods of stock market downturns, the income generated by these investment choices can help cushion the volatility of the investment choice.

## International and global investment choices

**International** investment choices invest in securities outside the United States. **Global** investment choices invest in both international and U.S. securities. These types of investment choices can invest in stocks, bonds, or a combination of both. International and global investment choices carry a relatively high amount of risk because they are subject to fluctuations in currency values, foreign regulations, political situations, and the economic conditions of the countries in which they invest.

Most investment professionals believe that international or global investment choices should be part of a well-diversified investment portfolio. Why? Because in a global economy, a substantial portion of the world's investment opportunities are outside the United States. Also, the world's stock markets don't always move in lockstep with ours. If the U.S. market is declining in value, the overseas markets may be increasing in value. If you have a long time until retirement, you should consider investing a portion of your retirement savings in international or global investment choices.

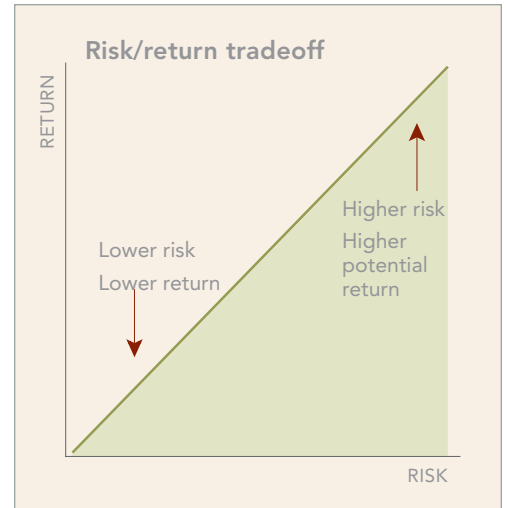
## Target maturity investment choices

These investment choices invest according to your targeted retirement date, which may be 10, 20, or 30 years away. Each investment choice has an asset allocation mix that gradually reduces risk by becoming more conservative as you near retirement. Investment choices with a long-term target date, say 20 or 30 years, invest mostly in stocks. As they become more conservative over time, they put more of their assets in bonds or cash equivalent investment choices. With a target maturity investment choice, you decide when you are going to retire, and an investment professional does the rest.

## Asset allocation investment choice

An asset allocation investment choice that invests in a blend of stocks, bonds, and short-term investments. With this broad diversification, these investment choices tend to reduce risk and decrease exposure to the fluctuations of the market in any one asset class. Asset allocation investment choices are managed by investment professionals who adjust the investment choices, holdings in each asset class, as economic or market conditions change.\*

There are different types of asset allocation investment choices—some are aggressive and hold mostly stocks. Others are more conservative and seek income by emphasizing bonds and short-term investments. An asset allocation investment choice is an easy way to diversify your retirement dollars without having to own a broad range of individual investment choices.



\*Additional fees may be associated with this choice.

## The bottom line

### **Market volatility and your portfolio**

As a retirement plan investor, you will no doubt experience periods of market downturns, some of which may be substantial. How you react to market declines can have a big impact on how much money you will have in retirement. This may be a good time to review your retirement investments and determine how you would feel if your portfolio went down 10, 20, or 30 percent. Are you willing to accept significant volatility in exchange for more upside potential over the long term? When do you plan to retire? Do you have the time to weather big market downturns?

Is your portfolio well diversified and allocated, with a combination of stocks, bonds and cash equivalent investment choices? The answers to these questions can help you create a portfolio that is in line with your time horizon and tolerance for risk—one that can give you peace of mind during periods of market volatility and one that can help you achieve a comfortable retirement.



## Disclosures

**Investment Mixes**– Each Investment Mix is comprised of four or more asset classes: Cash Equivalents, Bond, High Yield Bond, Large/Mid Value Equity, Large/Mid Blend Equity, Large/Mid Growth Equity, International Equity or Small Company Equity.

**Cash Equivalents**– An investment in a cash equivalent investment choice is not insured or guaranteed by the FDIC or any other government agency. Although the investment seeks to preserve the value of your investment, it is possible to lose money by investing in the investment choice.

**Bond**– The values of bonds change in response to changes in economic conditions, interest rates and the creditworthiness of individual issuers. Investment choices that invest in bonds can lose their value as interest rates rise and an investor can lose principal.

**High Yield Bond**– The investor should note that investment choices that invest in lower-rated debt securities (commonly referred to as junk bonds) involve additional risks because of the lower credit quality of the securities in the portfolio. The investor should be aware of the possible higher level of volatility, and increased risk of default.

**Large/Mid Value Equity**– Historically, common stocks have provided greater long-term returns and have entailed greater short-term risks than other investment choices. Smaller or newer issuers carry more risk than larger, more established issuers.

**Large/Mid Blend Equity**– Historically, common stocks have provided greater long-term returns and have entailed greater short-term risks than other investment choices. Smaller or newer issuers carry more risk than larger, more established issuers.

**Large/Mid Growth Equity**– Historically, common stocks have provided greater long-term returns and have entailed greater short-term risks than other investment choices. Smaller or newer issuers carry more risk than larger, more established issuers.

**Small Company Equity**– The investor should note that investment choices that invest in stocks of small companies involve additional risks. Smaller companies typically have a higher risk of failure, and are not as well established as larger blue-chip companies. Historically, smaller-company stocks have experienced a greater degree of market volatility than the overall market average.

Risk tolerance and how to invest is a personal decision. We assume that once you reach age 65, you will, where possible, reduce the risk/return of your portfolio.

Transamerica Retirement Services (“Transamerica”), a marketing unit of Transamerica Financial Life Insurance Company (“TFLIC”), 4 Manhattanville Road, Purchase, New York 10577, and Transamerica Life Insurance



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