WELLS FARGO
INVESTMENT INSTITUTE

ASK THE INSTITUTE

Setting the Stage for Long-Term Financial Success

It is important to determine (and adjust as needed) investment goals, risk tolerance, and time horizon when constructing portfolio asset allocation.

Investment Goals

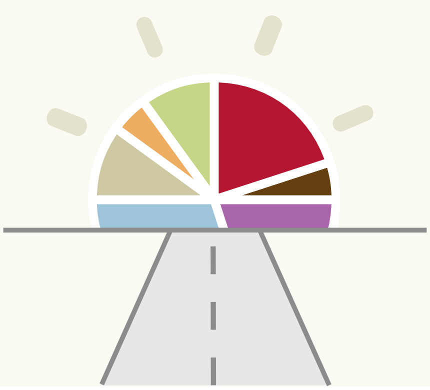
What do you want your money to do for you? Provide income, offer long-term growth potential, or a blend of the two?

Risk Tolerance

What level of risk are you willing to take to achieve those goals? Very little (conservative), a significant amount (aggressive), or somewhere in between (moderate)?

Time Horizon

When do you plan on accessing the money? A conservative risk tolerance may be appropriate for a shorter time horizon, while an aggressive risk tolerance may work best for longer time frames.



Investment and Insurance Products:

NOT FDIC Insured ▶ NO Bank Guarantee ▶ MAY Lose Value

How do I determine my risk tolerance?

Setting an investment objective and corresponding asset allocation can help establish a reasonable expectation for the average return that portfolios may achieve, and the risk they may exhibit, over a full market cycle. It also can help investors stick with their plan when markets turn volatile.

Key takeaways

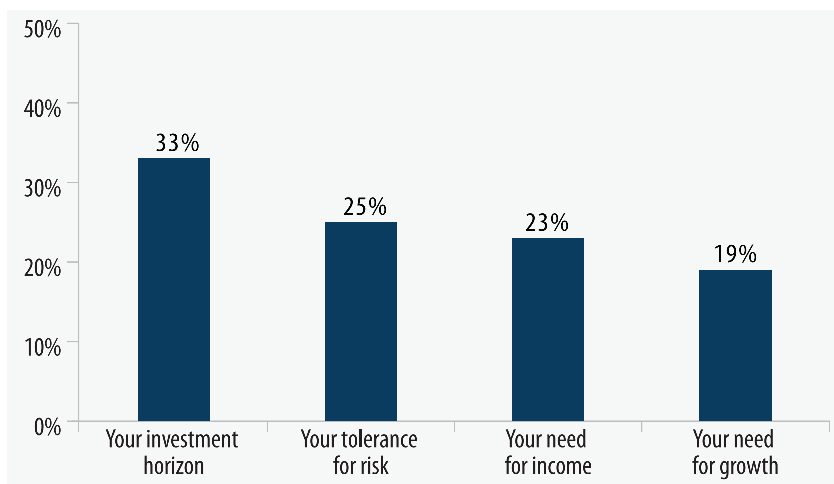
- When planning for long-term financial success, first determine investment goals.
- It also is important to determine the level of risk you are willing to take in order to achieve those goals.
- Whether your risk tolerance is conservative, moderate or aggressive, we believe that diversification can help investors to manage risk.

What factor is most important to you when making investment decisions?

Choosing the appropriate investment objective for circumstances can be a critical step toward achieving financial goals. In our recent investor survey, we asked more than 1,000 investors (respondents) which factor was most important to them when making investment decisions.

Wells Fargo Investment Institute (WFII) Attitude Survey

As of 12/2018



Source: Wells Fargo Investment Institute Investor Attitude Survey, 12/2018. This chart shows results from a recent investment attitude survey conducted by TNS for Wells Fargo Investment Institute that asked a series of investment-related questions. There were 547 respondents with investable assets of $500,000 or more.

The second largest percent of respondents (25%) chose risk tolerance as most important. While risk tolerance is essential, it should not be considered in isolation. Needs for income and/or growth and time horizon also are principal considerations. Together, these factors help determine the asset allocation most likely to help achieve goals.

Time horizon and risk tolerance can work together—in that tolerance for risk can increase as your time horizon lengthens. That is because, historically, short-term market losses often are recovered over longer periods of time. We believe investment allocation should then look very different if your time horizon is six months, six years or sixteen years.

What do you want your money to do for you?

Investment objectives define what investments can do. Our primary investment objectives are:

Income: Is a primary need or desire a current income stream? If so, that is what our Income objectives are designed in an effort to provide. They are expected to provide lower relative returns and experience lower corresponding volatility than our other investment objectives. They also are designed in an effort to provide higher yield potential.

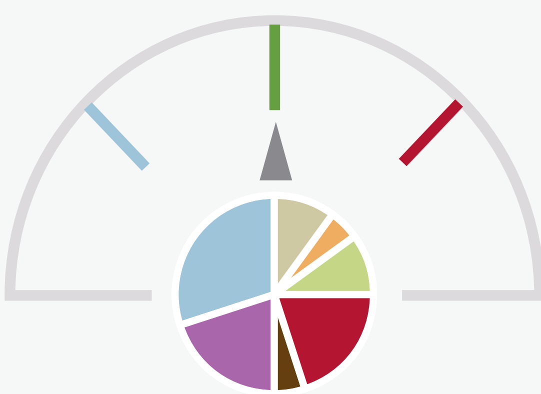
Growth & Income: It may be that both current income and some growth potential is wanted. Our Growth & Income portfolios are created in an effort to provide higher potential returns and experience greater levels of volatility than our Income portfolios.

Growth: Maybe growth is wanted or provision for retirement income or a future legacy. If that is the case, then our Growth portfolios may be the best choice. Our Growth portfolios are designed in an effort to have the highest relative levels of return potential and risk.

What is your risk tolerance?

Once investment goals are established it is important to determine the level of risk one is willing to take in an effort to achieve those goals. Risk tolerance can be conservative, aggressive—or somewhere in between.

These risk classifications can be paired with investment goals. Income-oriented or growth-oriented investors may be conservative, moderate, or aggressive depending on variables such as their time horizon and liquidity needs.



CONSERVATIVE

Investors generally assume a lower amount of risk, but may still experience losses or have lower potential returns.

MODERATE

Investors are willing to accept a modest level of risk that may result in increased losses in exchange for the potential to receive modest returns.

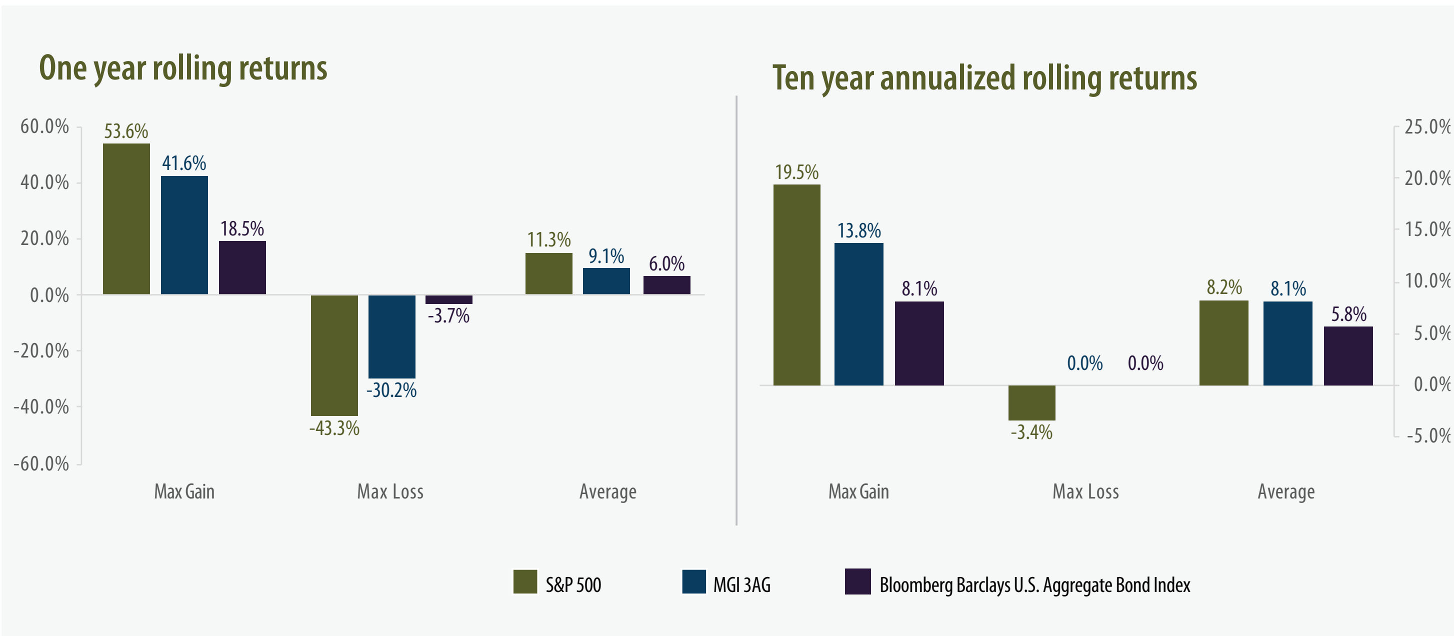
AGGRESSIVE

Investors seek a higher level of returns and are willing to accept a higher level of risk that may result in greater losses.

Time horizon can influence risk tolerance

Time horizon can influence an investor's willingness to take risk and is one component that can help to align investment goals with risk tolerance. Financial markets can be extremely volatile on a year-to-year basis, and some investors may be unable to withstand sizable portfolio declines, even if those moves are likely to be only temporary. Investors with shorter time horizons are more likely to have a conservative risk profile, while investors with longer time horizons often are willing to take on more risk and may be in the moderate or aggressive categories. As the chart below shows, over shorter time horizons, higher-risk assets, such as equities, can experience significant swings in value.

Based on historical assumptions, looking out to a 10-year time horizon, the potential for loss is diminished as financial-market cycles evolve. There is greater potential reward in equities over these longer time horizons, but the risk also is higher. The diversified portfolio shown in the chart below has captured much of the upside without generating a loss over any 10-year rolling period since 1990. Over the same period, average annual returns for this diversified portfolio have outpaced both the S&P 500 Index and the Bloomberg Barclays U.S. Aggregate Bond Index.



Source: Wells Fargo Investment Institute. Morningstar Direct, 12/31/2019. The Moderate Growth and Income (MGI) 3 Asset Group Portfolio composition is as follows: Bloomberg Barclays U.S. Treasury Bills (1–3 months): 3%, Bloomberg Barclays U.S. Aggregate Bond Index (1–3 years): 4%, Bloomberg Barclays U.S. Aggregate Bond Index (5–7 years): 16%, Bloomberg Barclays U.S. Aggregate Bond Index (10 years +): 7%, JPMorgan GBI Global Ex-U.S. Bond Index: 3%, Bloomberg Barclays U.S. Corporate High-Yield Bond Index: 6%, JPMorgan EMBI Global Index: 5%, FTSE EPRA/NAREIT Developed Index: 5%, S&P 500 Index: 21%, Russell Midcap® Index: 9%, Russell 2000® Index: 8%, MSCI EAFE Index: 6%, MSCI Emerging Markets Index: 5%, Bloomberg Commodity Index: 2%. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results**. Definitions of the indices and a description of the risks associated with investment in these asset classes is provided at the end of the report.

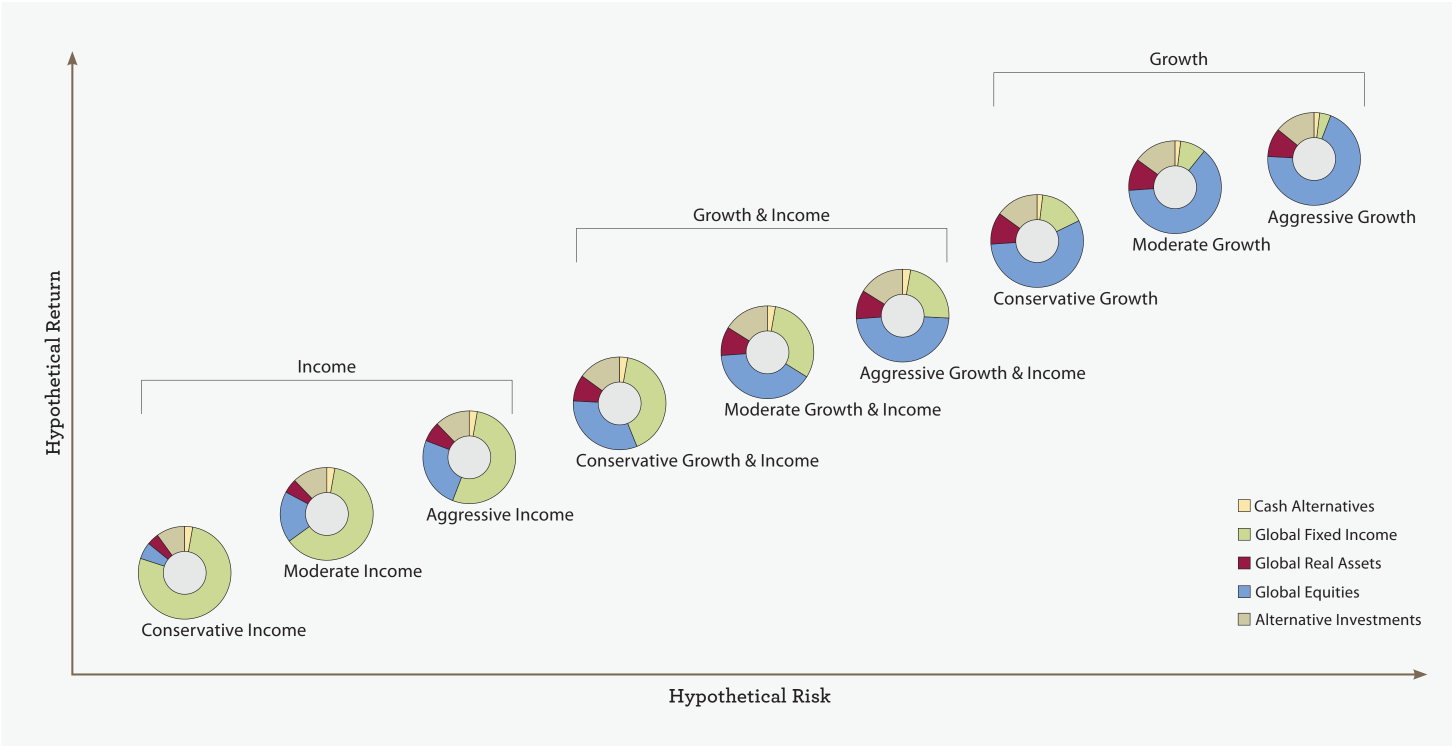
Performance results for the MGI 3 Asset Group Portfolio are hypothetical and for illustrative purposes only. **Hypothetical returns do not represent investment returns or the results of actual trading. Index returns represent general market results, assume the reinvestment of dividends and other distributions, and do not reflect deduction for fees, expenses or taxes applicable to an actual investment. Hypothetical and past performance do not guarantee future results.**

Diversification can help reduce risk

Regardless of risk tolerance, investors may be able to reduce volatility through asset-class diversification. The Great Recession (2007–2009) showed us just how cruel the equity markets can be—with portfolio declines of greater than 40% in some cases. Many markets moved lower during that period. Yet some asset classes declined less than others, and still others experienced positive returns over this period. Portfolios that are diversified across fixed income, equities, real assets (such as commodities, real estate, and other investments), and alternative investments (Hedge Funds, Private Equity, Private Real Estate) generally have seen less historical volatility. Fixed-income assets typically have low volatility; however, they may not provide enough return (alone) to meet long-term goals. This is especially true in today's low-rate environment.

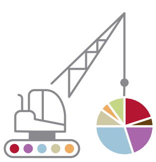
Within each of our three objectives (income, growth & income, and growth), there is room to increase risk in hopes of generating greater potential returns—or to lower risk to potentially mitigate volatility. You may have a conservative tilt to your objective or an aggressive tilt. Perhaps middle of the road, or moderate, is the right risk tolerance for you within your objective. As such, below are the nine diversified investment objectives, shown in the chart on page 4.

WFII investment objectives



Source: Wells Fargo Investment Institute. This chart is for illustrative purposes only. Chart is conceptual and does not reflect any actual returns or represent any specific asset classifications.

Other factors that can impact your portfolio risk



- Several other considerations are important for portfolio construction. Liquidity needs help determine how much of your portfolio should be invested in assets that typically can be easily converted to cash. Under most market conditions, mutual funds and exchange-traded funds (ETFs), have daily liquidity. In addition, most individual stocks and many bonds can be converted to cash within a few days. Many alternative investments, on the other hand, are generally only available to financially sophisticated, qualified investors and may have lock-up periods of three months to 10 years or more, but may offer greater potential returns or lower potential volatility in exchange for the liquidity risk.

- Tax circumstances and the tax status can help determine if tax-advantaged assets are appropriate holdings. Any special or unique needs can also determine how a portfolio should be structured. For example, if a large portion of a portfolio is invested in just one company's stock, the rest of a portfolio may be invested to help reduce the concentration risk of that holding.

- Determining investment goals and risk tolerance can be an important initial step that can help lead to long-term financial success. Even so, goals and risk preferences can change over time, and asset allocation should adapt accordingly. To manage risk, we believe that it is essential to diversify assets—whether risk tolerance is conservative, moderate, or aggressive. We recommend reviewing your investment goals and risk tolerance with your financial professional on a regular basis. Your investment professional can help you select the investment objective that is right for you based on your time horizon and risk tolerance—and help you adjust your investment objective as your circumstances change.

Wells Fargo and its affiliates are not tax or legal advisors. Be sure to consult with your own tax and legal advisors before taking any action that may have tax or legal consequences.

Risk Considerations

Asset allocation and diversification are investment methods used to help manage risk. They do not ensure a profit or protect against a loss. All investing involve risks, including the possible loss of principal. There can be no assurance that any investment strategy will be successful or that a strategy or fund will meet its investment objectives. Investments fluctuate with changes in market and economic conditions and in different environments due to numerous factors some of which may be unpredictable. An investment in a mutual fund or exchange-traded fund (ETF) will fluctuate and shares, when sold, may be worth more or less than their original cost. ETFs are subject to risks similar to those of stocks and may yield investment results that, before expenses, generally correspond to the price and yield of a particular index. There is no assurance that the price and yield performance of the index can be fully matched.

Each asset class has its own risk and return characteristics which should be evaluated carefully before making any investment decision. The risks associated with the representative index asset classes discussed in this report include:

Alternative Investments: Alternative investments are speculative and involve a high degree of risk. They are suitable only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program. The high expenses often associated with these investments must be offset by trading profits and other income. They tend to be more volatile than other types of investments and present an increased risk of investment loss. There may also be a lack of transparency as to the underlying assets. Other risks apply as well, depending on the specific investment product.

Commodities: Exposure to the commodities markets may subject an investment to greater share price volatility than an investment in traditional equity or debt securities. Investments in commodities may be affected by changes in overall market movements, commodity index volatility, changes in interest rates or factors affecting a particular industry or commodity. Products that invest in commodities may employ more complex strategies which may expose investors to additional risks.

Equity Securities: Equity securities are subject to market risk which means their value may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. Investments in equity securities are generally more volatile than other types of securities. Investing in small and mid-cap companies involve additional risks from investing in large-cap companies such as limited liquidity and greater volatility.

Fixed Income: Investments in fixed-income securities are subject to market, interest rate, credit/default, liquidity, inflation and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and/or principal. This risk is heightened in lower rated bonds. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity.

Foreign/Emerging Markets: Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. These risks are heightened in emerging markets.

Real Estate: Investing in real estate investment trusts (REITs) have special risks, including the possible illiquidity of the underlying properties, credit risk, interest rate fluctuations, and the impact of varied economic conditions.

Index Definitions

An index is unmanaged and not available for direct investing.

Bloomberg Barclays 1–3 Month U.S. Treasury Bill Index includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have $250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non-convertible.

Bloomberg Barclays U.S. Aggregate 1–3 Year Bond Index is unmanaged and is composed of the Barclays U.S. Government/Credit Index and the Barclays U.S. Mortgage-Backed Securities Index, and includes Treasury issues, agency issues, corporate bond issues, and mortgage-backed securities with maturities of 1–3 years.

Bloomberg Barclays U.S. Aggregate 5–7 Year Bond Index is unmanaged and is composed of the Barclays U.S. Government/Credit Index and the Barclays U.S. Mortgage-Backed Securities Index, and includes Treasury issues, agency issues, corporate bond issues, and mortgage-backed securities with maturities of 5–7 years.

Bloomberg Barclays U.S. Aggregate 10+ Year Bond Index is unmanaged and is composed of the Barclays U.S. Government/Credit Index and the Barclays U.S. Mortgage-Backed Securities Index, and includes Treasury issues, agency issues, corporate bond issues, and mortgage-backed securities with maturities of 10 years or more.

Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.

Bloomberg Barclays U.S. Corporate High Yield Index covers the universe of fixed-rate, noninvestment-grade debt.

Bloomberg Commodity Index is a broadly diversified index comprised of 22 exchange-traded futures on physical commodities and represents 20 commodities weighted to account for economic significance and market liquidity.

FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real-estate companies and REITs in developed countries worldwide.

JPMorgan Emerging Markets Bond Index Global (EMBI Global), which currently covers 27 emerging market countries. Included in the EMBI Global are U.S.-dollar-denominated Brady bonds, Eurobonds, traded loans, and local market debt instruments issued by sovereign and quasi-sovereign entities.

JPMorgan Global Ex United States Index (JPM GBI Global Ex-US) is a total return, market capitalization weighted index, rebalanced monthly, consisting of the following countries: Australia, Germany, Spain, Belgium, Italy, Sweden, Canada, Japan, United Kingdom, Denmark, Netherlands, and France.

MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000 Index.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

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