

Taking the Emotion Out of Investing



Staying completely objective about your investments is nearly impossible. After all, your money isn't just money. It represents important goals, like buying a house, living a comfortable retirement or funding your children's educations. So if recent stock market volatility has caused you to lose sleep or tempted you to cash out some of your holdings, you're not alone.

Still, getting too emotional about your investments isn't healthy—for you or your portfolio. It can cause you undue stress, prompt you to sell during unfavorable conditions and otherwise distract you from your long-term strategy. To let reason rule, you need a plan that provides a logical framework for your financial decisions and that anticipates market turbulence. And of course, you need to stick to the plan. Here are three simple steps you can follow to get you on your way.

1. Remember the Big Picture

If you become too focused on the here and now, you're much more prone to emotional investment decisions—buying a security based solely on recent performance or selling one prematurely, for example. To broaden your perspective, try the following:

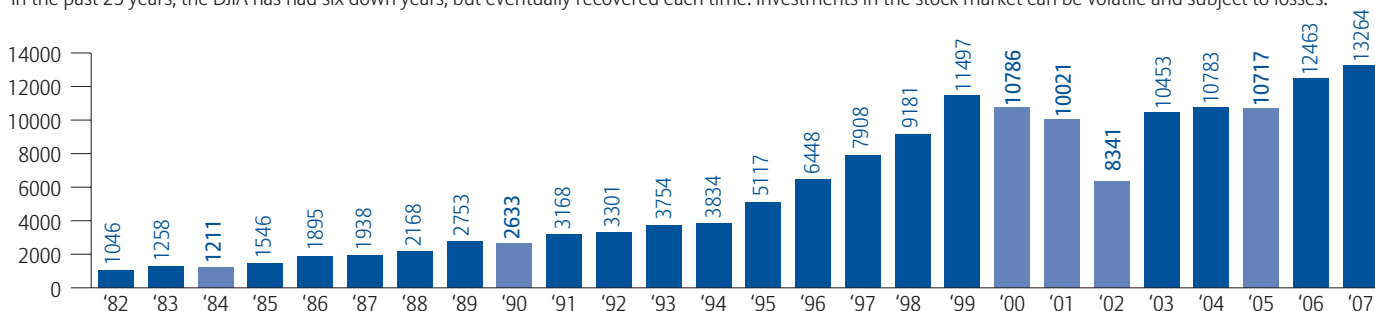
- ▶ **Review your goals and risk tolerance.** It's always a good idea to work with your financial advisor to determine your risk tolerance and financial goals and make sure your asset allocation is in sync with them. These factors should be top of mind whenever you make an investment decision.
- ▶ **Take a look at history.** A look back at the financial markets can help you be more realistic about potential returns. For example, the average annual return of the S&P 500, a benchmark that is representative of the overall stock market, has been about 10 percent over the past 20 years. *Also, while the Dow Jones Industrial Average has had six down years in the last 25, it eventually recovered each time—even if it took a few years. This serves as a good reminder to ride out corrections and maintain a long-term view.

2. Use a Systematic Approach

You may find it easier to stay on track with your goals if you organize certain aspects of the investment process. By providing a structure, systems can help you form good investing habits and prevent you from second-guessing your financial decisions. Here are a few approaches that you may want to consider:

- ▶ **Review your long-term holdings at specific intervals.** Online services have made it convenient for investors to check up on their portfolios. But if you're a long-term investor, keeping too close an eye on your holdings may only cause you unnecessary anxiety. Over time, daily price fluctuations lose importance. That said, try reviewing your portfolio no more than once a month or quarter.
- ▶ **Consider dollar cost averaging.** A plan that regularly invests a fixed amount of money in a specific investment imposes a disciplined approach to investing. This can be a particularly good strategy during volatile markets, since systematic investing carries the benefit of dollar cost averaging.

A Case for Long-Term Investing. A historical look at the Dow Jones Industrial Average (DJIA) can remind you to ride out corrections and keep a long-term view. In the past 25 years, the DJIA has had six down years, but eventually recovered each time. Investments in the stock market can be volatile and subject to losses.



Source: Dow Jones & Company. Past performance is no guarantee of future results. This chart does not represent the past or future performance of any PIMCO fund.

Dollar cost averaging takes advantage of price fluctuations by buying more shares when an investment's price declines and fewer shares when it rises. The chart below illustrates this point.

The Benefits of Dollar Cost Averaging. *In this example, a monthly systematic investment of \$500 purchased more shares at a lower average price than a \$2000 lump sum investment during the four-month period.* This plan involves continuous investment in securities regardless of fluctuating prices. The investor should consider his/her financial ability to continue investing through periods of low price levels. A program of regular investing does not ensure a profit or protect against losses in declining markets.

Date of Purchase	Jan 15	Feb 15	Mar 15	Apr 15	
Share Price	\$11	\$8	\$10	\$14	Total
Dollar Cost Averaging					
Shares Acquired	45.5	62.5	50.0	35.7	193.7
Investment	\$500	\$500	\$500	\$500	\$2,000
Average Share Price:					\$10.33
Lump Sum Investment					
Shares Acquired	181.8	0	0	0	181.8
Investment	\$2,000	0	0	0	\$2,000
Average Share Price:					\$11.00

► **Establish guidelines for selling an investment.** If you contemplate selling an investment each time its price retreats, you may want to establish some clearer guidelines. One idea is to form a checklist of key questions that can help you make a more objective evaluation. For example:

- Have there been any negative fundamental changes in the investment?
- What are experts saying about the asset class or sector?
- How would selling the investment affect my asset allocation?
- Has the investment consistently underperformed its benchmark?
- Would another opportunity provide better risk/return characteristics?

Remember that the theory of asset allocation holds that different investments will outperform and underperform the market at different times. This year's laggards could be next year's leaders. So you may not want to sell an investment just because it's trailing the overall market. Your financial advisor can provide additional insight and help you determine if it's better to sell or hold on for a while.

3. Manage Risk (Or It Will Manage You)

Risk management is an area that many investors tend to neglect during favorable markets—an oversight that can leave them unprepared when the climate sours. Here are a few tactics that may help you weather future market volatility.

- **Don't put too much at stake.** If you're seeking the potential for higher returns, allocate a specific percentage of your portfolio to riskier investments, then periodically rebalance. To reduce risk, you might consider investing through a mutual fund, which can offer a more diversified approach and may be less volatile than owning individual securities.
- **Allocate part of your portfolio to bonds.** If a review of your asset allocation determines you've taken on too much risk, you might shift some of your holdings into bonds. Although bonds fluctuate in value in response to interest rate changes, their income and more moderate volatility can provide a cushion against stock volatility. Investing in a diversified bond fund is one simple way to balance out your equity holdings.

► **Keep an emergency fund.** As a rule of thumb, it's a good idea to keep a percentage of your annual income in an emergency fund. There are a number of good alternatives for investing this cash. For example, you might consider a short-term bond fund. While the value of your investment will fluctuate slightly and there's no repayment guarantee, you may benefit from income potential which is considerably higher than money market investments.

These are just a few suggestions that can help you keep a more objective mindset and prepare your portfolio for future market volatility. As always, your financial advisor can help you decide if any of these approaches might fit into your comprehensive financial plan.

Investors should consider the investment objectives, risks, charges and expenses of any mutual fund carefully before investing. This and other information is contained in the fund's prospectus, which may be obtained by contacting your financial advisor, by visiting www.allianzinvestors.com or by calling 1-888-877-4626. Please read this prospectus carefully before you invest or send money.

*Source: Zephyr. Stocks represented by the S&P 500 Index, which returned 9.95% for the 20-year period ended 9/30/08.

Past performance is no guarantee of future results. There can be no guarantee that these investment strategies will work in every economic environment.

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