



Combined Funds, Inc.

CARPENTERS' COMBINED FUNDS, INC.

ASSET ALLOCATION AND DIVERSIFICATION; WHAT'S THE DIFFERENCE?

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Submitted by: PNC Advisors

One of the tough things about hiking is that there always seems to be one more hill waiting for you just when you thought you had reached your destination. Many retirement plan participants get that same sinking feeling when they come across one more confusing investment term just when they thought they had finally grasped investment basics.

Trying to understand the difference between diversification and asset allocation is a common source of confusion for investors. Here's a quick explanation of the differences.

Diversification -

Diversification is a strategy that can help you manage your investment risk.

A stock mutual fund is diversified because it invests in many companies that may be spread out in many industries. So, if one company or industry has problems and its stock falls in value, the fund's other investments may deliver positive returns to offset those losses. Bond funds and money market funds are also diversified investments because they hold a group of securities.

You can further diversify your portfolio by investing in different asset classes: stock, bond and money market or stable value funds. Since stocks and bonds don't always rise and fall in value at the same time, the positive performance of one asset class may balance the negative performance of another.

Asset Allocation -

Once you have decided to diversify your investments among different funds and asset classes, you then have to think about what percentage of your portfolio you wish to allocate to each asset class. This process of dividing your plan money among the different asset classes is known as asset allocation.

Before you allocate a specific percentage of your plan money to stock funds, bond funds, or stable value funds, you have to consider how many years you have before you will need to access the money, as well as how much investment risk you are comfortable with.

For help in determining your asset allocation, log onto www.retirementdirections.com and click on the icon that says "worksheets". You will find a worksheet entitled "Investment Style Questionnaire" that can help get you on track to finding the asset allocation most appropriate for your situation.