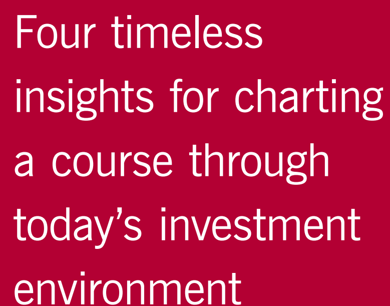
American Funds®

The right choice for the long term®

Principles for investment success



1

Stay true to your objectives

Investors today are very concerned about market volatility, so it's not surprising that many are paying closer attention to the daily stream of news tracking the market's ups and downs. The problem is, where investors focus their attention can have a powerful impact on how they perceive their own progress — and, ultimately, whether they achieve long-term success.

To get a sense of how powerful context can be, consider the three illustrations below, which depict the same 20-year period from three distinct perspectives. The two charts on the left show the monthly and annual fluctuations of the stock market over the 20 years ended December 31, 2011. The third illustration, which focuses on long-term goals, simply shows the value of a hypothetical investment at the end of that period.

Those investors who can look past the inevitable ups and downs of the market — as well as the steady drumbeat of political and economic news — and stay focused on their personal financial objectives may be most likely to stay on track and attain success.

focus

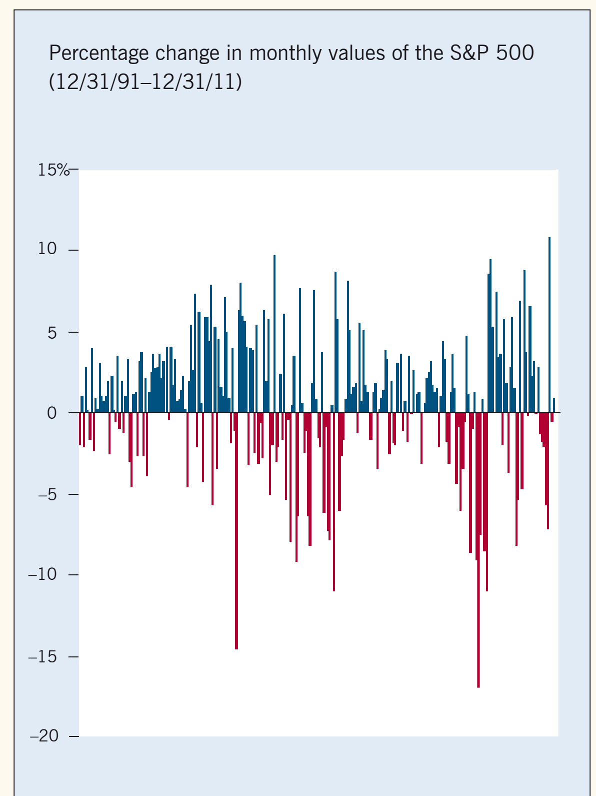
Checklist

- ☐ Identify your long-term financial goals.
- ☐ Work with your financial adviser to create a diversified investment portfolio tailored to your specific priorities, risk tolerance and time horizons.
- ☐ Meet regularly with your adviser to review your financial situation and determine whether your goals or risk tolerance have changed.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

Media

The media's focus on short-term fluctuations in the market can make investing confusing and uncomfortable.



Figures shown are past results and are not predictive of results in future periods. Results assume all distributions are reinvested.

Standard & Poor's 500 Composite Index, a broad measure of the U.S. stock market, is unmanaged and, therefore, has no expenses.

3.5%

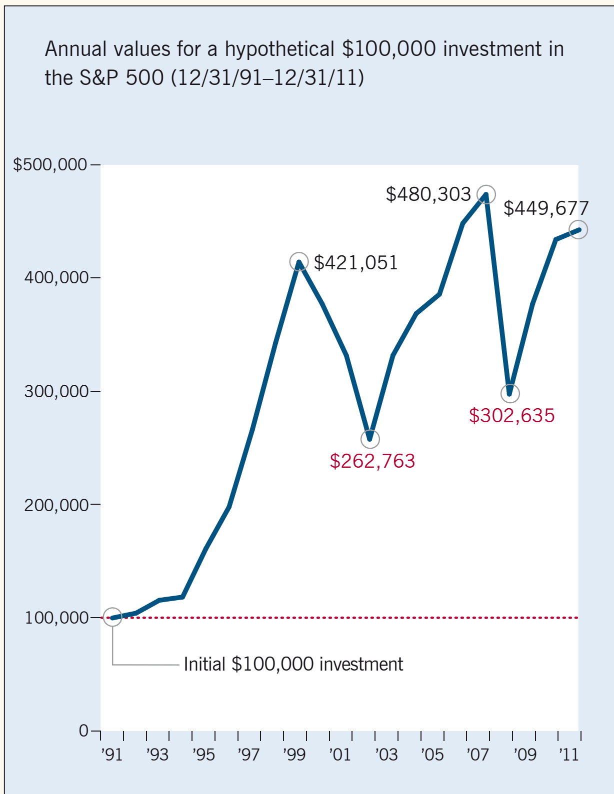
The "average equity investor's" average annual total return for the 20 years ended December 31, 2011. That compares with a 7.8% average annual return for the S&P 500.*

While I remain very aware of the issues that are in and out of the headlines, times of heightened pessimism can present an opportunity to invest in some excellent growth companies for the long run. You have to be willing to shrug off popular sentiment and focus on what's important.

—Claudia Huntington, portfolio counselor

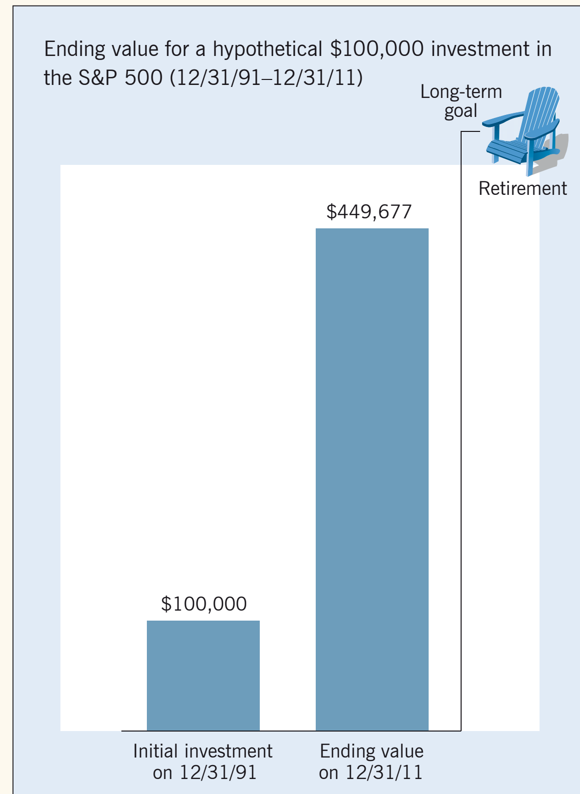
Markets

Even a year-by-year look at returns can emphasize how much an investment "lost" during declines instead of how much it grew over time.



Your objectives

Focusing on long-term goals can help investors avoid being sidetracked or distracted by ever-changing market conditions.



*Source: DALBAR (average equity investors data). DALBAR uses data from the Investment Company Institute, Standard & Poor's and Barclay's index products to compare mutual fund investor behavior with an appropriate set of benchmarks. These behaviors are then used to simulate the "average investor." Hypothetical equity and fixed-income investor investments are based on average annual total returns. Indexes are unmanaged and, therefore, have no expenses.

2

Be a realist

While periods of economic and market strength often inspire feelings of investor optimism, so too can market turmoil lead to intense feelings of pessimism. But when it comes to long-term investing, rather than soar in the heights or dwell in the depths, it pays to have a firmly realistic approach that includes maintaining a well-diversified portfolio.

Of course, even the most experienced investors can be tempted to let their feelings crowd out the facts. Consider the three-year period since March 9, 2009, when Standard & Poor's 500 Composite Index closed at 676.53, a stunning 57% decline (excluding dividends) from the previous market high in October 2007. As you can see in the chart on page 5, in the three years since that market low, the S&P has gained a total return of 115.8%.

Not every stock has regained all the ground lost in the downturn, but, following such a severe decline, the recent advance has been quite remarkable. Despite the positive results, however, the overall mood of investors has been gloomy. Considering the troubling events of the period, including the European sovereign debt crisis, the S&P downgrade of U.S. debt and turmoil in the Middle East, that is understandable.

The problem is, emotions can lead to destructive investment decisions, such as buying stocks at or near market highs and selling near market lows. As shown in the chart, money has flowed into the market when it has risen, and many investors have left the market when it has faltered.

3

Number of declines of 10% or more for the S&P 500 in the three years following the March 2009 market bottom.

I never try to be optimistic, but I'm not particularly pessimistic. I just try to be realistic about the environment we're in and focus on the long term.

—Jim Rothenberg, portfolio counselor

Test your knowledge

1) According to the National Bureau of Economic Research, the Great Recession ended
   A) June 2009
   B) March 2009
   C) October 2011
   D) Hasn't formally ended

2) In 2011, average earnings for S&P 500 companies
   A) declined 2.1%
   B) rose 7.9%
   C) rose 15.1%
   D) were little changed

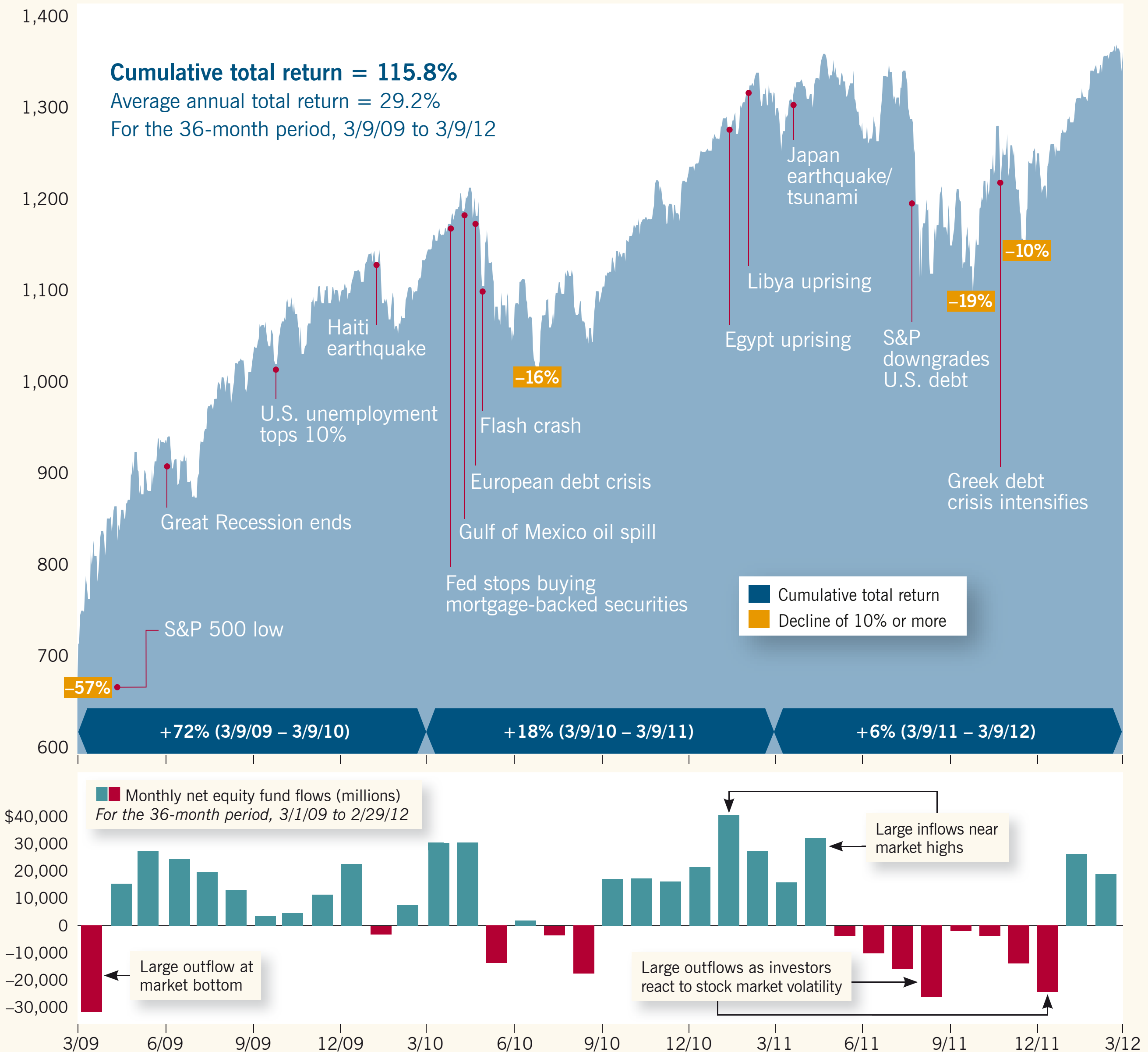
3) In the three years following the market bottom in March 2009, the S&P 500 gained
   A) 0.4%
   B) 38.6%
   C) 115.8%

Answers: 1) A, 2) C, 3) C

patience

Why a 116% advance didn't feel so good

Although the S&P 500 advanced 115.8% for the three-year period ended March 9, 2012, many investors felt anxious and uncertain throughout that time. That is understandable, considering that those three years included periods of high volatility as well as troubling news headlines.



Sources: Standard & Poor's and Strategic Insight. Monthly net fund flows represent domestic and international equity mutual funds and exchange traded funds. Daily stock market values are based on the change in price of the companies in the S&P 500. Declines are based on a drop of about 10% or more in the S&P 500's price value, with 50% recovery after each decline (except for the 2009 decline, which is based on a drop of about 15% or more, with a 77% recovery). Periods of decline, from market high to market low, are as follows: 10/9/07–3/9/09 (–57%), 4/23/10–7/2/10 (–16%), 4/29/11–10/3/11 (–19%) and 10/28/11–11/25/11 (–10%). Both daily values and declines exclude dividends and/or distributions. Returns reflect reinvestment of all distributions. The index is unmanaged and, therefore, has no expenses. "Flash crash" refers to the U.S. stock market crash on 5/6/10, when the Dow Jones Industrial Average plunged 998.5 points (a –9.2% drop) only to recover those losses within minutes.

3

Don't confuse safety for security

The market volatility and economic uncertainty of the past four years severely undermined investor confidence. As a result, many have given up on equity investing, seeking out the safety of cash. Considering the level of turmoil investors have seen recently, this reaction is understandable.

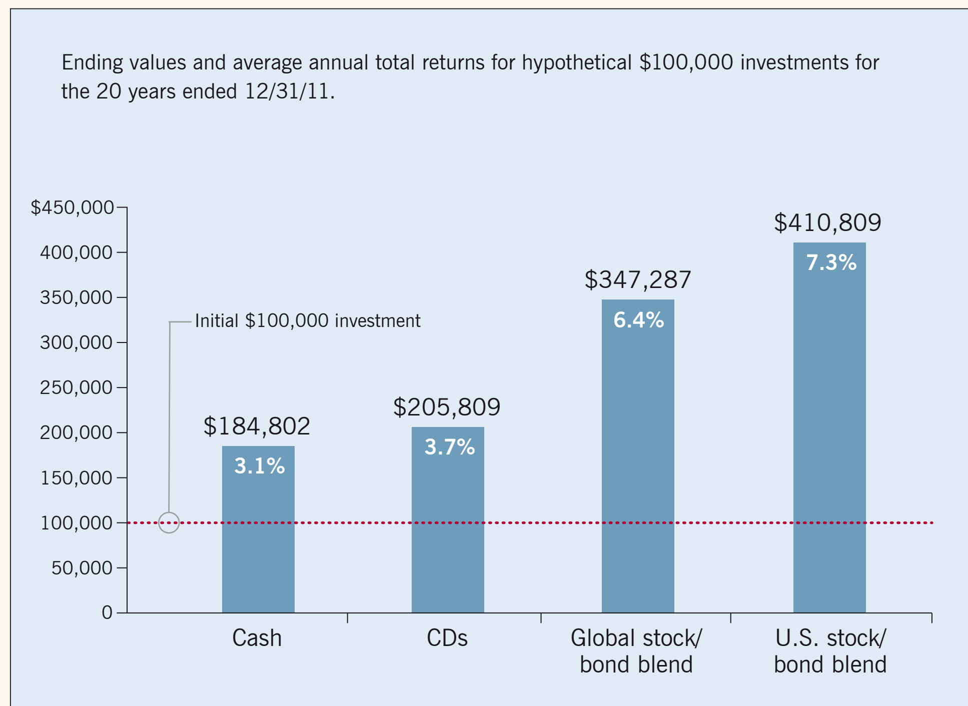
Certainly, in times of high volatility, cash can provide a safe haven. But does this perceived safety translate into long-term security? As you can see in the chart below, hypothetical investments in cash equivalents alone for the 20 years ended December 31, 2011, would have produced lower average annual returns than investments in blends of stocks and bonds.

For investors in or near retirement — when they begin relying on investments for income and can be more vulnerable to the potentially damaging effects of inflation — the advantage of the stock and bond mix would have been even greater. Assuming an initial 5% annual withdrawal that increased 3% each year afterward, investors

For most people reducing risk really means moving to assets that are low-volatility and a perception that you won't lose money in them. They're moving heavily into cash or a cash equivalent. But in an uncertain environment, it's important to have the discipline to stretch your time horizon and be more diversified.

— Rob Lovelace
portfolio counselor

Why investing in stocks and bonds matters over the long term



Sources: Cash — U.S. 91-day Treasury Bill Index; CDs — Certificate of Deposit–180 Day; Global stock/bond blend — 60% MSCI All Country World Index and 40% Barclays Global Aggregate Bond Index; U.S. stock/bond blend — 60% S&P 500 and 40% Barclay's U.S. Aggregate Index. Indexes are unmanaged and, therefore, have no expenses. Unlike fund shares, investments in U.S. Treasuries are guaranteed by the U.S. government as to the payment of principal and interest. In addition, Certificates of Deposit (CDs) are FDIC-insured and, if held to maturity, offer a guaranteed return of principal.

in the stock and bond mixes would have had a substantially higher ending value after 20 years, as shown in the chart below.

Of course, stocks and bonds have been more volatile than cash, and including cash investments in a diversified portfolio can help add a measure of stability. While past results are not predictive of future results, stocks and bonds have generated relatively attractive returns that have helped investors outpace inflation.

Inflation checklist

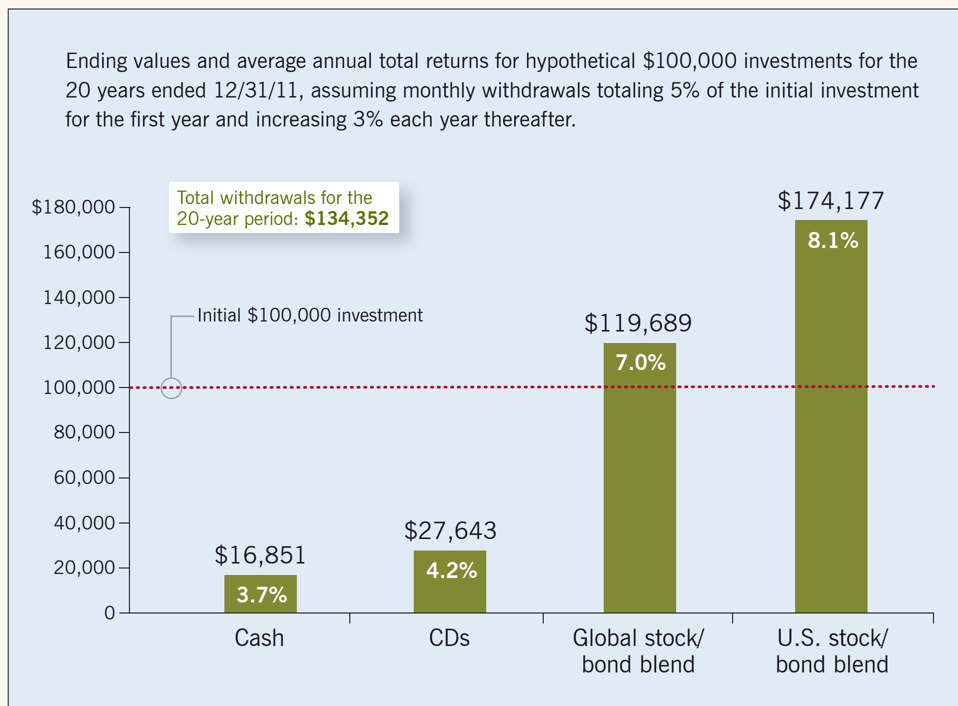
	Single-family home	A loaf of bread[1]	College education[2]	Gallon of unleaded gas
	+68%	+97%	+214%	+193%
1991	$ 97,100	$ 0.72	$ 5,452	$ 1.12
2001	147,800	1.01	9,032	1.13
2011	163,500	1.42	17,131	3.28

Sources: National Association of Realtors, U.S. Bureau of Labor Statistics, The College Board, Annual Survey of Colleges

[1] A loaf equals one pound.
[2] Average cost of four years at a public university

balance

The impact is more powerful for investors who are withdrawing income



Ending values and returns reflect withdrawals.

2.5%

Average annual rate of inflation for the 20 years ended December 31, 2011.[3]

[3] Rate of inflation is measured by the Consumer Price Index, which is computed from data supplied by the U.S. Department of Labor, Bureau of Labor Statistics.

4

Plan for the ups and downs

As sure as night follows day, market cycles inevitably include periods of strength and weakness. The problem is, the precise duration and scope of bull and bear markets are never clear until after the fact. So trying to time these cycles consistently is problematic.

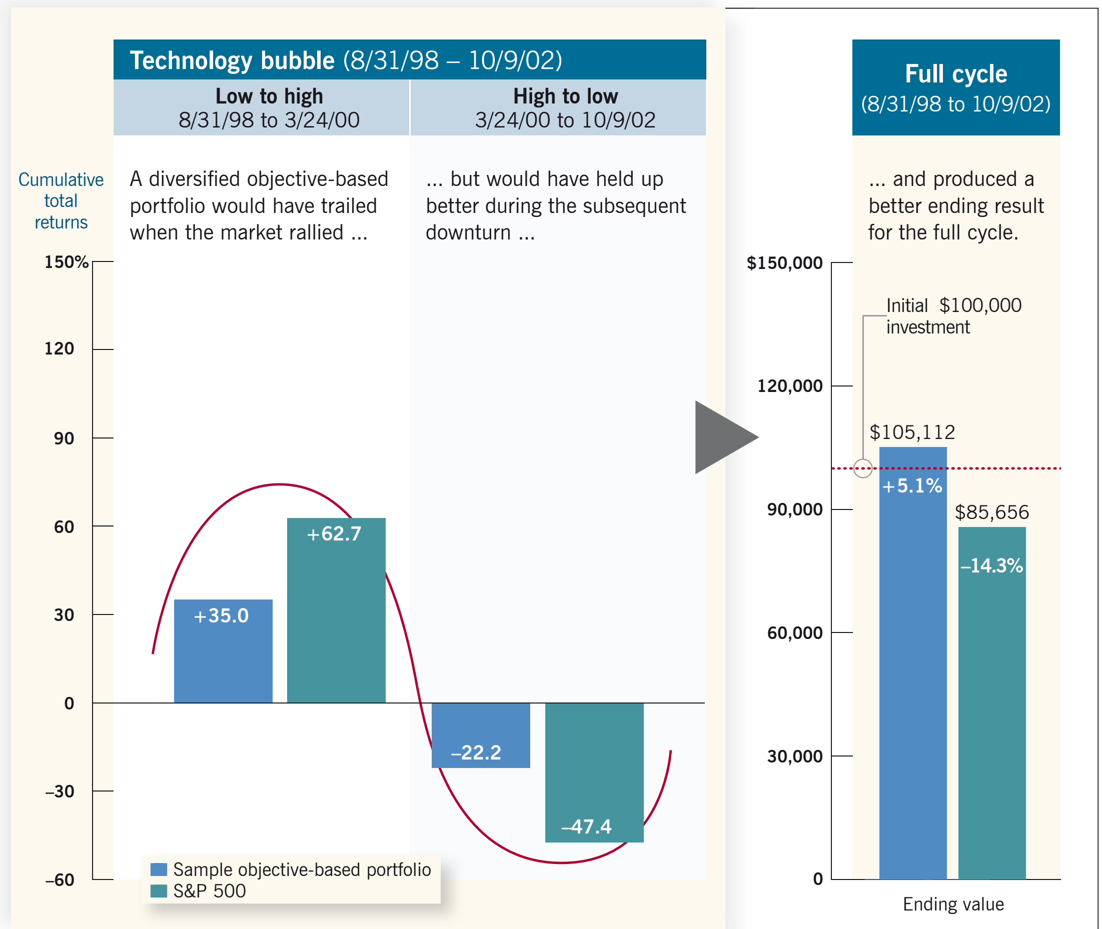
Sticking with a well-constructed investment plan is a key to long-term success. An objective-based portfolio framework — which separates investments you want to protect during market declines from those you are willing to subject to more volatility for greater growth potential — can help give you the confidence to stick to your plan when markets go to extremes.

On the following pages, we introduce the American Funds Portfolio Series,℠ which offers investors eight new funds of funds that align with three broad investor objectives — preservation, balance and appreciation. To see the potential benefits of a diversified, objective-based approach, consider the sample portfolio shown below, which divides a hypothetical $100,000 investment equally between three benchmark index blends

Know your objectives

An objective-based approach to investing mirrors the way you manage your other personal finances: It divides your assets based on your needs and goals.

- First, there's the money you need to cover short-term and emergency expenses — **Preservation**.
- Then there's the money you set aside for the future — **Balance**.
- The rest goes toward helping you build assets to fulfill your long-term goals — **Appreciation**.



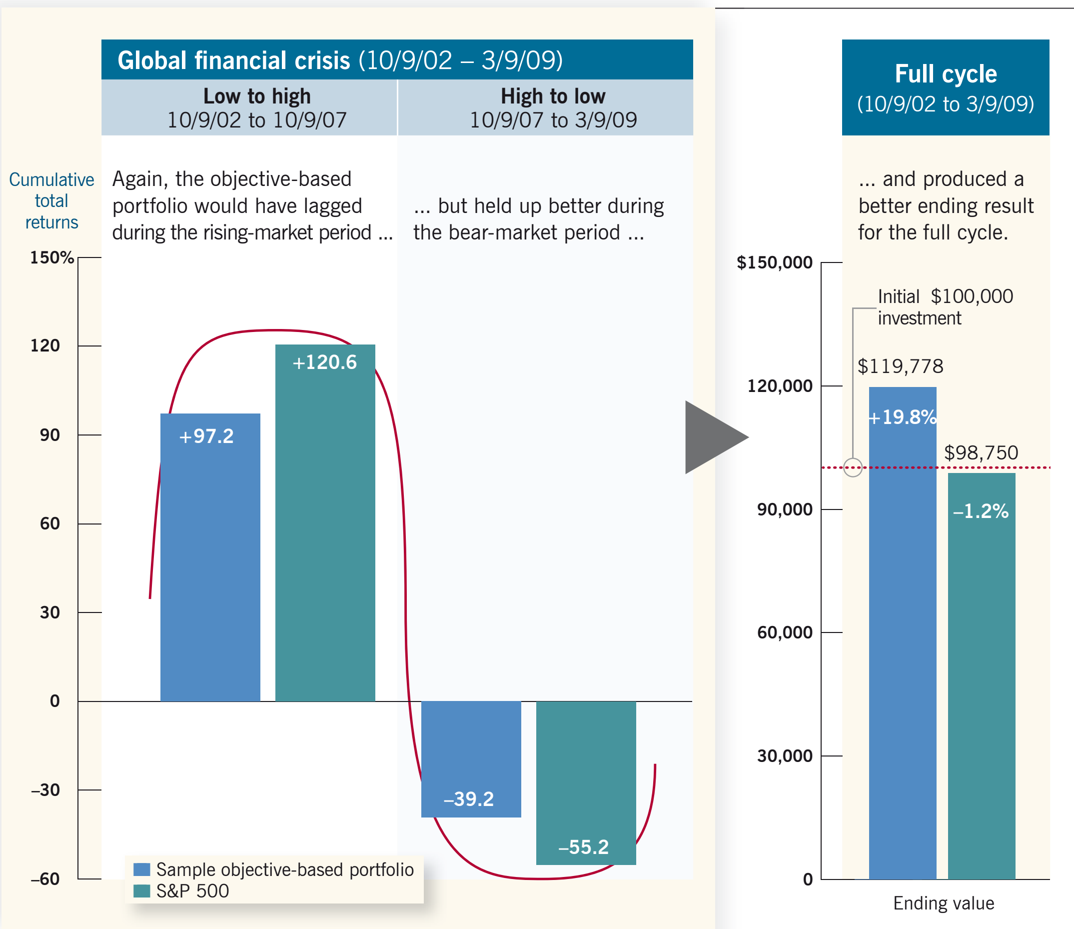
Hypothetical $100,000 investments in the S&P 500 and an index blend representing three objectives — preservation, balance and appreciation — made on the 8/31/98 market low and held through 10/9/02.

Hypothetical investments are not representative of any actual investments. The benchmark index blends shown are those that most closely correspond to the broad initial asset allocations of the Portfolio Series funds selected. Results for the objective-based portfolio assume an initial investment is divided equally among the following three objectives — appreciation (80% MSCI All Country World, 20% S&P 500 indexes), balance (35% MSCI All Country World, 35% Barclays U.S. Aggregate, 30% S&P 500 indexes) and preservation (40% Barclays U.S. Government/Credit 1–3 Years ex BBB,

diversify

for American Funds Preservation Portfolio,℠ American Funds Balanced Portfolio℠ and American Funds Global Growth Portfolio.℠ Among the three broad objective categories, we selected the index blend for the Preservation Portfolio because, as a taxable fund, it has the broadest application for investors; the index blend for the Balanced Portfolio because its objective is the most representative of the Balance category; and the index blend for the Global Growth Portfolio because it offers broad exposure to investments around the world.

The charts below compare the results for the sample objective-based portfolio with the S&P 500 through two recent market cycles — the tech boom and bust a decade ago and the recent real estate bubble and subsequent global financial crisis. Other index blends and objective allocations would have had different results. Your financial adviser will help you choose the appropriate allocation and objective-based investments for you.



Hypothetical $100,000 investments in the S&P 500 and an index blend representing three objectives — preservation, balance and appreciation — made on the 10/9/02 market low and held through 3/9/09.

Long-term investment success starts with an asset-allocation plan. Have a sensible allocation that is designed to help you achieve your objectives while dampening volatility and have the discipline to stick with that plan, even as the unexpected happens.

— Wesley Phoa
portfolio counselor

40% Barclays U.S. Government/Credit 1–7 Years ex BBB, 20% Barclays U.S. Aggregate indexes). From 8/31/98 to 12/31/2000 the Barclays U.S. Government Credit 1–3 Years was used, as the Barclays U.S. Government/Credit 1–3 Years ex BBB did not exist. Results assume no rebalancing and all distributions reinvested. Indexes are unmanaged and, therefore, have no expenses. Bond ratings, which typically range from AAA/Aaa (highest) to D (lowest), are assigned by credit rating agencies such as Standard & Poor's, Moody's and/or Fitch, as an indication of an issuer's creditworthiness.

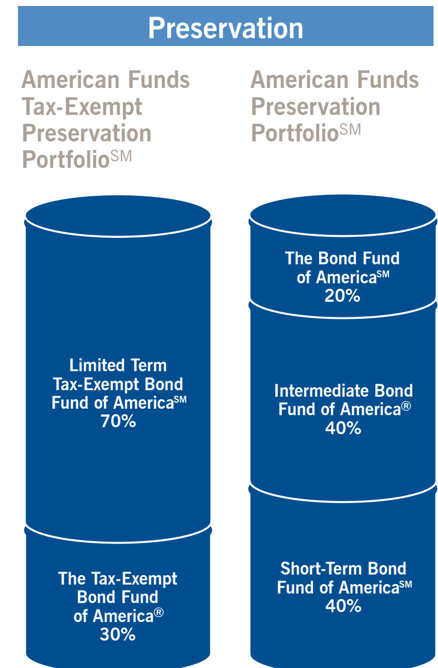
American Funds Portfolio Series℠

The eight new American Funds Portfolio Series funds can help investors stay true to the four timeless principles of investing success. Created by senior investment professionals who know and manage the American Funds, these funds of funds are:

- **Objective-based:** Aligned with three broad objectives — preservation, balance and appreciation — these portfolio funds provide investors with a structured approach to pursuing their specific goals as well as broad diversification.
- **Flexible:** Designed to help investors pursue a wide range of needs and goals, they can be used in combination within an objective-based framework or individually, based on each investor's time frame, risk tolerance and other factors.
- **Trusted:** Each fund of funds represents a blend of individual American Funds with a proven track record and investment management process.
- **Actively monitored:** An oversight committee will meet regularly to review the Portfolio Series funds' results and holdings to keep them aligned with their objectives. The committee also will determine whether they need to be rebalanced. For rebalancing, the intention is to keep an underlying fund allocation within a few percentage points of the target weighting. This will be accomplished in part through cash flows.

The mix of underlying funds within these eight funds of funds were chosen by senior investment professionals to help you:

- **Address specific needs,** such as retirement income or reducing your tax bill.
- **Pursue longer term goals,** such as saving for college or retirement.
- **Protect assets** you need to help cover emergency expenses and temper short-term volatility.



Seeks to provide federally tax-exempt income while also seeking preservation of capital.

Seeks to provide income while also seeking preservation of capital.

- Growth funds
- Growth-and-income funds
- Equity-income and Balanced funds
- Bond and Tax-exempt bond funds

trusted

We started with funds that share a common culture and combined them in a way that I think resulted in very powerful and durable portfolios designed to help investors pursue their objectives. The funds and objectives came first; the asset mix is a result of the process.

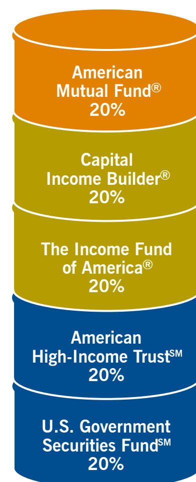
—John Smet, portfolio counselor

Balance

American Funds Tax-Advantaged Income Portfolio℠

Seeks to provide income, a portion of which is federally tax exempt, as well as growth of capital.

American Funds Income Portfolio℠



Seeks to provide income as well as long-term growth.

American Funds Balanced Portfolio℠

Seeks to provide current income and long-term growth of capital and income through exposure to a broad mix of global stocks and bonds.

American Funds Growth and Income Portfolio℠

Seeks growth through a wide variety of stock investments, as well as income through exposure to dividend-paying companies and fixed-income securities.

Appreciation

American Funds Growth Portfolio℠

Seeks long-term growth of capital through exposure to a diverse mix of stocks from companies with strong growth potential.

American Funds Global Growth Portfolio℠

Seeks long-term growth of capital by investing in funds that have exposure to companies located around the world.

The underlying fund allocations are as of 5/18/12. The Portfolio Series funds are actively monitored, and allocations will vary over time.

Investment allocations may not achieve fund objectives. There are expenses associated with the underlying funds in addition to fund-of-funds expenses. The funds' risks are directly related to the risks of the underlying funds, as described below.

Investing outside the United States involves risks such as currency fluctuations, periods of illiquidity and price volatility, as more fully described in the prospectus. These risks may be heightened in connection with investments in developing countries. Small-company stocks entail additional risks, and they can fluctuate in price more than larger company stocks.

The return of principal for bond funds and funds with significant underlying bond holdings is not guaranteed. Fund shares are subject to the same interest rate, inflation and credit risks associated with the underlying bond holdings. Lower rated bonds are subject to greater fluctuations in value and risk of loss of income and principal than higher rated bonds. Income from municipal bonds may be subject to state or local income taxes and/or the federal alternative minimum tax. Certain other income, as well as capital gain distributions, may be taxable.

Let your objectives be your guide

Throughout history and across market cycles, investors have always faced uncertainty, discouraging headlines and bouts of high volatility. But over time, patient investors have been rewarded. Among the keys to investment success are focusing on your personal objectives, maintaining a long-term view and working with your financial adviser to create and maintain a well-diversified portfolio. We created this guide to provide you with some in-depth perspective on these principles of investing and address the following common investor concerns.

Concern	Response
"I don't think the markets are going anywhere."	Pages 2-5
"You can't make money in volatile markets."	Pages 2-5
"Now is not a good time to invest."	Pages 2-5
"I'm worried about world events."	Pages 4-5
"I want to wait for a better time to invest."	Pages 4-7
"It's better to be safe than sorry — especially when you're retired."	Pages 6-7
"I'm worried about outliving my income."	Pages 6-7
"Diversifying your assets is not an effective investment strategy."	Pages 8-9

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in each fund's prospectus and summary prospectus, which can be obtained from a financial professional and should be read carefully before investing.

Standard & Poor's 500 Composite Index is a market capitalization-weighted index based on the average weighted results of 500 widely held common stocks. Barclays Global Aggregate Index represents the global investment-grade fixed-income markets. Barclays U.S. Aggregate Index represents the U.S. investment-grade fixed-rate bond market. MSCI All Country World Index is a free-float-adjusted market-capitalization-weighted index that is designed to measure equity market results in the global developed and emerging markets. The index consists of more than 40 developed- and emerging-market country indexes. Barclays U.S. Government/Credit 1-3 Years ex BBB Index and Barclays U.S. Government/Credit 1-7 Years ex BBB Index are market-value weighted indexes that track the total return results of fixed-rate, publicly placed, dollar-denominated obligations issued by the U.S. Treasury, U.S. government agencies, quasi-federal corporations, corporate or foreign debt guaranteed by the U.S. government, and U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity and quality requirements, with maturities of one to three and one to seven years, respectively, excluding BBB-rated securities. The indexes are unmanaged and, therefore, have no expenses.

Visit us at americanfunds.com.

The Capital Group Companies

American Funds Capital Research and Management Capital International Capital Guardian Capital Bank and Trust

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