Investment Portfolio Management

Different Styles May Help Achieve Balance

With so many investment choices available to you, it's important to understand portfolio style distinctions so you can choose investment divisions that suit your needs and objectives.

Variable annuities are long-term investment vehicles, used for retirement savings. There are fees and expenses associated with this contract. Variable annuities have proven to be valuable financial vehicles for many individuals, and they continue to grow in popularity. Besides offering the potential for tax-deferred[1] accumulation and a guaranteed death benefit that protects your beneficiaries in the event of your untimely death. (Withdrawals and surrenders may be taxable transactions, and prior to age 59½, may be subject to a 10% IRS penalty. Any guarantees associated with a variable annuity, including the death benefit payments, are dependent on the claims-paying ability of NYLIAC and do not apply to the investment performance or the safety of the underlying Investment Divisions in the variable annuity.)

Variable annuities help you to manage your investment risk to help you reach your long-term goals. And because you can allocate money to a number of investment divisions managed by professional investment managers, you also have flexibility and growth potential. There are risks associated with investing in variable annuities. Please be aware that assets allocated to the investment divisions are subject to market risks and will fluctuate in value.

To take advantage of all of the potential benefits that variable annuities have to offer, it's important to understand the many investment choices that are available to you. One of the issues you need to consider is differences in portfolio management style. Understanding portfolio style distinctions may help you choose investment divisions that suit your needs and enable you to create a diversified portfolio.

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[1] Tax-qualified plans (like IRAs, TSAs and SEPs) already provide tax deferral under the Internal Revenue Code, so the tax deferral of an annuity does not provide any additional benefits. Also, variable annuities are subject to additional fees to which other tax-qualified plan funding vehicles may not be subject.

Active and Passive Management

Managers of actively managed investment divisions believe in their ability to seek returns that beat the overall market by selecting securities they think will perform well. They conduct research—meeting with a company's management team, for example—and attempt to use the research to identify investment opportunities that other investors may not recognize. Active management typically incurs higher costs than is the case with passive management. This is because the investment manager is usually paid a higher fee for services rendered, and because active management often entails more trading of securities. Since the costs of active management tend to be higher, the expenses a customer incurs tend to be higher as well. However, along with higher costs, active management may offer additional benefits, such as the potential for higher returns in rising markets and designing a portfolio to potentially perform better in declining markets. It should be noted that past performance of any investment or management approach is not indicative of future results.

Passive managers, on the other hand, feel that simply investing in the same securities that make up a particular market index may produce superior long-term results. Passive managers believe in a concept called market efficiency. In other words, they think that all relevant information available about a company is taken into account by the market and is thus reflected in that company's current stock price and as a result that there is no inherent benefit in purchasing securities deemed likely to outperform or selling securities considered to be unfavorable Instead, passive managers attempt to replicate the performance of a relevant index, whether it performs favorably or unfavorably. Since the composition of most broad market indexes does not change frequently, passive management usually has lower trading activity and consequently lower overall costs than with active management.

Which investment approach makes the most sense for an individual investor will depend on such factors as investment goals and time horizons, cost sensitivity, age, risk tolerances, and tax considerations. A trained investment professional can help determine which type of investment approach may be most suitable.

Growth and Value Investment Divisions

Growth stock portfolio managers look for companies that have delivered better-than-average earnings and that they believe will continue growing rapidly. Growth portfolio managers are willing to pay higher-than-average prices for growth stocks, hoping to sell these stocks at even higher prices. The risk is that a stock's lofty price could fall sharply on any negative news about the company, particularly if earnings disappoint Wall Street.

Value portfolio managers look for stocks that have fallen out of favor in the marketplace and that they consider bargain-priced compared with their potential long-term value. Value stocks' lower prices may reflect investors' reactions to recent company problems, such as disappointing earnings, or even overall economic and market conditions. Value stocks may also include new companies that haven't been noticed by the marketplace. The idea is that stocks of good underpriced companies may bounce back when their true value is recognized. Of course, this may take time and, in some cases, never materialize, and the stocks may decline in value.

Bottom-up and Top-down Security Selection

A top-down manager looks first at economic factors and then selects industries and securities accordingly. For example, during periods of low inflation, consumer spending increases, which might be a good time to buy automobile stocks or retail stocks. The top-down manager would then search for what he or she believes to be the best investment opportunities in those industries. Bottom-up managers are more concerned with individual companies' fundamentals. They reason that even if its industry is doing poorly, a strong company may still outperform the market. Both of these styles emphasize fundamentals, but they place different emphasis on the economic environment.

Understanding Market Capitalization

Market capitalization, or market cap, refers to the value of a publicly-traded company on the open market. To determine capitalization, you multiply a stock's share price by the total number of outstanding shares. For example, if a company issues one million shares of stock trading for $50 each, its market value will be $50 million. Company valuations are commonly defined as either small cap, midcap, or large cap:

- Small cap company - market value of generally $2 billion or less
- Midcap company - market value between $2 billion and $15 billion
- Large cap company - market value of generally $15 billion or more

Market capitalization typically corresponds to where a company may be in its growth cycle—small caps are generally in the stage of accelerating growth; midcaps are experiencing or expected to experience rapid growth; and large caps are usually in the midst of stabilizing growth.

Evaluating Risk and Reward Potential

Small cap companies usually offer significant growth potential but are more prone to volatile stock price swings and generally involve comparatively high investment risk. Small caps are considered the most aggressive of these three categories, in part because they are frequently susceptible to intense competition within rapidly changing industries.

Midcap companies are often found in maturing industries or markets. Midsize companies may be in the process of increasing market share and improving overall competitiveness. This stage of growth is critical and is likely to determine whether the company eventually lives up to its full potential. Midcap stocks may have growth potential similar to that of small cap stocks, but with somewhat less risk.

Large cap companies are usually dominant players within mature industries or markets, and their names may be familiar even to non-investors. Investors anticipate that large cap stocks may produce strong, stable returns with less risk than smaller, newer businesses.

Which Investment Style and Market Capitalization Is Right for You?

For many investors, there may not be an absolute advantage to choosing any single portfolio management style. Instead, in order to help manage volatility, many experts encourage diversifying, based on style and market capitalization. To build a portfolio with a proper mix, you'll want to consider your financial goals, risk tolerance, and time horizon. Generally, a balanced portfolio contains a mix of styles and market caps to help you manage the investment risk of any one area and assist you in the pursuit of your long-term financial goals.

There are a variety of annuity products to suit your individual needs. Speak with your NYLIFE Securities LLC Registered Representative for more details on your variable annuity options and for a free prospectus.

Please call your NYLIFE Securities Registered Representative for the appropriate product and fund prospectus. Investors are asked to consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. Both the product prospectus and the underlying fund prospectuses contain this and other information about the product and underlying investment options. Please read the prospectuses carefully before investing.

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