



**RetireMetrics®** » **BUILD A BETTER RETIREMENT™**



**FRANKLIN TEMPLETON  
INVESTMENTS**

Franklin • Templeton • Mutual Series

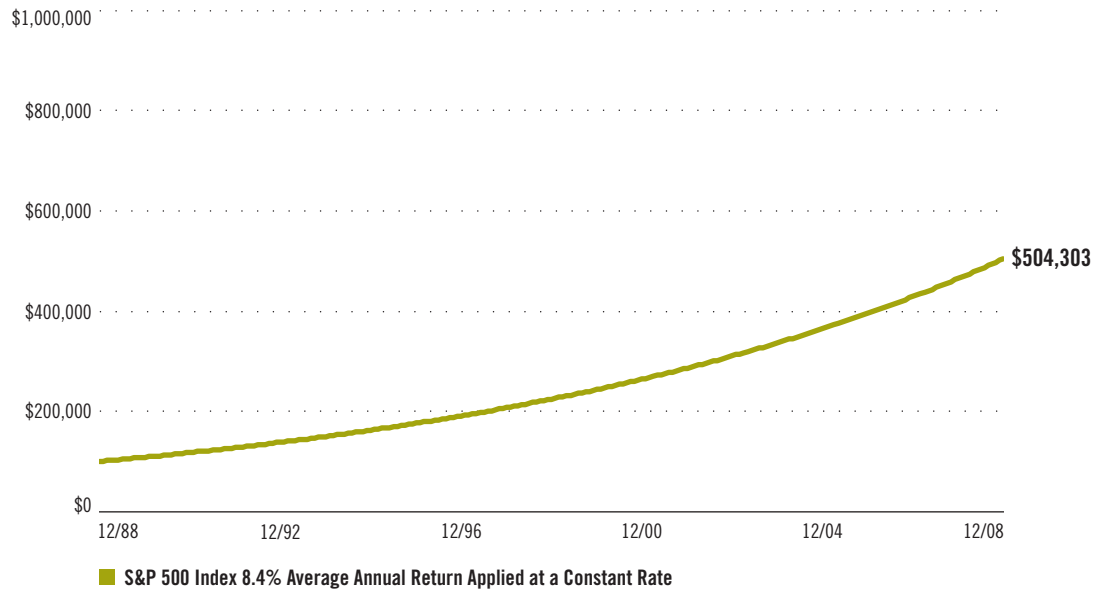
# Which Numbers Are You Looking At?

Most people deciding where to invest assets for the future consider historical data such as average annual total returns. But are standard performance measures the only ones that should guide your investments as you prepare to take retirement distributions? Are these numbers providing the full story?

Over the last 20 years, the S&P 500 Index provided an average annual total return of 8.4%<sup>1</sup>—performance that can seem reassuringly solid to the many investors who picture it as illustrated in the hypothetical graph below.

MANY INVESTORS  
PICTURE AVERAGE  
ANNUAL RETURNS  
UNFOLDING THIS WAY<sup>1</sup>

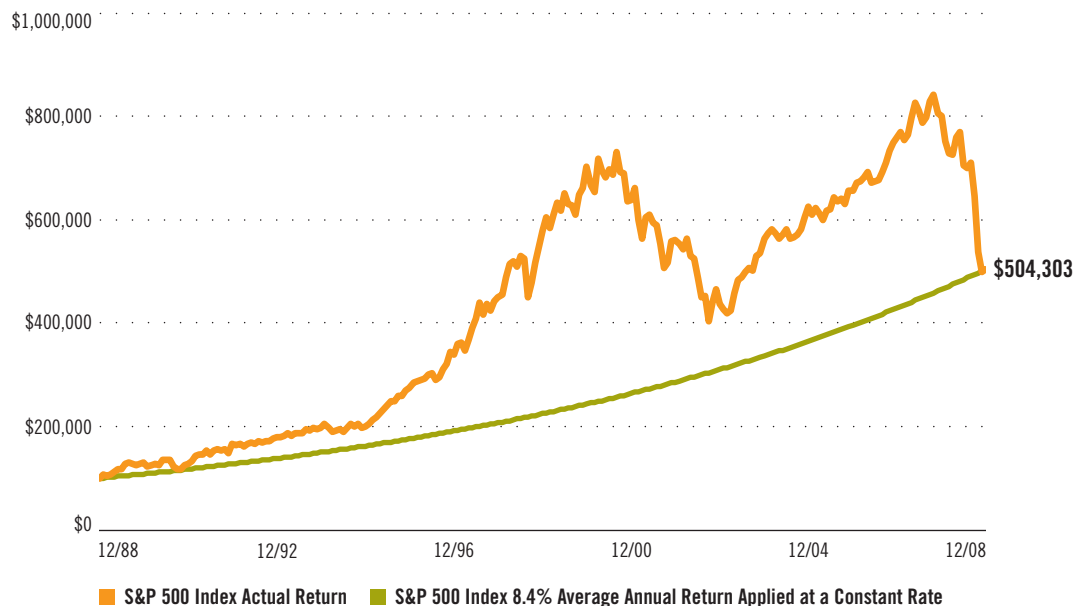
**Hypothetical Growth of a \$100,000 Investment Based on the 8.4% Average Annual Return of the S&P 500 Index APPLIED AT A CONSTANT RATE** (20-Year Period Ending December 31, 2008)



Of course, the problem with averages is that they come from a series of numbers—both higher *and* lower—that don't resemble the "average" very much. That's why an 8.4% average annual return can result from the more volatile stock market performance charted below.

WHAT MARKET  
PERFORMANCE  
REALLY  
LOOKS LIKE<sup>1</sup>

**Cumulative Total Return of S&P 500 Index (Actual) vs. the Hypothetical Growth of a \$100,000 Investment Growing at a CONSTANT 8.4% RATE** (20-Year Period Ending December 31, 2008)



1. Source: © 2009 Morningstar. Indexes are unmanaged, and one cannot invest directly in an index. Not representative of the performance of any Franklin Templeton fund. **Past performance does not guarantee future results.**

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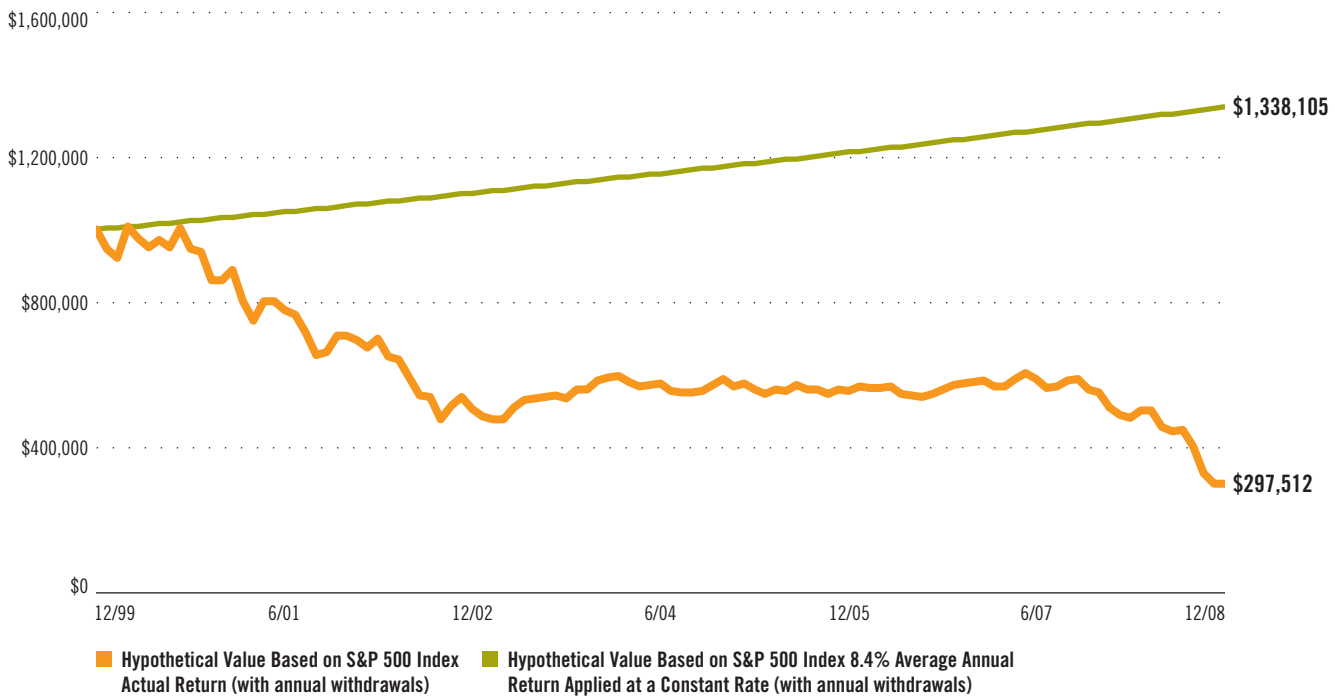
# When Volatility Cuts Deepest: Retirement

For many on the cusp of retirement, the idea of taking an initial withdrawal of an amount equal to 5% of the value of their investment portfolio during their first year of withdrawals, and adjusting that initial amount each year to account for inflation, seemed prudent and reasonable. Depending on how their funds were invested, however, beginning this plan in 2000 could have produced an unwelcome surprise after market volatility took its toll.

## Expectations vs. Reality Once Withdrawals Enter the Equation<sup>2</sup>

This example assumes an initial investment of \$1,000,000 and an annual withdrawal equal to 5%, or \$4,167 monthly payments, during the first year. The withdrawal amount increases 3% for each of the following calendar years. Both scenarios assume a 5% initial withdrawal amount adjusted upward annually by 3%.

### A Tale of Two Withdrawal Scenarios (December 31, 1999–December 31, 2008)



## Introducing RetireMetrics<sup>®</sup>

**RetireMetrics** are measures that can help you evaluate mutual funds for your portfolio for the distribution phase of your retirement, paying special attention to a fund's potential to add survivability to a portfolio that's distributing income. The three RetireMetrics discussed in this brochure are:



RetireMetric #1:  
**Standard Deviation**



RetireMetric #2:  
**Correlation**



RetireMetric #3:  
**Probability Analysis**

2. Source: © 2009 Morningstar. Indexes are unmanaged, and one cannot invest directly in an index. **Past performance does not guarantee future results.**

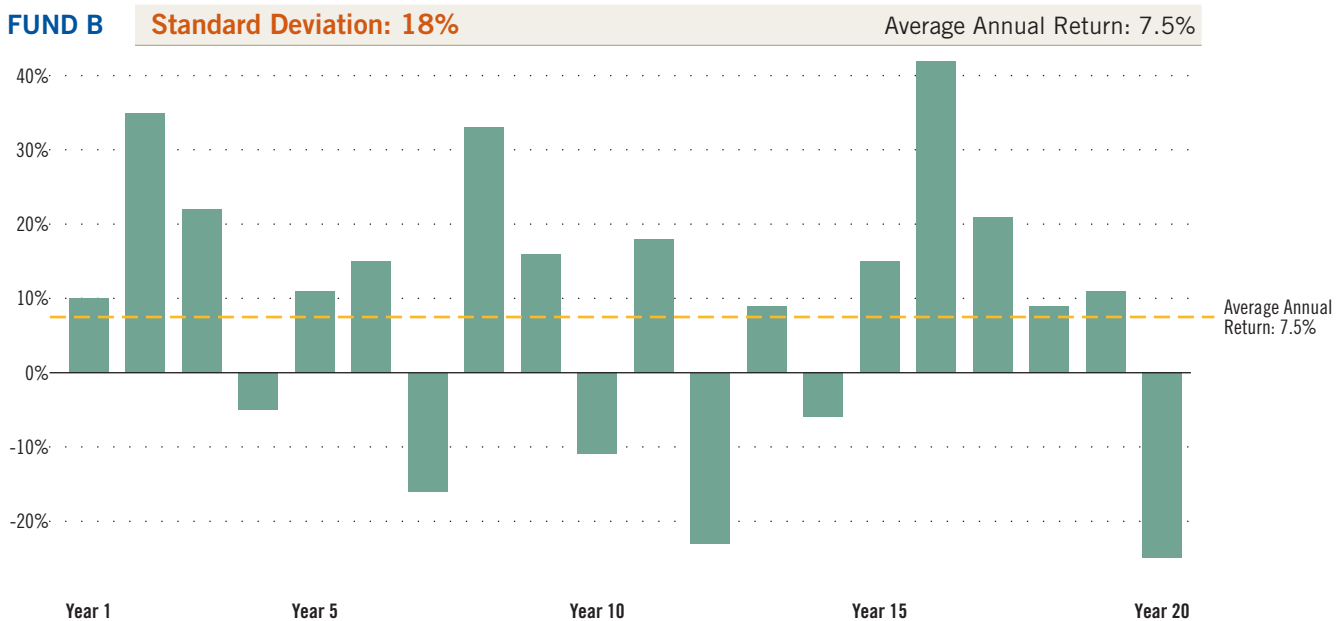
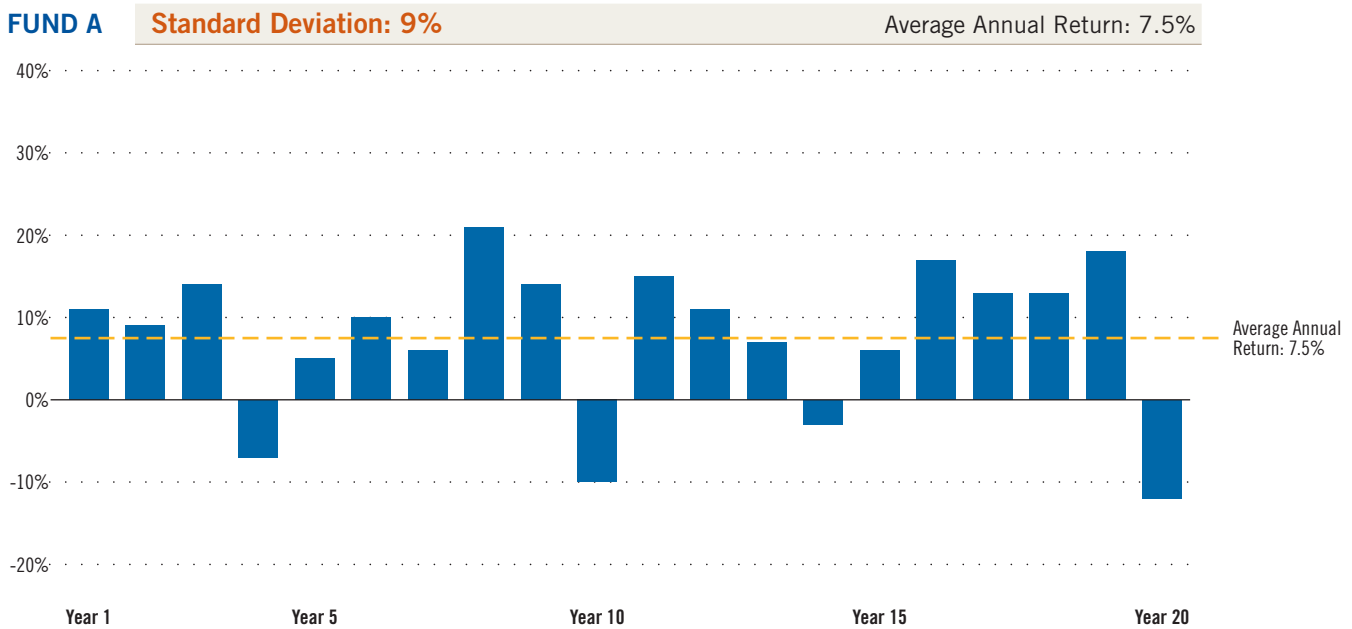


# Measuring the Upside & Downside of Volatility

Standard deviation measures the historical volatility of a mutual fund, giving investors a quick snapshot of the range of returns that compose a fund’s average return. Lower standard deviation indicates a tighter band of returns and lower volatility. Higher standard deviation points to a broader range of returns and greater volatility. **For investors looking to take retirement distributions from a fund, it is especially important to consider this volatility measurement.**

## What Standard Deviation Looks Like<sup>3</sup>

Comparison of annual returns of two funds with the same 20-year average annual return of 7.5% but different standard deviations.



3. Hypothetical illustration only—not indicative of actual performance of any Franklin Templeton fund.



# Are You Diversifying or Just Duplicating?

After evaluating funds individually comes the task of combining them. Most investors know that diversification should guide their choices. The idea behind diversification is simple—spread your money across different asset classes in an effort to reduce risk. But asset classes that seem different may perform more alike than most people would have guessed.

Correlation takes a deeper look at diversification. It measures how two investments move in relation to each other. If they tend to perform in tandem, they are highly correlated. If one typically zigs when the other zags, they are less correlated.

## The Risk of Similarity between Indexes

Correlation is the statistical measure of the degree to which the movements of two variables are related:

1.00 = perfect positive correlation; 0.00 = no correlation; -1.00 = perfect negative correlation.

### Correlations for the 20-Year Period Ended December 31, 2008<sup>4</sup>

	SMALL CAP GROWTH	SMALL CAP VALUE	LARGE CAP GROWTH	LARGE CAP VALUE	LARGE CAP STOCKS	FOREIGN STOCKS	SMALL CAP STOCKS	U.S. BONDS	U.S. INTERM. GOV'T BONDS	GLOBAL BONDS	TAX-FREE BONDS
SMALL CAP GROWTH	1.00										
SMALL CAP VALUE	0.83	1.00									
LARGE CAP GROWTH	0.82	0.66	1.00								
LARGE CAP VALUE	0.64	0.79	0.78	1.00							
LARGE CAP STOCKS	0.75	0.74	0.95	0.93	1.00						
FOREIGN STOCKS	0.59	0.55	0.65	0.64	0.68	1.00					
SMALL CAP STOCKS	0.97	0.93	0.78	0.72	0.77	0.59	1.00				
U.S. BONDS	0.01	0.08	0.14	0.17	0.17	0.11	0.04	1.00			
U.S. INTERM. GOV'T BONDS	-0.16	-0.12	-0.03	-0.02	-0.02	-0.04	-0.15	0.94	1.00		
GLOBAL BONDS	-0.04	-0.04	0.01	0.03	0.03	0.29	-0.04	0.59	0.63	1.00	
TAX-FREE BONDS	0.07	0.16	0.17	0.24	0.22	0.15	0.11	0.77	0.67	0.42	1.00

4. Source: © 2009 Morningstar. Data as of 12/31/2008. Small Cap Growth Stocks are represented by the Russell 2000 Growth Index; Small Cap Value Stocks are represented by the Russell 2000 Value Index; Large Cap Growth Stocks are represented by the Russell 1000 Growth Index; Large Cap Value Stocks are represented by the Russell 1000 Value Index; U.S. Large Cap Stocks are represented by the S&P 500 Index; Foreign Stocks are represented by MSCI EAFE Index; Small Cap Stocks are represented by the Russell 2000 Index; U.S. Bonds are represented by the Barclays Capital U.S. Aggregate Bond Index; U.S. Intermediate Gov't Bonds are represented by Barclays Capital U.S. Intermediate Gov't Bond Index; Global Bonds are represented by Citigroup World Gov't Bond Index and Tax-Free Bonds are represented by Barclays Capital Municipal Bond Index. Indexes are unmanaged, and one cannot invest directly in an index. **Past performance does not guarantee future results.**







# Will Your Portfolio Survive Distributions?

Even well-diversified portfolios face challenges with changing and unpredictable market conditions. In retirement, you want your portfolio to weather those forces *and* provide an income stream. How can you “stress-test” a portfolio to account for thousands of possible scenarios? You can use probability analysis, also referred to as Monte Carlo simulation.

The table below shows probability analysis results for four portfolios, assuming different initial withdrawal rates. The simulation assumes that the initial withdrawal amount is increased annually by 3%. The percentages represent the probability of the portfolios to sustain withdrawals for at least a 30-year period. These examples may help you determine if your retirement distribution expectations and your portfolio construction are aligned.

## Consider These Sample Portfolios

Probability of Supporting Withdrawals for 30 Years with the Annual Withdrawal Increased by 3% Each Year<sup>5</sup>

Asset Allocations	INITIAL WITHDRAWAL RATE			
	3%	4%	5%	6%
 <ul style="list-style-type: none"> <li>■ U.S. Bonds ..... 100%</li> </ul>	99%	89%	60%	29%
 <ul style="list-style-type: none"> <li>■ U.S. Stocks ..... 100%</li> </ul>	99%	95%	85%	71%
 <ul style="list-style-type: none"> <li>■ U.S. Stocks ..... 60%</li> <li>■ U.S. Bonds ..... 40%</li> </ul>	100%	97%	86%	65%
 <ul style="list-style-type: none"> <li>■ U.S. Stocks ..... 50%</li> <li>■ U.S. Bonds ..... 30%</li> <li>■ Global Bonds ..... 20%</li> </ul>	100%	99%	92%	72%

### Asset Class Indexes Used<sup>5</sup>

**U.S. Bonds:** Ibbotson U.S. Long-Term Corporate Bond Index (1955–12/31/2008); **U.S. Stocks:** S&P 500 Index (1955–12/31/2008); **Global Bonds:** Citigroup World Gov’t Bond Index (1985–12/31/2008)

5. Source: Zephyr Associates, Inc.

### **Disclosure Information**

The withdrawal percentages indicated on the table on the previous page are applied to the initial portfolio value. Thereafter, the withdrawal amount is increased annually by 3%. For example, for someone with a \$1,000,000 portfolio choosing a 5% initial withdrawal rate, \$50,000 would be disbursed in the first year. In the second year, \$51,500 would be disbursed, in the third year \$53,045, etc. This amount may not be representative of actual retirement income needs or actual inflation rates.

Monte Carlo simulation uses historical data for asset classes and/or funds, including arithmetic mean (return), standard deviation (risk) and correlation, to estimate a range of possible outcomes. Note that other investments not considered may have characteristics similar or superior to those being analyzed.

Each Monte Carlo simulation generates randomized scenarios consistent with the historical characteristics of the asset classes or funds. Each Monte Carlo simulation generates 10,000 possible scenarios for each time period.

This type of Monte Carlo simulation also assumes that the distribution of returns is normal. A normal distribution means that returns are concentrated near the average (arithmetic mean) and decrease in frequency as the distance from the average increases. Should actual returns not follow this pattern, results may vary. Past performance does not guarantee future results.

Results also may vary over time and each time the simulation is run.

**IMPORTANT: The projections or other information generated by Zephyr Associates, Inc. regarding the likelihood of various investment outcomes are hypothetical in nature and should not be considered investment advice. They do not reflect actual investment results of any Franklin Templeton fund or product, and are not guarantees of future results.**

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*Diversification does not ensure a profit or protect against a loss.*