CSF 2013 Conference

Five Truths Investors Need to Know

Presented by:

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Past performance cannot guarantee comparable future results.

Diversification does not guarantee a profit or eliminate the risk of loss.

Rethinking Risk

What are we rethinking?

Rethinking Risk

Five myths, and the truths investors need to know

Myth	Truth
1. "My portfolio will be in fine shape if it has more up years than down years."	1. The magnitude of gains and losses counts more than their frequency.
2. "Missing the market's best days is the worst thing I could do to my portfolio."	2. The market's worst days are just as important as its best days (maybe even more).
3. "Market returns are the key to my portfolio's value."	3. Contributions form the foundation of a portfolio's value.
4. "If there's no sign of recession (or recovery) on the horizon, I don't't' need to prepare for one."	4. Prudent risk management means always being prepared.
5. "I'm diversified — my portfolio has lots of different stocks."	5. True diversification is based on sources of risks, not returns.

Diversification does not guarantee a profit or eliminate the risk of loss.

The Market is More Like Golf Than Tennis

The Market is Up the Majority of the Time

S&P 500 Total Years Since 1926	Up Years	Down Years
86	62	24

Last Decade's Scorecard: Winner or Loser?

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
-9.10	-11.88	-22.10	28.67	10.87	4.91	15.78	5.49	-36.99	26.47

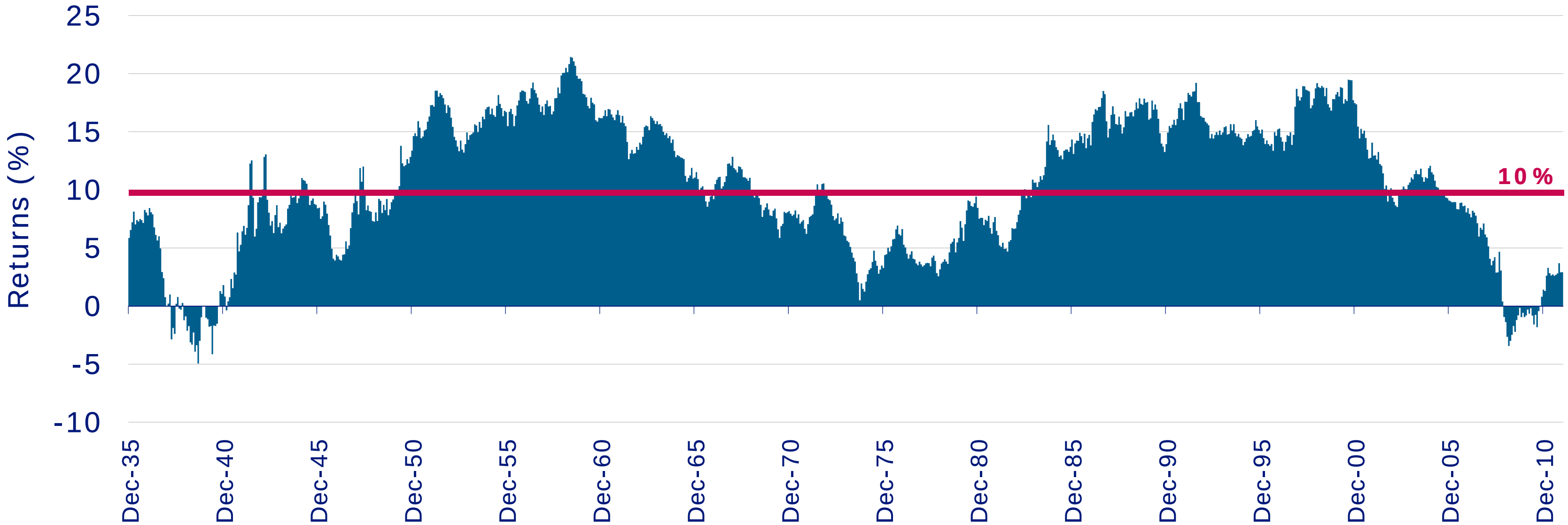
Match Play Score	
Up years	Down years
6	4

Stroke Play Score	
Total return for decade (cumulative)	-9.10

Data as of Dec. 31, 2011
Sources: Ibbotson, Lipper Inc.
Past performance cannot guarantee comparable future results.

Digging Deeper Into Equity Returns

Rolling 10-year returns, S&P 500 Index 1936–2011, positive 94% of the time



Returns	Frequency
< 10%	47% of 913 10-year periods
> 10%	53% of 913 10-year periods

Data as of Dec. 31, 2011
Source: Ibbotson
Past performance cannot guarantee comparable future results.

The Tale of 10 Days

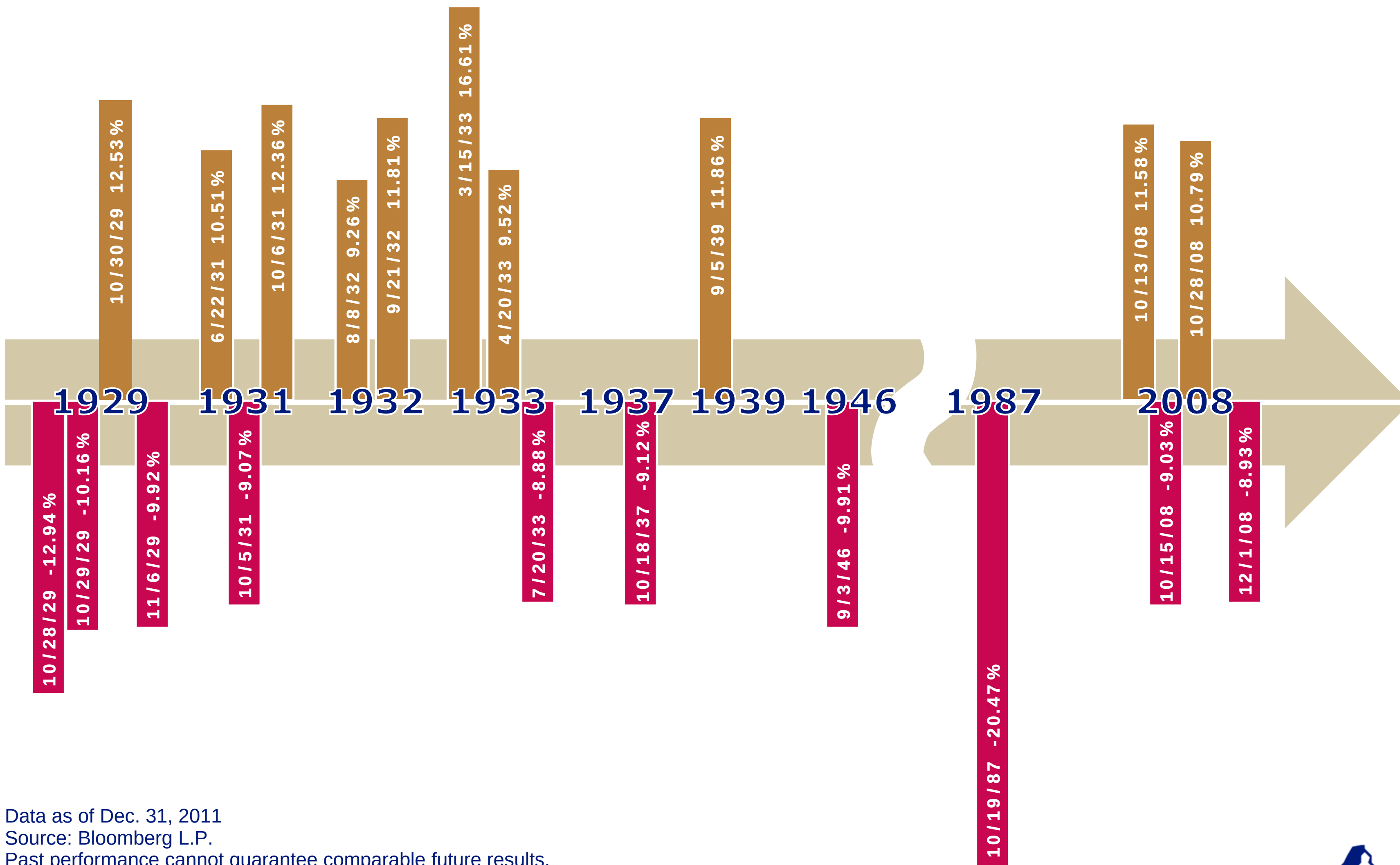
Growth of $1 in the S&P 500 Index from Dec. 31, 1927, to Dec. 31, 2011

Days	Ending Value ($)	Cumulative Return (%)
Total cumulative return	71.21	7,021.18
Miss 10 best	23.62	2,262.10
Miss 10 worst	226.14	22,514.32
Miss 10 best and miss 10 worst	75.01	7,401.19
Cash	19.32	1,831.52

Data as of Dec. 31, 2011
Sources: Bloomberg L.P., Invesco, Morningstar
Past performance cannot guarantee comparable future results.

The Market Can Turn Quickly

S&P 500 Index's 10 best and worst days since 1928



Data as of Dec. 31, 2011
Source: Bloomberg L.P.
Past performance cannot guarantee comparable future results.

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The Market Can Turn Quickly

S&P 500 Index's 10 best and worst days since 1928

10 Best Days

Days	Return (%)
10/30/1929	12.53
06/22/1931	10.51
10/06/1931	12.36
08/08/1932	9.26
09/21/1932	11.81
03/15/1933	16.61
04/20/1933	9.52
09/05/1939	11.86
10/13/2008	11.58
10/28/2008	10.79

10 Worst Days

Days	Return (%)
10/28/1929	-12.94
10/29/1929	-10.16
11/06/1929	-9.92
10/05/1931	-9.07
07/20/1933	-8.88
10/18/1937	-9.12
09/03/1946	-9.91
10/19/1987	-20.47
10/15/2008	-9.03
12/01/2008	-8.93

Data as of Dec. 31, 2011
Source: Bloomberg L.P.
Past performance cannot guarantee comparable future results.

The Market Is More Volatile Than You Think

Dow Jones Industrial Average: 111-year history (1901–2011)

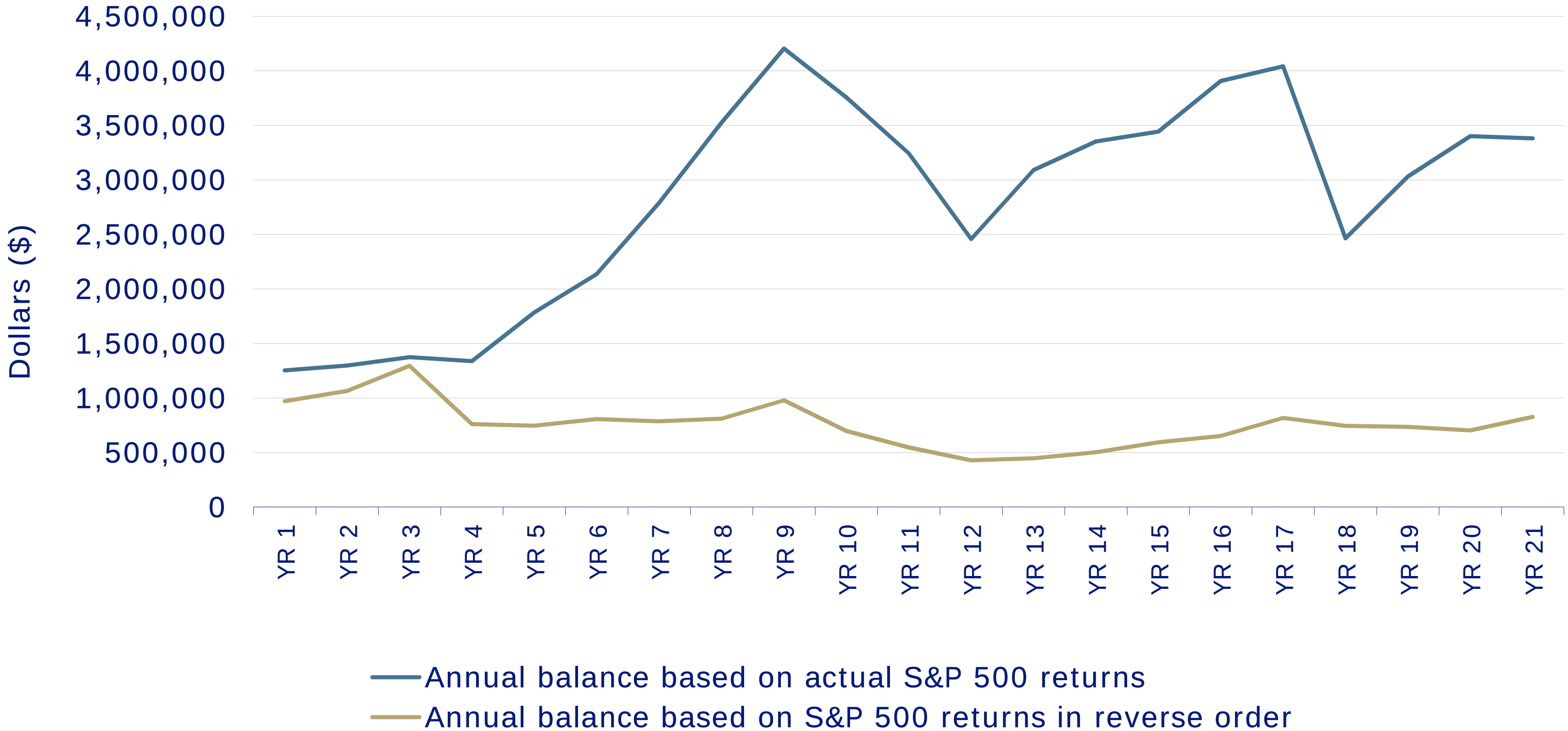
Range of Annual Dow Returns	Frequency During 110 Years	Range of Annual Dow Returns	Frequency During 110 Years
<-10%	21%	<-16%	15%
-10% to +10%	32%	-16% to +16%	50%
>+10%	48%	>+16%	34%

Source: Copyright 2003–2012, Crestmont Research, CrestmontResearch.com.
Data as of Dec. 31, 2011

Sequence of Returns Matters

Retirement account balance 1990 to 2011

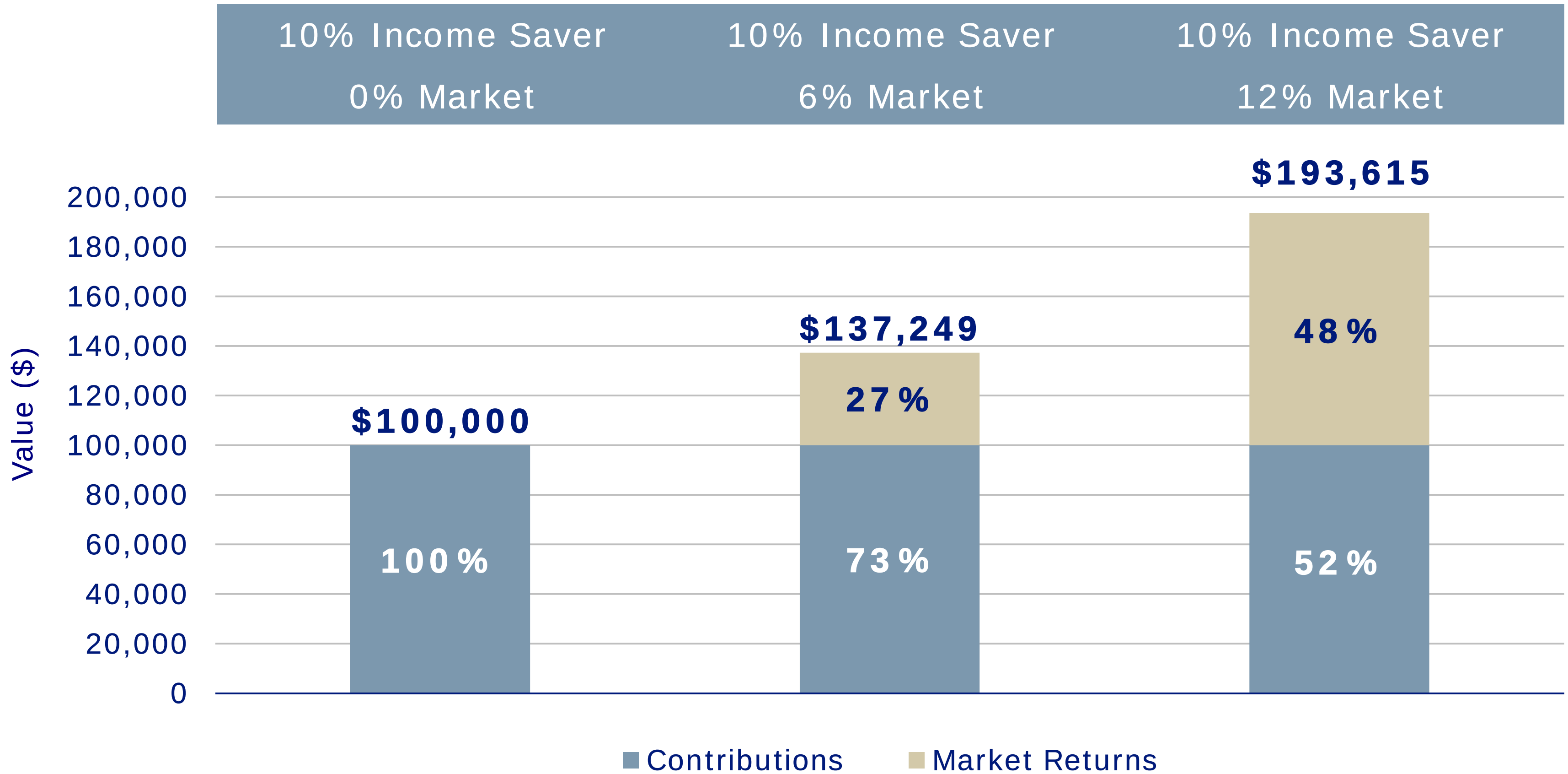
$1 million beginning balance invested in S&P 500 beginning in 1990 with $50k annual withdrawals increased 3% annually



Source: Lipper
Data as of Dec. 31, 2011
For illustrative purposes only. An investment cannot be made directly in an index.

Contributions Matter

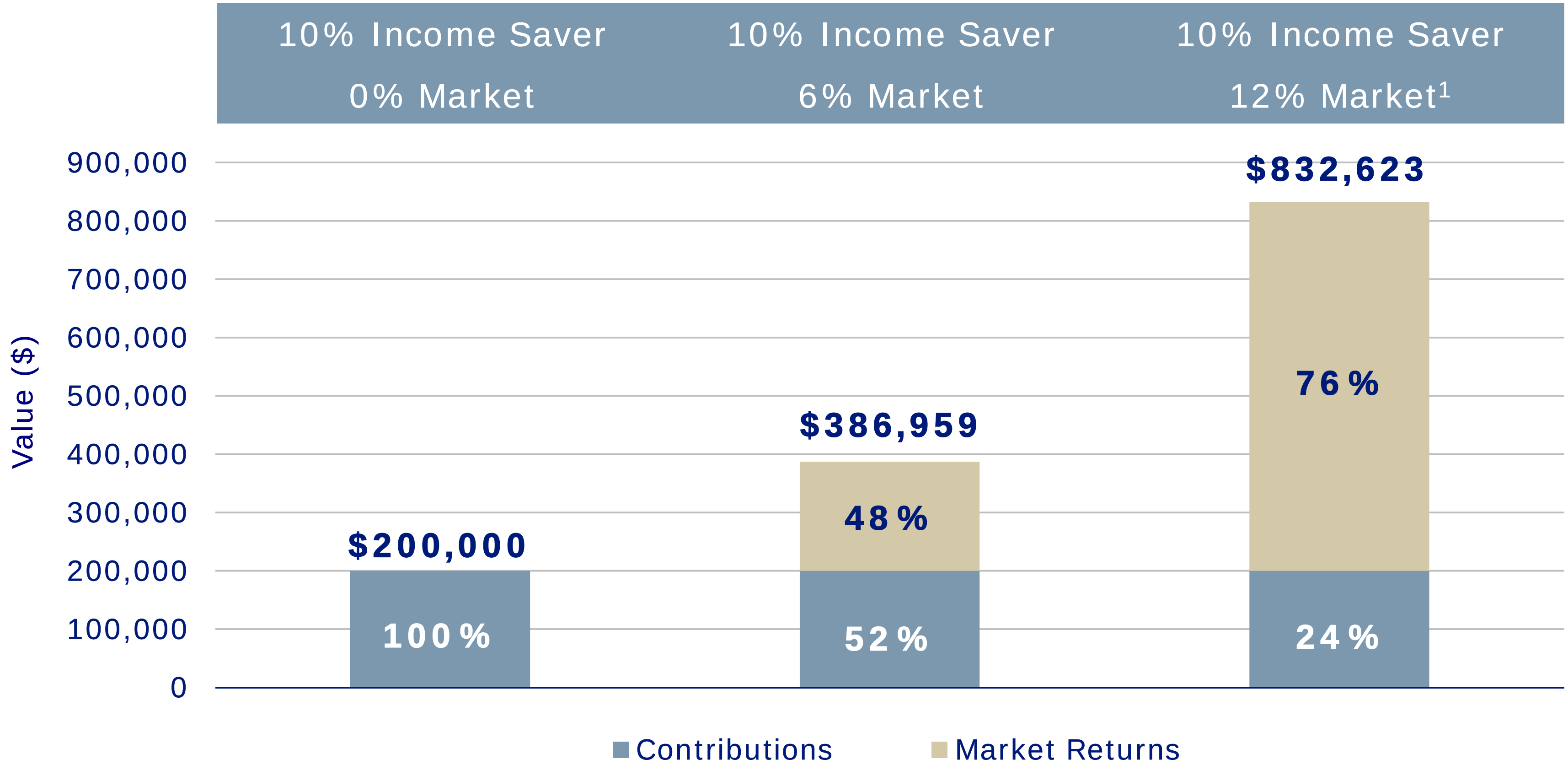
Assumptions: $100,000 income, 10-year horizon, fixed income and savings rate



For illustrative purposes only.

Contributions Matter

Assumptions: $100,000 income, 20-year horizon, fixed income and savings rate

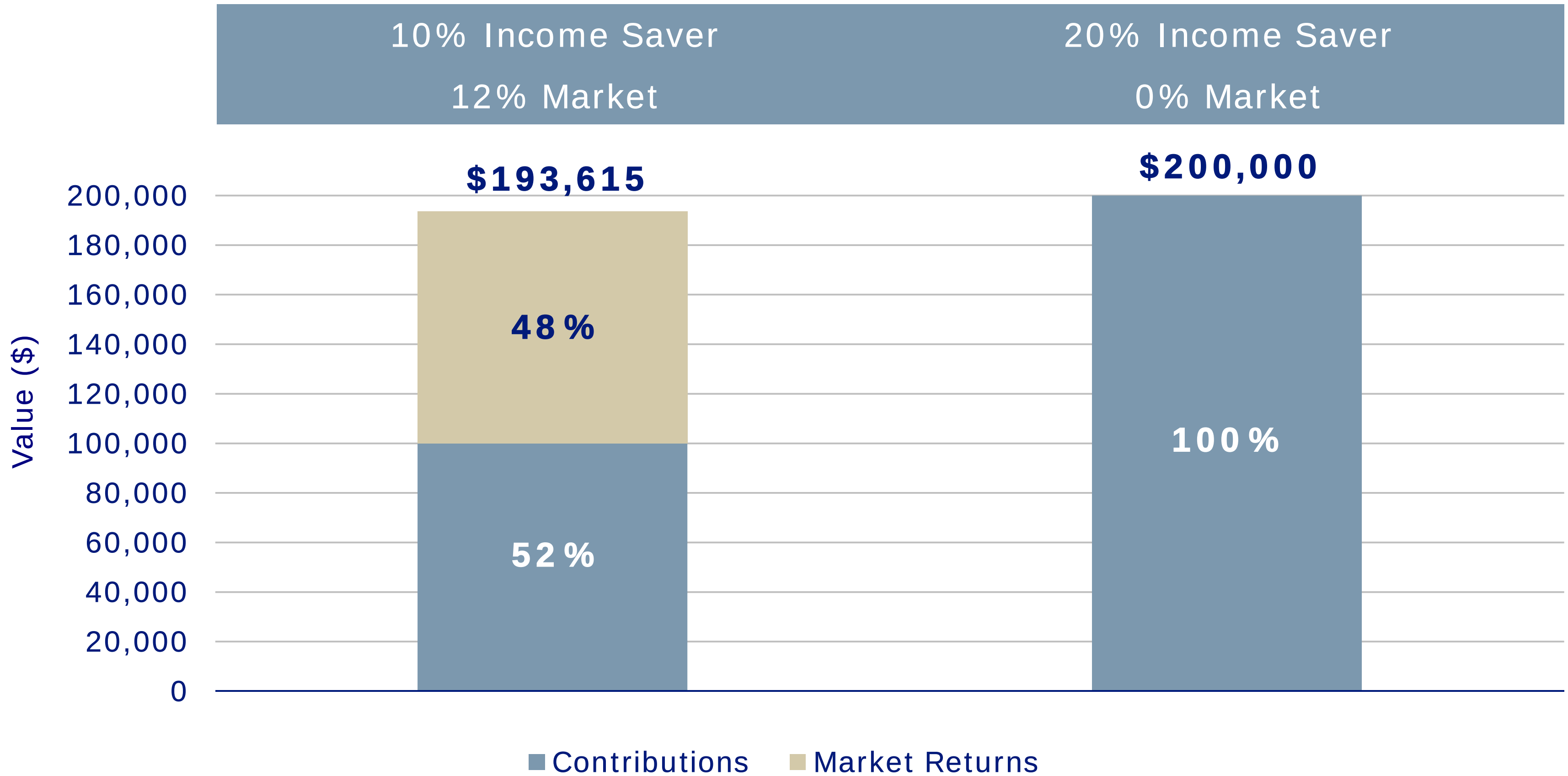


For illustrative purposes only.

1 This is similar to what investors experienced during the 1980s and 1990s. However, one or two large risk events could reset the balance to 50/50.

Saving More May Help Investors Reach Goals Despite Returns

Assumptions: $100,000 income, 10-year horizon, fixed income and savings rate



For illustrative purposes only.

You Wouldn't Cancel Your Flood Insurance …

"On balance, it is not likely that the United States will experience a hurricane in 2008."

"My arithmetic says if there's a one-third probability of a hurricane, then there's a two-thirds probability there won't be a hurricane."

One expert "puts the chance of a hurricane in 2007 at about 25%, up from a 10% chance a few months ago. But others … say the chance of a hurricane next year is pretty slim."

… but Many Investors Were Unprepared for the Recession

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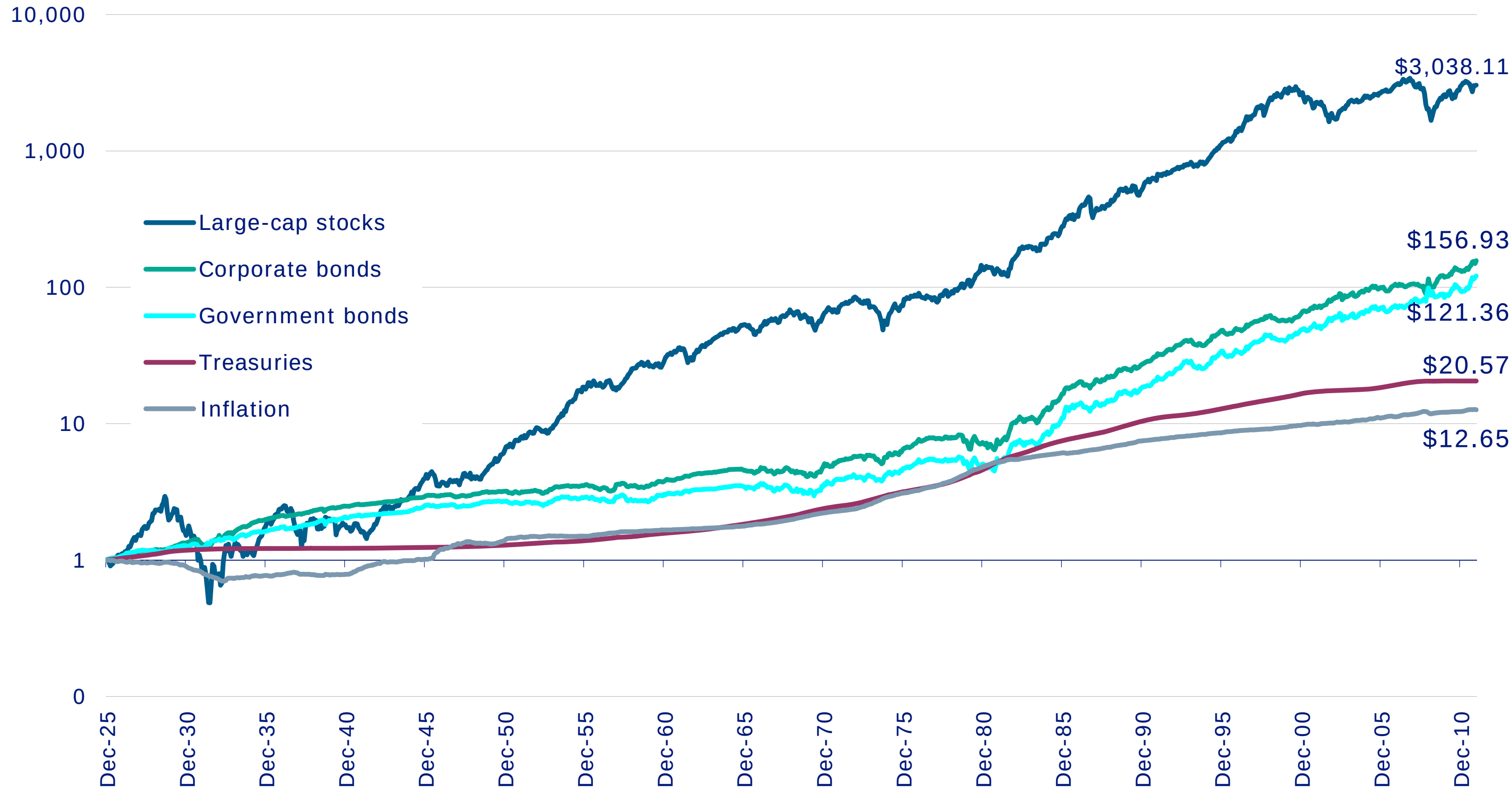
One expert "puts the chance of a recession in 2007 at about 25%, up from a 10% chance a few months ago. But others … say the chance of a recession next year is pretty slim."

Sources: *The American: The Journal of the American Enterprise Institute,* "The Great Recession of 2008?" Dec. 21, 2007. Reuters via AOL Money & Finance, "Greenspan Still Sees Chance of Recession," May 12, 2007; CNNMoney.com, "Recession Clouds Darken 2007 Outlook," Dec. 26, 2006.

Equities Have Outperformed Over Time …

Ibbotson: Growth of $1, 1925 to 2011



Source: Ibbotson. Large-cap stocks are represented by the S&P 500 Index; corporate bonds by the Ibbotson U.S. Long-Term Corporate Bond Index; government bonds by the Ibbotson U.S. Long-Term Government Bond Index; Treasuries by the Ibbotson U.S. 30-Day T-Bill Index and inflation by the Consumer Price Index. An investment cannot be made directly in an index. Past performance is not a guarantee of comparable future results. Diversification does not guarantee a profit or eliminate the risk of loss. Equity investments are more volatile than the other securities listed, and government bonds and Treasury bills are guaranteed as to the timely payoff of principle and interest. Fixed income products are subject to the effects of changing interest rates.

… But They Don't Outperform All of the Time

Time Frame	1929–1941 (13 Yrs.)	1942–1965 (24 Yrs.)	1966–1981 (16 Yrs.)	1973–1981 (9 Yrs.)	1982–1999 (18 Yrs.)	2000–2011 (12 Yrs.)
Market Environment	Deflation	Low-inflationary Growth	Inflation	Inflation	Low-inflationary Growth	Deflation-like[1]
Highest return	Corporate Bonds 6.06%	Stocks 15.70%	Inflation 7.00%	Commodities 12.81%	Stocks 18.52%	Long-term government bonds 9.64%
	Long-term government bonds 4.55%	Inflation 3.06%	T-Bills 6.83%	Inflation 9.22%	Corporate Bonds 12.17%	Corporate Bonds 8.84%
	T-Bills 0.79%	Corporate Bonds 2.45%	Stocks 5.95%	T-Bills 8.23%	Long-term government bonds 12.08%	Commodities 4.84%
	Inflation -0.79%	Long-term government bonds 2.11%	Corporate Bonds 2.89%	Stocks 5.16%	Commodities 9.00%	Inflation 2.55%
	Stocks -2.43%	T-Bills 1.70%	Long-term government bonds 2.53%	Corporate Bonds 2.49%	T-Bills 6.23%	T-Bills 2.31%
Lowest return	Commodities index did not exist	Commodities index did not exist	Commodities index did not exist	Long-term government bonds 2.49%	Inflation 3.29%	Stocks 0.55%

1 This period did not represent a true deflationary period because consumer prices did not fall. However, the reductions in credit supply that occurred in the early and later part of the decade led to economic contractions similar to what would be experienced in a deflationary environment.

Sources: Ibbotson; Bloomberg L.P., Invesco (commodities). Stocks are represented by the S&P 500 Index; inflation by the Consumer Price Index; commodities by the S&P GSCI Index; long-term government bonds by the Ibbotson U.S. Long-Term Government Bond Index; T-Bills by the Ibbotson U.S. 30-Day T-Bill Index; and corporate bonds by the Ibbotson U.S. Long-Term Corporate Bond Index. Commodities may subject an investor to greater volatility than traditional securities such as stocks and bonds. An investment cannot be made directly in an index. Past performance is not a guarantee of comparable future results. Diversification does not guarantee a profit or eliminate the risk of loss.

Assets Classified by Economic Environments

Inflationary Growth	Recessionary/deflationary	Low-inflationary Growth
• Commodities • Direct real estate • Infrastructure • Treasury Inflation-Protected Securities (TIPS)	• Long-term government bonds	• Developed-market equities • Emerging-market equities • Private equity

Diversification does not guarantee a profit or eliminate the risk of loss.

Five Intentional Things Investors Need To Do

Action

1. Understand the market's scoring system and design an investment strategy accordingly.
2. Remain invested, but seek to avoid catastrophic losses.
3. Maximize contributions, and build goals based on realistic savings assumptions.
4. Be prepared for the unexpected.
5. Diversify investment portfolios by sources of risks, not returns.

Diversification does not guarantee a profit or eliminate the risk of loss.

Index Definitions

The S&P 500 Index is an unmanaged index considered representative of the U.S. stock market.

The Ibbotson U.S. 30-Day T-Bill Index is an unmanaged index considered representative of 30-day Treasury bills.

The Ibbotson U.S. Small Stock Index is an unmanaged index considered representative of U.S. small-cap stocks.

The Ibbotson U.S. Long-Term Corporate Bond Index is an unmanaged index considered representative of long-term U.S. corporate bonds.

The Ibbotson U.S. Long-Term Government Bond Index is an unmanaged index considered representative of long-term U.S. government bonds.

The Consumer Price Index is a measure of change in consumer prices as determined by the U.S. Bureau of Labor Statistics.

The S&P GSCI Index is an unmanaged world production-weighted index composed of the principal physical commodities that are the subject of active, liquid futures markets.

The Dow Jones Industrial Average is a price-weighted index of the 30 largest, most widely held stocks traded on the New York Stock Exchange.

An investment cannot be made directly in an index.

RETHINKING RISK

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All data provided by Invesco unless otherwise noted.

RR-PPT-2P 02.12

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