M Fund, Inc.

Building an Optimal Portfolio for Variable Life Insurance

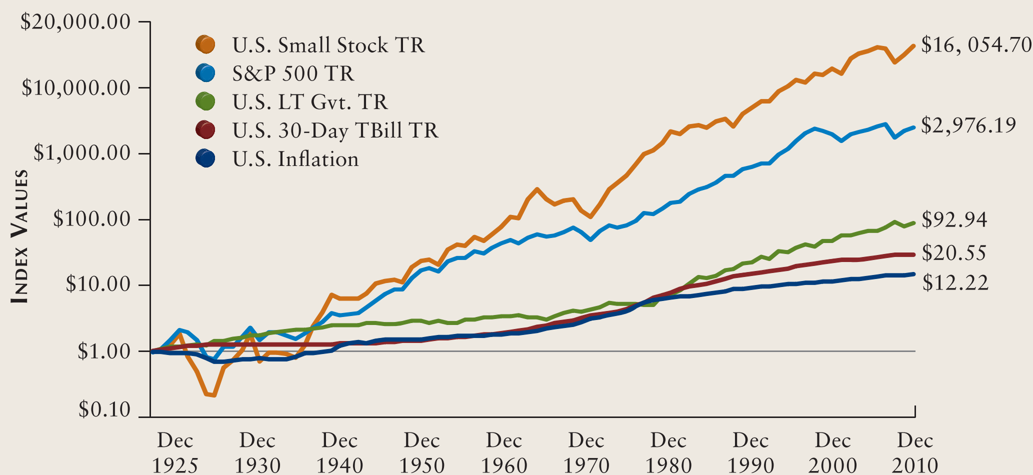
Portfolio Allocations for Variable Life Insurance

Relationship Between Risk and Return

Evaluation of Capital Markets

Evaluation of long-term behavior of capital markets can indicate the level of inherent risk of an asset class. However, past performance is not a guarantee of future results.

Comparison of Stocks, Bonds, Bills, and Inflation 1925–2010

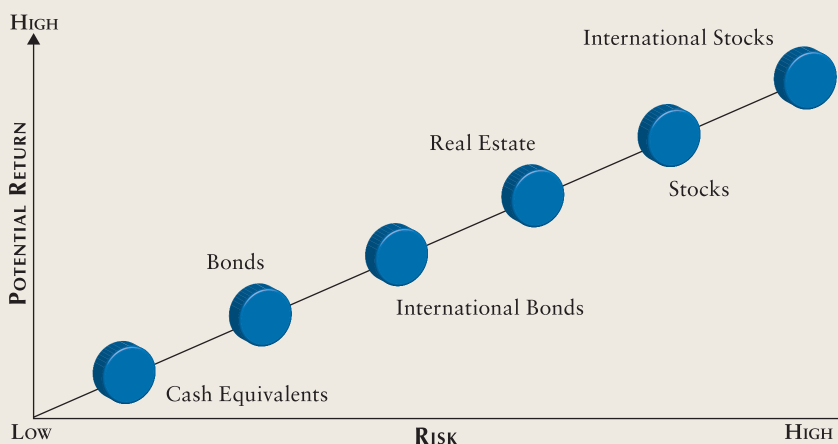


Source: Ibbotson Associates, Chicago, IL (For illustrative purposes only. Does not represent the returns of any particular investment. An investor cannot invest in an index.)

Risk and Return

Risk is measured by relative volatility of an asset class to the overall market. Different capital markets have varying degrees of risk and return. There is no guarantee that an investment in a specific asset class will result in a higher or lower return.

Capital Markets in Relation to Risk and Return



Stocks have fluctuating returns and principal values. Bonds offer fixed returns and principal values if held to maturity. Government securities are guaranteed as a timely payment of principal and interest. Higher volatility and greater risks may be associated with investing in smaller size companies.

Special risks such as currency fluctuations and political changes should be considered when investing in international markets. Real estate involves risks such as refinancing, economic impact on industry, changes in property values, dependency on management skills, and other risks.

CAPITAL MARKET RETURN POTENTIAL

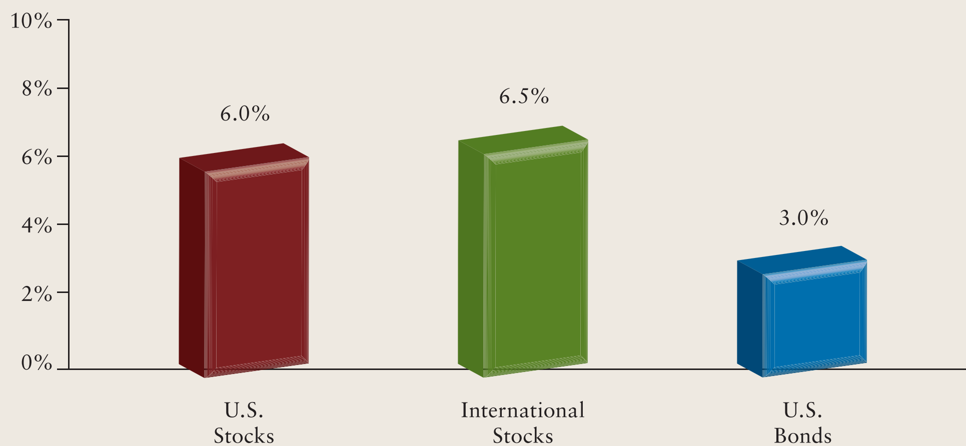
Historical returns represent the most commonly used methodology in forming capital market return assumptions.

Asset allocation decisions can be based on the risk premium differential, which is the difference between the expected return on U.S. stocks, bonds, or international stocks and the expected return on a lower risk asset as represented by U.S. Treasury Bills. Performance shown represents historical performance.

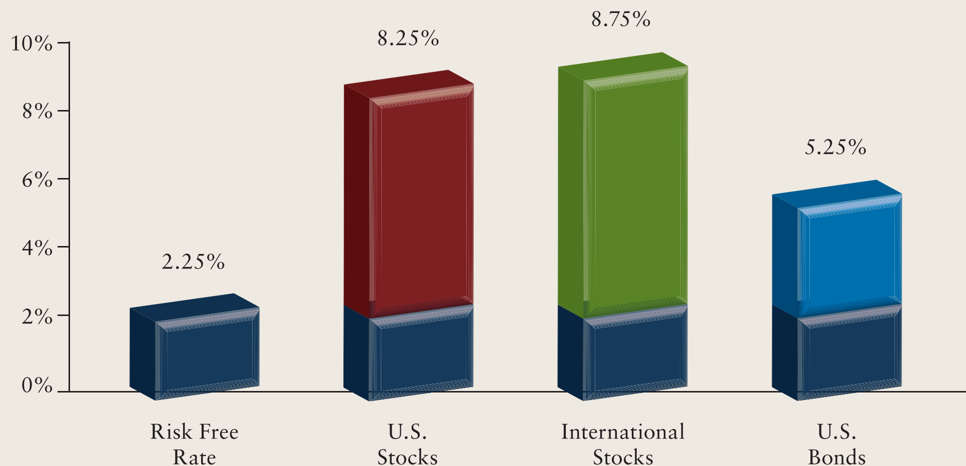
RISK PREMIUM

Generally, investors prefer relatively consistent returns on their investments, and depending on their objectives and risk tolerance, they may be willing to accept additional risk.

HISTORICAL MARKET RISK PREMIUMS



LONG-TERM EXPECTED MARKET RETURNS



Source: Strategic Capital Investment Advisors, December 2010

The data behind the above statistics was obtained from sources that we believe to be reliable but for which we cannot guarantee absolute accuracy. The following indices were used to determine historical return characteristics: U.S. stocks—S&P 500 Index for dates prior to January 1, 1971, and the DJ Wilshire 5000 Index for dates after December 31, 1970. International stocks—MSCI EAFE Index. U.S. bonds—Barclay Aggregate Bond Index. This allocation example is for illustrative purposes only; for specific allocations please consult with your investment professional. An investor cannot invest in an index. Past performance is no guarantee of future results.

Asset Allocation

Asset allocation is the process of dividing available investment options among asset categories to create a selection of diversified portfolios.

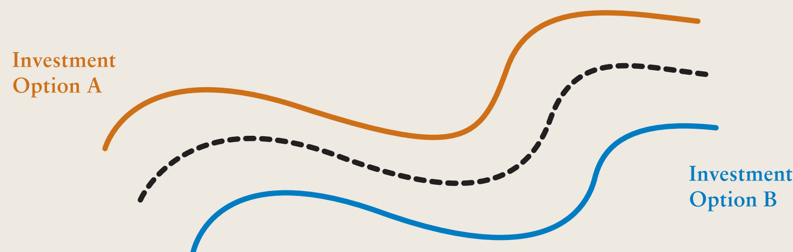
Diversification

The objective of diversification is to help reduce the volatility of overall portfolio returns by combining different asset classes into one portfolio. Diversification requires analysis of levels of volatility within asset classes, as well as the degree to which those returns move together. However, diversification does not assure a profit.

Correlation

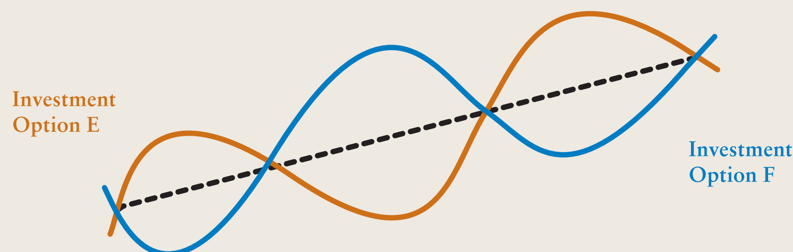
Correlation is the measure of how closely two asset classes move with respect to each other.

Portfolio 1: No Diversification



Portfolio 2: Some Diversification

Portfolio 3: Complete Diversification



Source: Gibson, Roger C., Asset Allocation, 1990, Irwin Professional Publishing, Illinois & New York

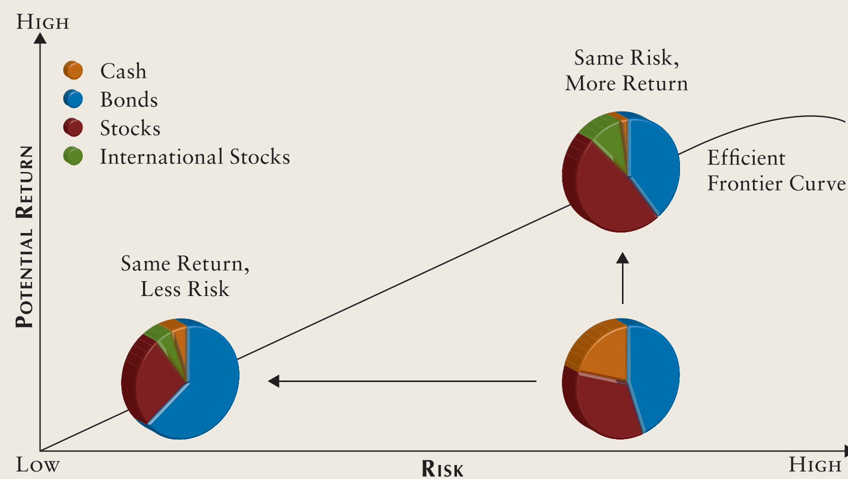
Building an Optimal Portfolio

The projections regarding the likelihood of various investment outcomes are hypothetical in nature and are not guarantees of future results.

Portfolio Optimization

An efficient portfolio has a maximum return for any level of risk or a minimum level of risk for any expected return. The process of portfolio optimization identifies efficient portfolios for various levels of risk.

Identifying Efficient Portfolios

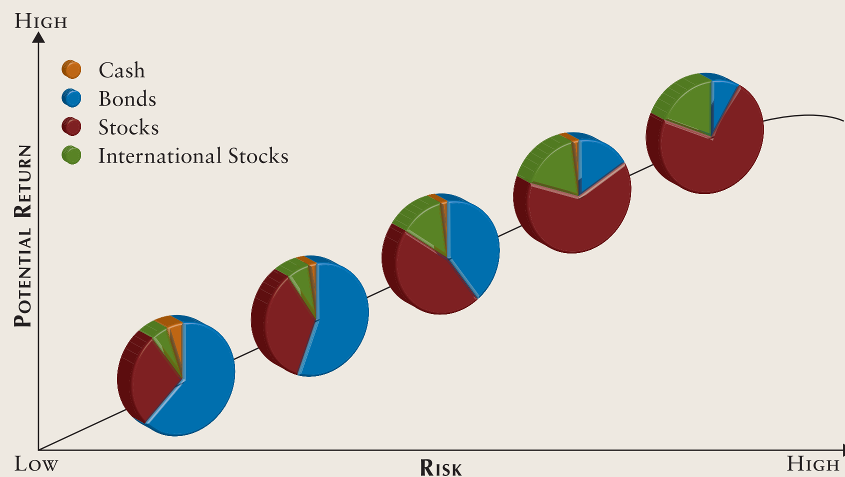


Source: Strategic Capital Investment Advisors

Selecting a Suitable Portfolio

Given the selection of portfolios that lie on the efficient frontier, the appropriate choice is that which best matches an investor's adversity to risk.

Selecting a Suitable Investment Portfolio



Source: Strategic Capital Investment Advisors

This information must be preceded or accompanied by a prospectus for the applicable variable life insurance product. The prospectus details charges, expenses, investment objectives, and operating policies. An investor should consider the investment objectives, risks, charges, and expenses of the investment company carefully before investing. This and other information is contained in the prospectus, which can be obtained by calling your advisor. Read it carefully before investing. Variable life insurance products are long term investments and may not be suitable for all investors. An investment in variable life insurance is subject to fluctuating values of the underlying investment options, and it entails risks, including the possible loss of principal.

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