WEATHERING UNCERTAIN MARKETS

STRATEGIES FOR THE NEW WORLD OF INVESTING

BLACKROCK®

REMEMBER LESSONS FROM THE OLD WORLD

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The New World of Investing: Building Wealth Amid Volatility

In recent years and across markets, you've watched volatility hammer your portfolio. Driven by financial and geopolitical crises, slower economic growth and unprecedented levels of central bank intervention, this volatility has increased your anxiety and sapped your confidence.

Amid these challenges, we offer insight on some of your most pressing questions, as well as specific ideas to help you target your goals and achieve investment success. Today's more volatile and uncertain investment world requires you to consider a broader range of investment opportunities than were required in the past—ones that can help provide downside protection and help smooth the ride. And to achieve your goals, you need to stick with your chosen strategies long enough to see the benefits—even through the inevitable market fluctuations.

Understand Your Emotions Lest They Betray You

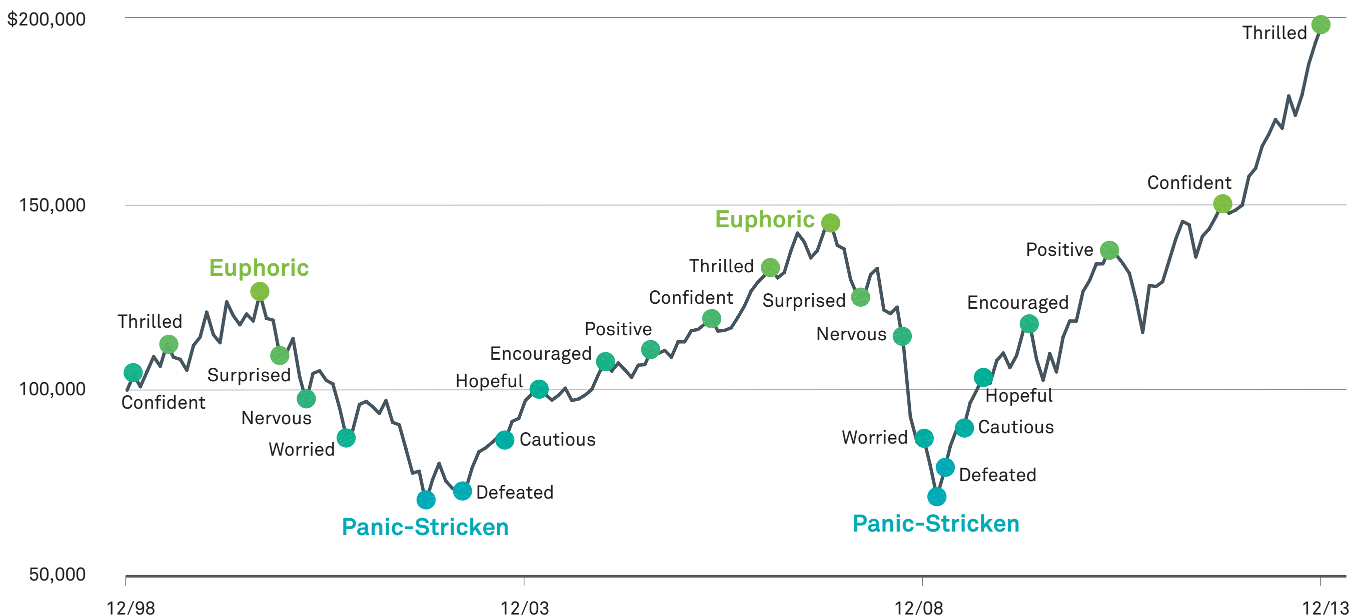
Avoid overreacting to market downturns. Opportunity is often greatest when you feel the most defeated.

The world has changed and is now fundamentally more volatile. Since the credit crisis, an environment characterized by central bank intervention, low yields and slow growth has left investors in a fog of uncertainty. As the recovery limps along, bond and equity market volatility remains elevated.

What worked in the past may not work in this new world of investing. But even as the world changes, human emotions do not, and this can lead to compromised investment decision making. The key is to understand your emotions so they don't betray you. Amid volatile and difficult financial times, emotional instincts often drive investors to take actions that may feel justified, but do not necessarily make rational sense. Fear too often translates into poor timing of buys and sells, violating a cardinal rule of investing: buy low and sell high. Rather than seeking to time the market, we suggest you remain invested in strategies that can take advantage of the new and different opportunities presented in financial markets.

DO YOUR EMOTIONS LEAD YOU ASTRAY?

Growth of a Hypothetical $100,000 Investment in the S&P 500 Index Over the Last 15 Years (1999–2013)



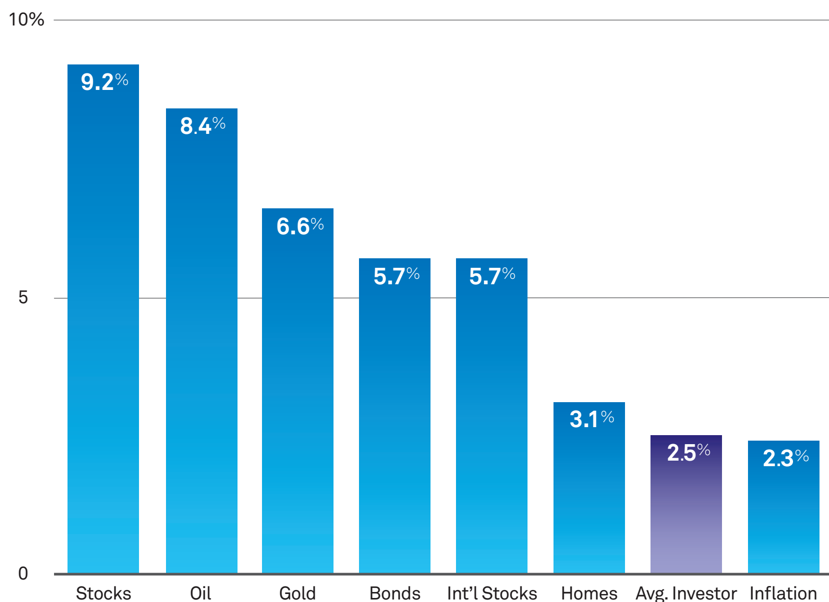
Sources: BlackRock; Informa Investment Solutions. Emotions are hypothetical and for illustrative purposes only. The S&P 500 Index is an unmanaged index that consists of the common stock of 500 large-capitalization companies, within various industrial sectors, most of which are listed on the New York Stock Exchange. Returns assume reinvestment of dividends. It is not possible to invest directly in an index. Past performance is no guarantee of future results. The information provided is for illustrative purposes only.

Partially as a result of overzealous buying and selling, the average investor has actually underperformed most asset classes (and even inflation) over the past 20 years. An unwavering commitment to the stock market during this timeframe would have resulted in a return over three times that realized by the average investor.

Don't follow the crowd. Be willing to be critical even when times are good and opportunistic when times are challenging.

THE AVERAGE INVESTOR UNDERPERFORMS

Average Annual Returns Over the Last 20 Years (1994–2013)



Sources: BlackRock; Bloomberg; Informa Investment Solutions; Dalbar. Past performance is no guarantee of future results. It is not possible to directly invest in an index. **Oil** is represented by the change in price of the NYMEX Light Sweet Crude Future contract. Contract size is 1,000 barrels with a contract price quoted in US Dollars and Cents per barrel. Delivery dates take place every month of the year. **Gold** is represented by the change in the spot price of gold in USD per ounce. **Homes** are represented by the National Association of Realtors' (NAR) Existing One Family Home Sales Median Price Index. **Stocks** are represented by the S&P 500 Index, an unmanaged index that consists of the common stocks of 500 large-capitalization companies, within various industrial sectors, most of which are listed on the New York Stock Exchange. **Bonds** are represented by the Barclays US Aggregate Bond Index, an unmanaged market-weighted index that consists of investment-grade corporate bonds (rated BBB or better), mortgages and US Treasury and government agency issues with at least 1 year to maturity. **International Stocks** are represented by the MSCI EAFE Index, a broad-based measure of international stock performance. **Inflation** is represented by the Consumer Price Index. **Average Investor** is represented by Dalbar's average asset allocation investor return, which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/13 to match Dalbar's most recent analysis.

Don't Let Fear Drive You to Cash...

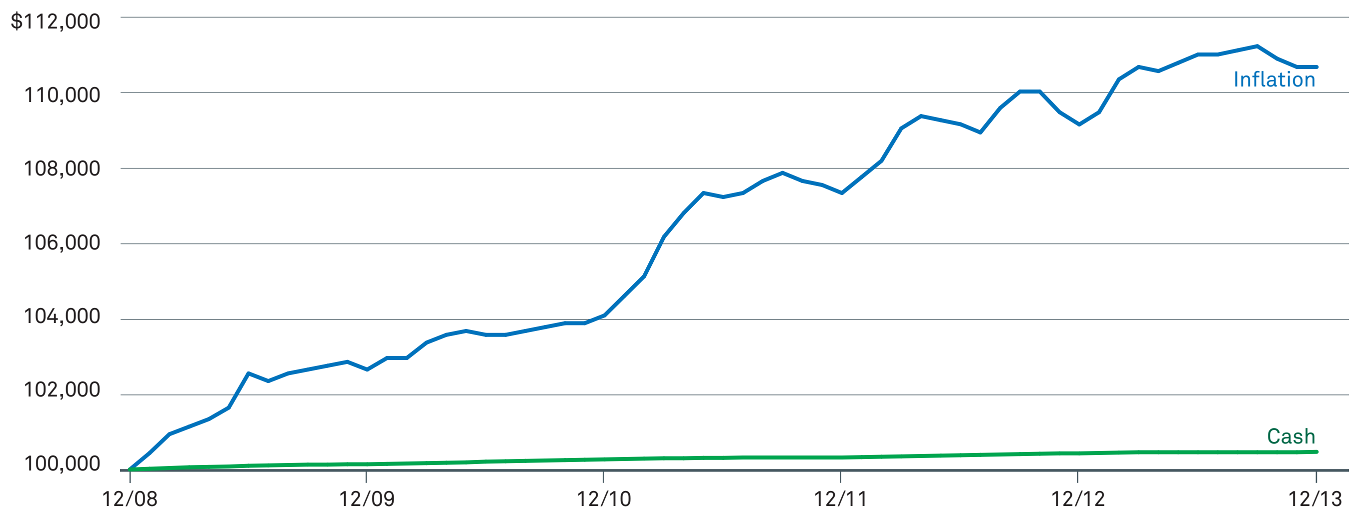
Stay ahead of inflation—holding cash may not be as safe as you think.

Many investors are haunted by the memories of the credit crisis and its devastating equity bear markets. For a lot of investors, this fear drove them into the presumably "riskless" trade: cash or low-yielding bonds. Putting a significant portion of your portfolio into cash may seem like a good idea when times are uncertain and volatile. But it comes with a cost.

Just when you've needed it most, cash has produced negative returns after factoring in inflation—making it a sure way to lose purchasing power in the long run.

CASH HAS UNDERPERFORMED INFLATION

Growth of $100,000 in Cash vs. Inflation Over the Last 5 Years (2009–2013)



Sources: BlackRock; Informa Investment Solutions. Cash is represented by the 90-day Treasury Bill. Inflation is represented by the Consumer Price Index. Past performance is no guarantee of future results. It is not possible to invest directly in an index.

...Or Lead You to Time the Market

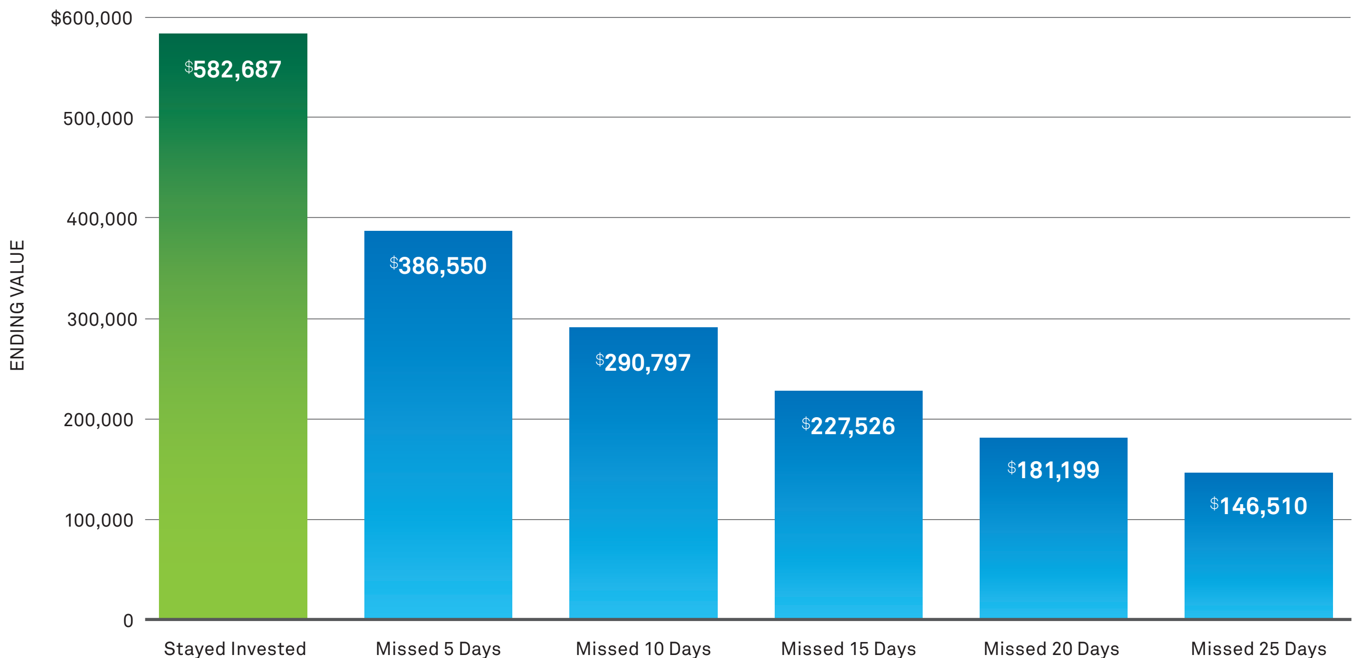
Every long-term market cycle has both up days and down days. Often, a few very good days account for a large part of the total return. Staying the course ensures you will be "in" the market on the good days. Some people try to time market movements by selling stocks when they think the market is about to decline and buying stocks when they think the market is about to rise. Consistently predicting which days a market will move in which direction, however, is virtually impossible and can be very costly.

Stay invested through difficult times and periods of uneven growth. Missing just a few top-performing days can hurt your returns.

As the accompanying chart shows, missing only a few of the best days over the last 20 years would have had an adverse effect on an investor's return. A hypothetical $100,000 investment in the S&P 500 Index held over the entire period of January 1, 1994, through December 31, 2013, would have grown to $582,687. Missing just the five best days would have reduced the ending value by $196,137. Missing out on additional days would have affected returns even more significantly.

MISSING TOP-PERFORMING DAYS CAN HURT YOUR RETURN

Hypothetical Investment of $100,000 in the S&P 500 Index Over the Last 20 Years (1994–2013)



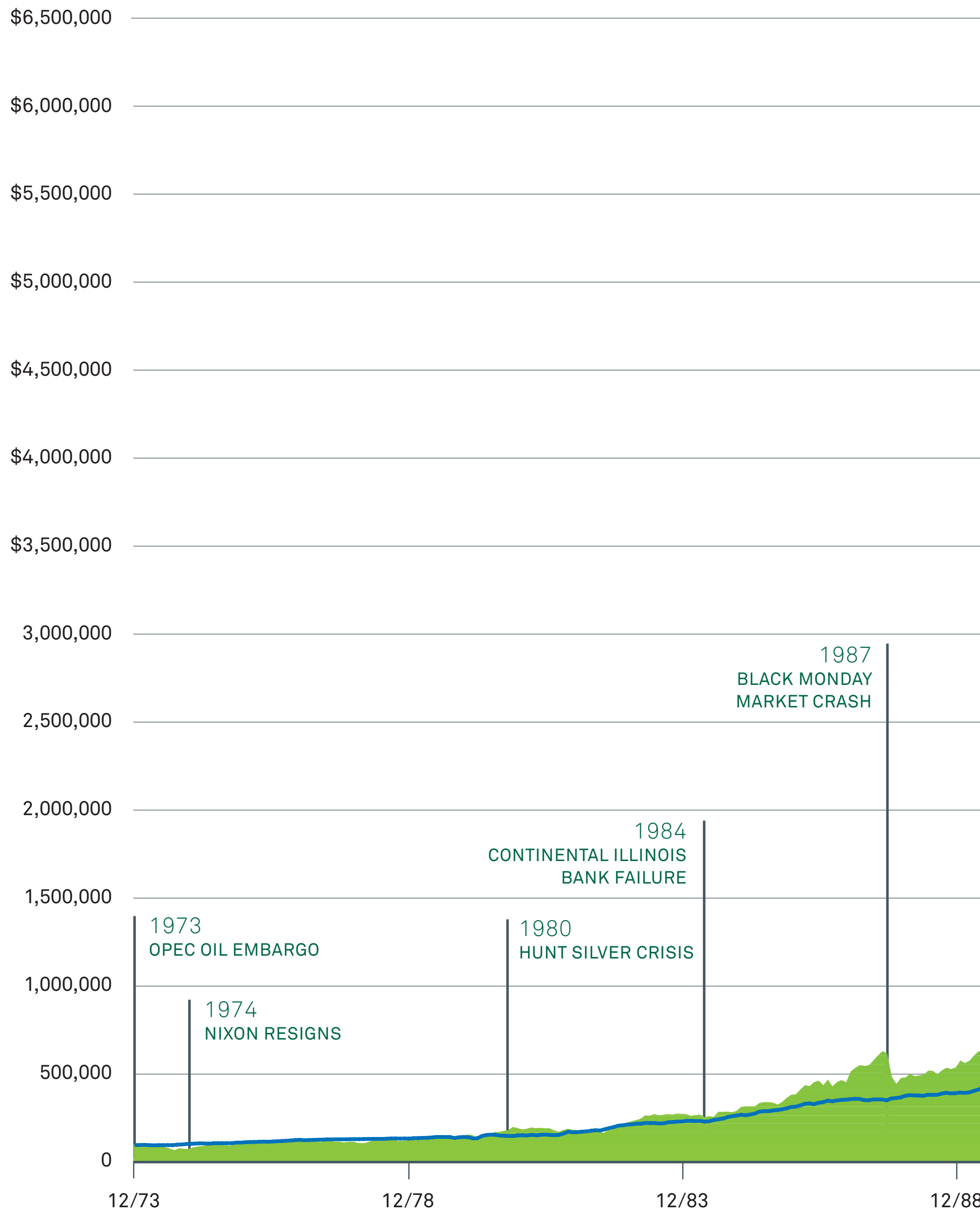
Sources: BlackRock; Bloomberg. Stocks are represented by the S&P 500 Index, an unmanaged index that is generally considered representative of the US stock market. Past performance is no guarantee of future results. It is not possible to invest directly in an index.

Keep a Long-Term Perspective

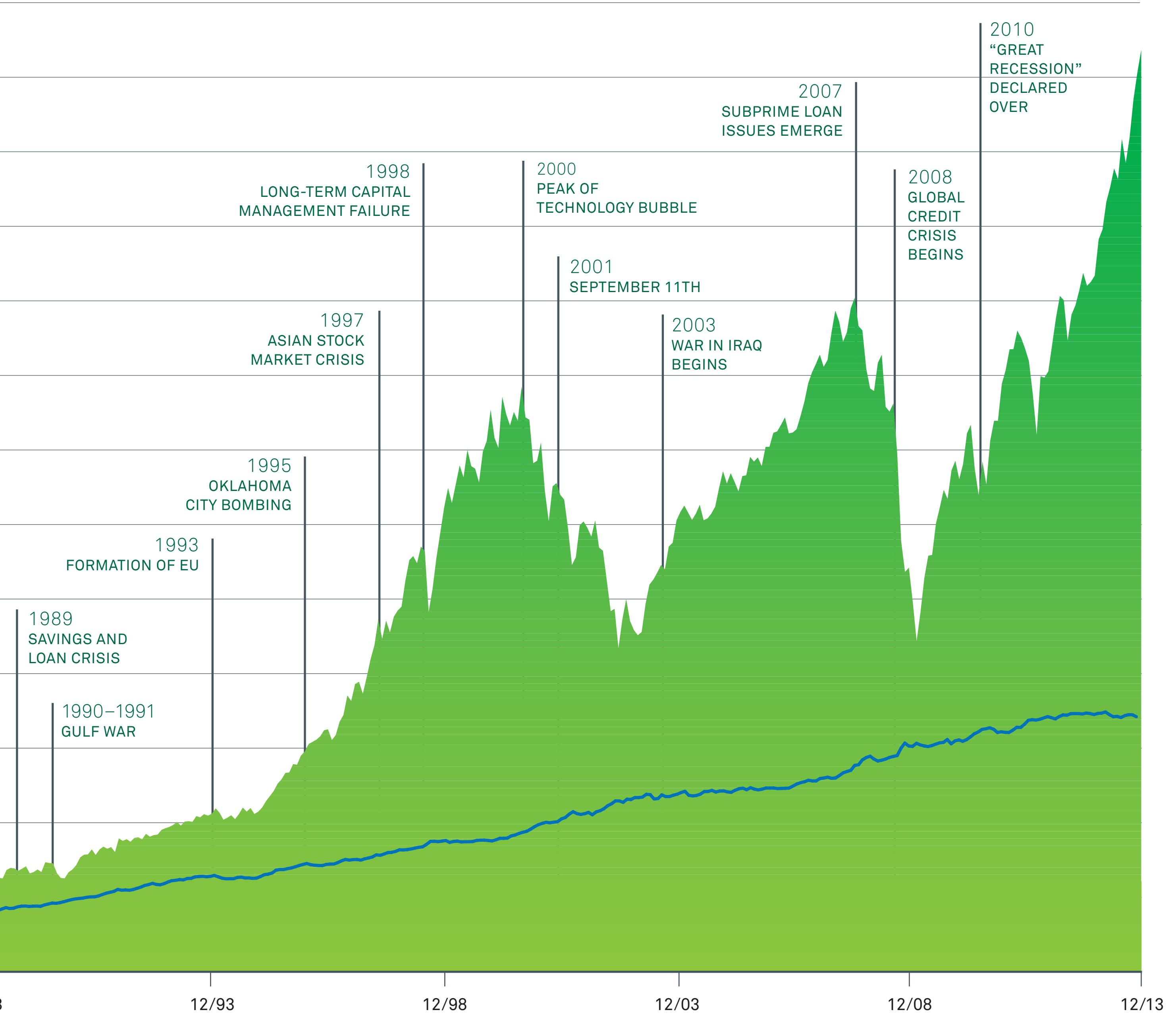
Focus on your long-term goals. Economic crises, recessions, geopolitical incidents or company-specific events can cause sharp market disruptions. But over the long term, markets have tended to recover.

STOCKS AND BONDS HAVE GROWN OVER TIME

Growth of a Hypothetical $100,000 Investment Over the Last 40 Years (1974–2013)



Sources: Informa Investment Solutions; SSBI 2006 Yearbook. Past performance is no guarantee of future results. It is not possible to invest direct Bond Index, an unmanaged index made up of the Treasury Bond Index (all public obligations of the US Treasury, excluding flower bonds and fore and corporate debt guaranteed by the US government).



dy in an index. Stocks are represented by the S&P 500 Index. Bonds are represented by the Barclays Capital Intermediate Government ign traded issues) and the Agency Bond Index (all publicly issued debt of the US government agencies and quasi-federal corporations,

Challenge Your Definition of Diversification

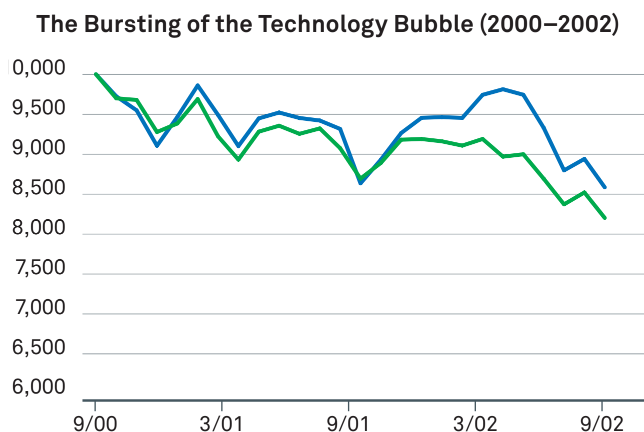
Develop a sound asset allocation and diversification strategy designed to correspond with your long-term goals and protect through all market conditions.

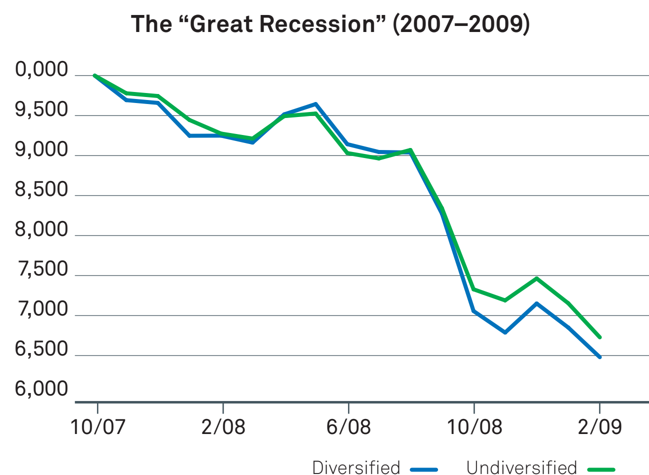
In the volatile and uncertain new world of investing, you need to have confidence that your portfolio is ready to weather even the worst days. Traditionally, investors have diversified across stock and bond asset classes and called it a day, feeling they had sufficiently spread out their risks. During times of stress, however, the returns of these traditional asset classes can easily move closer together. In other words, investing in what was traditionally thought of as a "diversified" portfolio could produce results that may not be substantially different than a single stock or single bond portfolio.

We suggest that as the financial markets change, so must your portfolio. To help protect your investments and take advantage of the new and different opportunities presented in financial markets, you need to reach farther for investments, including in places you may never have looked before. You need to look beyond traditional asset classes and toward a wider variety of active, index and multi-asset strategies. Of course, even enhanced diversification does not ensure a profit or protect against a loss.

TRADITIONAL DIVERSIFICATION CAN BE LACKING WHEN VOLATILITY RISES

"Undiversified" vs. "Diversified" Portfolio Performance





Sources: BlackRock; Informa Investment Solutions. Past performance is no guarantee of future results. The information provided is for illustrative purposes only and is not meant to represent the performance of any particular investment. The data assumes reinvestment of all income and does not account for taxes or transaction costs. It is not possible to invest directly in an index. **Undiversified Portfolio** is composed of 60% S&P 500 Index and 40% Barclays Credit Index. **Diversified Portfolio** is composed of 12% S&P 500 Index, 12% S&P 400 Mid Cap Index, 12% S&P 600 Small Cap Index, 12% MSCI EAFE Index, 12% MSCI Emerging Markets Index, 13.3% Barclays Credit Index, 13.3% Barclays US Treasury Index and 13.3% Barclays Capital US High Yield Index. The time frame used for "The Bursting of the Technology Bubble (2000-2002)" is September 1, 2000 through September 30, 2002. The time frame used for "The 'Great Recession' (2007-2009)" is November 1, 2007 through February 28, 2009.

Consider New Strategies For New Markets

With yields at near historic lows and markets volatile, you need a new set of investments to weather these uncertain markets. Whether you seek to be ready for retirement, save for college or achieve a steady flow of income, you need to consider new strategies. No matter your goals, you need to combine a wider variety of active, index and multi-asset strategies and also consider non-traditional asset classes.

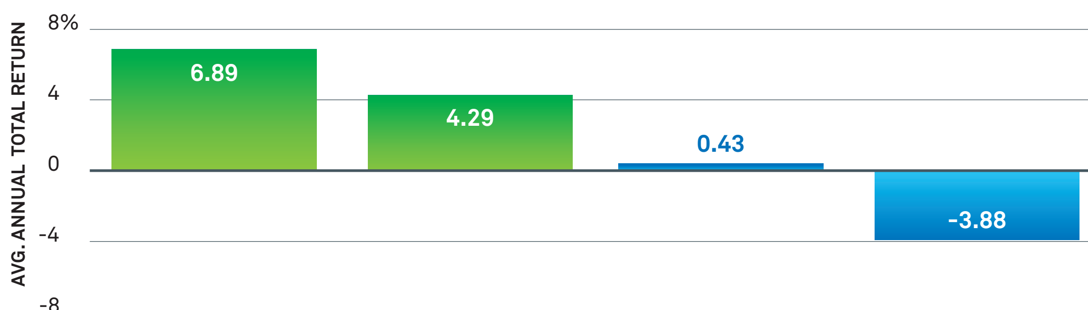
ALLOCATE TO CORE BOND ALTERNATIVES

As an investor, you need to know what you own. Indeed, the yields of traditional core fixed income investments such as government and corporate bonds are near all-time lows and are highly sensitive to interest rate movements, making them risky for an income portfolio if interest rates rise. Handcuffed by their benchmarks, traditional core portfolio managers aren't able to reduce these risks and seek more attractive returns. Flexible core bond alternatives allow a fixed income portfolio manager to be free from benchmark constraints and invest across all fixed income sectors and credit qualities. Having this flexibility allows the manager to diversify in an effort to better navigate rapidly changing markets.

Re-evaluate your fixed income portfolio and develop a more flexible approach.

NON-TRADITIONAL AND HIGH YIELD BONDS HAVE PROVIDED HIGHER RETURNS IN RISING INTEREST RATE ENVIRONMENTS

Bond Returns During Periods of Rising Interest Rates (Periods When Rates Rose 2%+ During Last 30 Years—1984–2013)



Time Period	Change in Interest Rate	Non-Traditional Bond	High Yield Bond	Barclays US Aggregate Bond	Long Government Bond
8/86–10/87	+3.31	–	1.64	2.41	-2.48
9/93–11/94	+2.86	–	0.83	-3.03	-7.87
9/98–1/00	+2.63	8.48	5.71	-0.61	-6.47
5/03–6/07	+2.19	5.31	8.97	2.94	1.29
Average	+2.75	6.89	4.29	0.43	-3.88

Sources: BlackRock; Barclays; Bloomberg; Lipper. Rate spike time periods are 8/31/86–10/31/87, 9/30/93–11/30/94, 9/30/98–1/31/00, 5/31/03–6/30/07, respectively. Past performance does not guarantee future results. Interest Rates represented by the 10-year US Treasury. All categories above represented by Morningstar Mutual Fund categories with the exception of the Barclays US Aggregate Bond Index.

Allocate to flexible, unconstrained strategies that have the ability to adapt to markets as they change.

INCORPORATE GLOBAL FLEXIBLE STRATEGIES

Investing narrowly across a limited number of asset classes or sectors effectively means concentrating your risk. However, flexible unconstrained strategies offer built-in diversification, helping to spread out risk and smooth the ride for a more consistent experience over time. By seeking out the best opportunities around the world and across asset classes, these strategies have a distinct ability to balance opportunity with risk, while also adjusting along the way to adapt to diverse and changing markets.

DIVERSIFICATION CAN OFFER GROWTH AND RISK PROTECTION

Annual Total Returns of Morningstar Categories Over the Last 10 Years (2004–2013)

10-Year Annualized Returns by Category	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
7.01% WORLD ALLOCATION	+17.41	+14.80	+24.75	+12.78	-2.20	+30.90	+14.18	+3.28	+18.30	+31.32
6.95% INTERNATIONAL STOCKS	+14.77	+6.26	+16.27	+11.24	-30.25	+28.14	+10.95	-1.40	+14.85	+19.29
6.93% US STOCKS	+10.05	+5.87	+14.00	+7.33	-37.89	+24.20	+10.24	-3.66	+10.18	+8.46
4.61% GLOBAL BONDS	+9.20	-3.23	+5.41	+6.01	-44.05	+13.58	+6.79	-13.89	+7.74	-2.88

Sources: Morningstar, Inc. as of 12/31/13. Performance is historical and does not guarantee future results. World Allocation, US Stocks, International Stocks and Bonds represented by Morningstar's World Allocation, Large-Cap Blend, Foreign Large Blend and World Bond Categories, respectively.

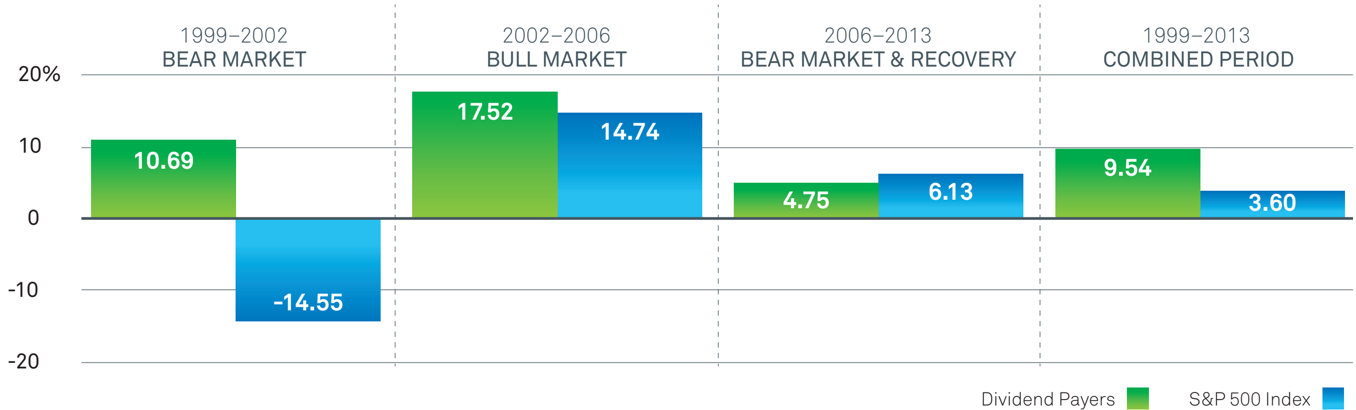
INVEST IN HIGH-QUALITY, DIVIDEND-PAYING EQUITIES

In a slow-growth environment characterized by volatility, it can be a challenge to stay invested amid the inevitable market ups and downs. An investment in global, high-quality, dividend-paying companies, however, can offer a less-volatile way to reap the rewards of holding equities. Dividend-paying stocks can help provide much-needed downside protection in difficult environments while participating in up markets, and have outperformed over full market cycles. Although there is no guarantee that companies will continue to pay dividends, this income can help smooth volatility in unpredictable markets.

Incorporate dividend strategies into your portfolio to help protect on the downside and reward on the upside.

DIVIDEND PAYERS WEATHERED DIVERSE MARKETS

Average Annual Returns



Sources: BlackRock; Informa Investment Solutions. Past performance is no guarantee of future results. The information provided is for illustrative purposes only and is not meant to represent the performance of any particular investment. The data assumes reinvestment of all income and does not account for taxes or transactions costs. It is not possible to invest directly in an index. **Dividend Payers** is represented by the Dow Jones U.S. Select Dividend Index.

Re-engage in the Market Over Time

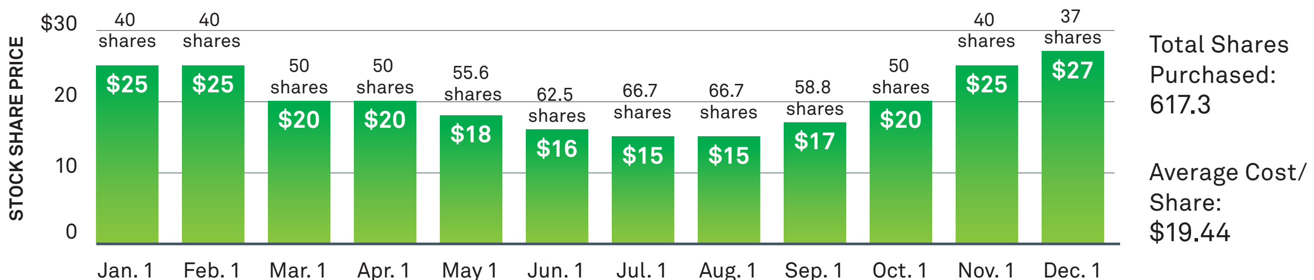
Get back into the market by dollar-cost averaging.

As we have seen, choosing the single best time to invest is very difficult or even impossible. Dollar-cost averaging, in which a fixed amount of money is invested at regular intervals, allows you to purchase more shares of an investment when prices are low and fewer when they are high. Ultimately, a lower average cost translates to a higher return when the market swings back up.

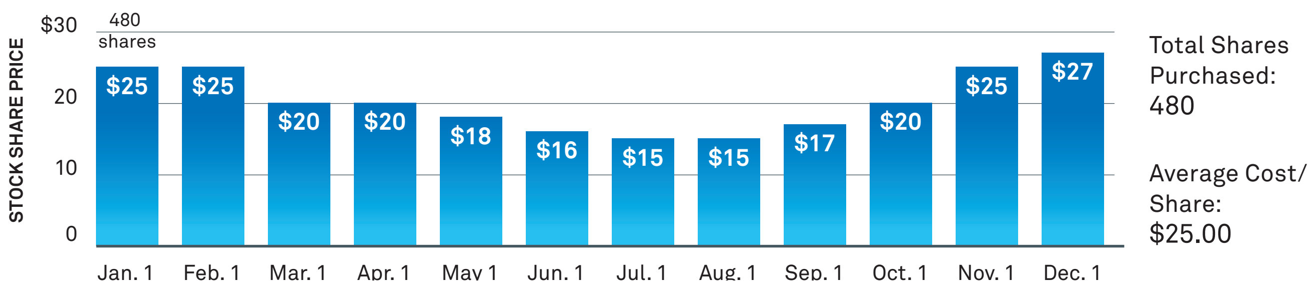
In Strategy 1 of the hypothetical example below, an investor used a dollar-cost averaging strategy, making regular investments of $1,000 per month. When the share prices were higher, the investor bought fewer shares and when the share prices were lower, the investor bought more shares. As a result, the investor's average cost per share ($19.44) was lower than the average market price over the same time period. Additionally, this same investor purchased more shares with the same amount of money than he or she would have made with a lump-sum investment at the beginning of the year (Strategy 2).

INVESTING SYSTEMATICALLY CAN HELP YOU ACHIEVE A BETTER OUTCOME WHEN MARKETS ARE VOLATILE

Strategy 1: Systematically Invest $1,000 Per Month Every Month for a Year Regardless of Share Price



Strategy 2: Invest $12,000 in a Lump Sum at the Beginning of the Year



The information provided is for illustrative purposes only and is not meant to represent the performance of any particular investment. Systematic investing does not guarantee a profit and does not protect against loss in declining markets. Systematic investing involves continuous investing so investors should consider their ability to make periodic payments in all market environments. Investing involves risk including the loss of your entire principal.

So What Do I Do With My Money?

CREATE A MORE DIVERSE AND FLEXIBLE PORTFOLIO

To get where you want to be, you need a new strategy for the new world of investing. Rather than focusing on a few narrow parts of the market—such as owning only core bonds in your fixed income portfolio—you need a broader range of investments. This requires seeking out opportunity in places you may never have looked before. You need to combine a wider variety of active, index and multi-asset strategies, as well as non-traditional investments. Your financial professional can help you identify those investments best suited to your long-term objectives.

As you look to position your portfolios for the future, we would encourage you to stick with one of the most basic tenets of investing: Work with a financial professional to develop a sound asset allocation and diversification strategy designed to correspond with your long-term goals. So how to go about doing this? We suggest:

THREE INVESTMENT ACTIONS TO CONSIDER:

Rethink Your Bonds	Generate Income, But Don't Overreach	Seek Growth, Manage Volatility
INVESTMENT SUGGESTIONS		
1 Allocate to Flexible Bond Portfolios	1 Take a Flexible Approach to Income	1 Allocate to Traditional Equities
2 Seek Returns Beyond Traditional U.S. Bonds	2 Put Credit and Dividends to Work	2 Mitigate Risk with Diversified & Alternative Strategies
3 Keep Durations Short, But Know What You Own	3 Adapt to Higher Taxes	3 Seek Conservative Equity Growth

Why BlackRock

As the world's largest investment manager, we believe it's our responsibility to help investors of all sizes succeed in the New World of Investing. We were built to provide the global market insight, breadth of capabilities, unbiased investment advice and deep risk management expertise these times require.

The Resources You Need for a New World of Investing
Investing with BlackRock gives you access to every asset class, geography and investment style, as well as extensive market intelligence and risk analysis, to help build the dynamic, diverse portfolios these times require.

The Best Thinking You Need to Uncover Opportunity
With deep roots in all corners of the globe, our 100 investment teams in 30 countries share their best thinking to translate local insight into actionable ideas that strive to deliver better, more consistent returns over time.

The Risk Management You Need to Invest With Clarity
With more than 1,000 risk professionals and premier risk management technology, BlackRock digs deep into the data to understand the risk that has to be managed for the returns our clients need and bring clarity to the most daunting financial situations.

BlackRock. Investing for a New World.®

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Investing involves risk, including possible loss of principal. International investing involves additional risks, including risks related to foreign currency, limited liquidity, less government regulation and the possibility of substantial volatility due to adverse political, economic or other developments. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. The two main risks related to fixed income investing are interest rate risk and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and interest payments. A portion of a municipal bond fund's income may be subject to federal or state income taxes or the Alternative Minimum Tax. Capital gains, if any, are subject to capital gains tax. Investments in commodities may entail significant risks and can be significantly affected by events such as variations in the commodities markets, weather, disease, embargoes, international, political and economic developments, the success of exploration projects, tax and other government regulations, as well as other factors. Diversification may not protect against market risk. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

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