ING SPECIAL REPORT

diversification

Variety is the spice of (investment) life

The main asset classes are:

Stocks… equity (growth)
Stocks represent equity or ownership in a corporation. Historically, stocks have produced the highest returns, but they also carry the most risk. There are many subcategories that further define a stock, such as "international," "aggressive growth" or "growth," to name a few. These descriptors tell an investor more about a stock's risk level and main objective.

Bonds… income
Bonds represent loans to corporations or government entities. A bond is a debt instrument in which the borrower agrees to pay back principal and interest by a certain time. "Income" refers to the interest paid on the loan. The borrower's ability to repay typically impacts the rate. While bonds are considered less risky than stocks in general, bonds do carry risks, including the possibility of default.

Money market… cash
"Money market" investments are investments in short-term debt securities, such as CDs, and short-term government securities, such as Treasury Bills.

Diversification… it's an investment concept that has many parallels in popular language and culture – "variety is the spice of life," and "don't put all your eggs in one basket," to name a couple. All correlate to good old common sense.

When it comes to managing your investments, *diversification* refers to the practice of spreading your dollars among a variety of investments to better manage investment risk. The theory is that, if you've spread your dollars around, you could be less affected by losses in any one investment. Losses may even be offset by *gains* in another investment. There are no guarantees of better performance and this strategy cannot protect against loss in declining markets.

Diversification works among the main investment categories: stocks, bonds and money market instruments. While past performance is no guarantee of future results, a little attention to the nature of each of these categories will help explain the basic concept of diversification. Among the three, stocks have historically performed better over time, but they have greater risk of principal loss. This tendency toward greater price swings – highs and lows – makes stocks more *volatile* than either bonds or money market instruments. **Stock prices** are subject to a wide variety of factors, including interest rates, industry trends, prevailing economic conditions and the strength of the U.S. dollar at home and abroad. The **value of bonds**, on the other hand, is closely tied to changes in interest rates. When rates fall, bond prices rise and vice versa. The **value of money market instruments** is also tied to changes in interest rates – but where bond prices tend to move in the opposite direction from interest rates, money market instruments tend to *track* interest rates. Again, while bonds are considered less risky than stocks, bonds do carry the risk of default.

Using bonds and money market instruments as an example, let's say you had a portfolio that was 50-50 invested in each. Interest rates rise and the value of the bonds in your portfolio drops accordingly. This loss, however, is offset somewhat by the fact that the returns on your money market investment rose, because each kind of investment reacts differently to the same external factor (changes in interest rates). While cash instruments may pose the smallest risk to principal, they also limit an investor's ability to outpace inflation.

Interest rates, of course, aren't the only factor that will affect your investments. Another example often used by investment professionals involves an investment in two companies –

one manufactures raincoats, the other makes sunglasses. A rainy month yields great profits for the raincoat company, but profits slide during sunny months. So, you'd want to temper those highs and lows by investing in something that reacts differently to the same condition (weather): sunglasses. This is, of course, very simplistic. In this example, other factors would weigh in – suppose the raincoat company invented a super-water-repellent, heat-retaining fabric that also makes a state-of-the-art winter coat? Or the sunglass company invented a magnetic clip that allowed sunglass lenses to automatically attach to regular glasses? These developments would certainly affect the stock prices of each company – although as an investor, you probably wouldn't have time to study the operations of each company and predict the outcomes.

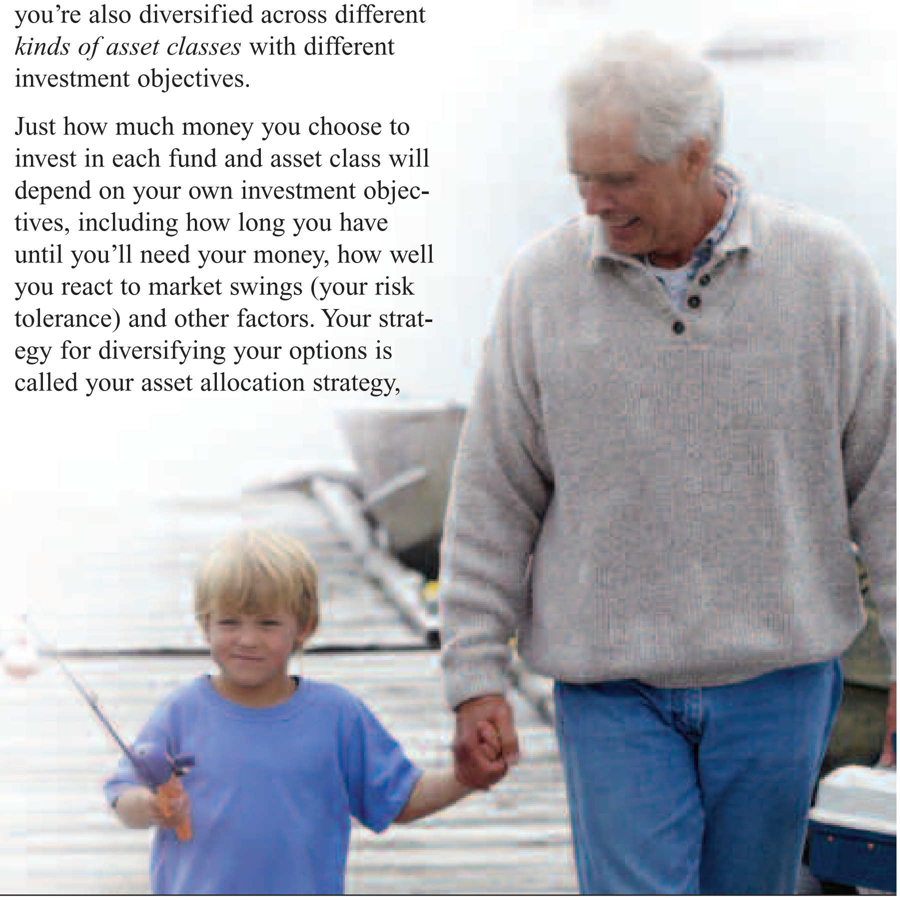
That's where full-time professional management, the kind you get by investing in mutual funds and the investments you'll likely find in your retirement plan, comes in. This allows you to practice diversification automatically on several levels.

First, diversify among companies or other securities with similar characteristics. The *kind of fund* you choose will have a defined objective – "Large Cap Value," for example. The managers of these funds will seek out individual stocks or bonds that strive to meet the fund's objectives of growth (i.e., equity investments), tempered by income (i.e., bond investments). Your dollars in the fund are pooled with those of many others and then are diversified among these investments.

Next, you probably won't choose just one fund or asset class to invest in, and this further diversifies your investment. For example, you may choose to put a portion of your investment in a "Global/International" fund, some in a "Large Cap Value" option and some in a "Small/Mid/Specialty" fund. Now, you're also diversified across different *kinds of asset classes* with different investment objectives.

Just how much money you choose to invest in each fund and asset class will depend on your own investment objectives, including how long you have until you'll need your money, how well you react to market swings (your risk tolerance) and other factors. Your strategy for diversifying your options is called your asset allocation strategy, and ING's Special Reports, "Asset Allocation: Building the investment portfolio that's right for you," and "Model Investment Portfolios," can help you develop a strategy that's suited to your own circumstances and investment temperament.

Call your ING Financial Advisers, LLC representative or stop by our Web site at www.ing.com/us for more information about diversification and how it can help you manage your investment to better meet your life's goals. And, don't put all your eggs in one basket!



www.ing.com/us www.ingretirementplans.com

ING

Retirement Insurance Investments

Your future. Made easier.SM