



**Krosnowski & Scott LLC**  
Investment & Retirement Planning Specialists

**Verizon 401(k) Savings Plan Investment Advice**

This message is intended to provide guidance to Verizon corporation employees to assist them in investing their savings plan assets more efficiently. If you have discretionary income available to invest in excess of your basic monthly expenses, you may wish to consider participating in the Verizon 401(k) Savings Plan. There are two distinct investment benefits that can be achieved by contributing to your retirement plan. Verizon provides employer matching contributions. The company matches dollar for dollar the first four percent and fifty cents for each dollar on the next two percent of management employee contributions. For associate employees, the company matches 82 cents for every dollar up to the first six percent of pay that the employee contributed. If employees contribute to the Savings Plan on a pre-tax basis, this will reduce the amount of earned income that is subject to taxation. Additionally, balances in the Savings Plan accumulate tax deferred until they are withdrawn.

**I. Investor Profile** – To determine your investment goals, the following must be identified.

**A. Time Horizon** - Period of time from the present when you may need to withdraw assets from your investments or retire?

**1 to 5 years** \_\_\_\_\_, **5 to 10 Years** \_\_\_\_\_, or **10 (+) Years** \_\_\_\_\_

**B. Risk Tolerance** - Rate your risk tolerance from 1 to 10

**Conservative** \_\_\_\_\_ **(1 to 3)** Very low tolerance to principal fluctuation. Investor will tolerate 0 to 10% value decline over a 12 month period.

**Moderate** \_\_\_\_\_ **(4 to 6)** Willing to sustain 10 to 20% portfolio value decline over a 12 month period but not much more.

**Aggressive** \_\_\_\_\_ **(7 to 10)** Willing to experience 20 to 40% declines in portfolio value over a 12 month period in order to achieve potentially greater long term returns.

**C. Investment Objective** – Select an objective that matches your investment goals and comfort level.

**1. Income** \_\_\_\_\_ Invest 80 to 90% in bonds and money markets, 10 to 20% in income oriented stocks. This portfolio is suitable for very conservative investors.

**2. Balanced with an Emphasis on Income** \_\_\_\_\_ Invest 60-70% in bonds and money markets and 20-30% in common stocks. This is a conservative balanced portfolio.

**3. Balanced** \_\_\_\_\_ Invest 35 to 40% in money markets and bonds and 60 to 65% in stocks. This is a moderate to conservative risk portfolio.

**4. Balanced with an Emphasis on Growth** \_\_\_\_\_ Invest 20-30% in bonds and money markets and 70-80% in common stocks. This is a moderate risk portfolio.

**5. Growth** \_\_\_\_\_ Invest in common stocks for capital appreciation with little concern for income. This objective is for moderate to aggressive investors.

**II. Investment Strategy**

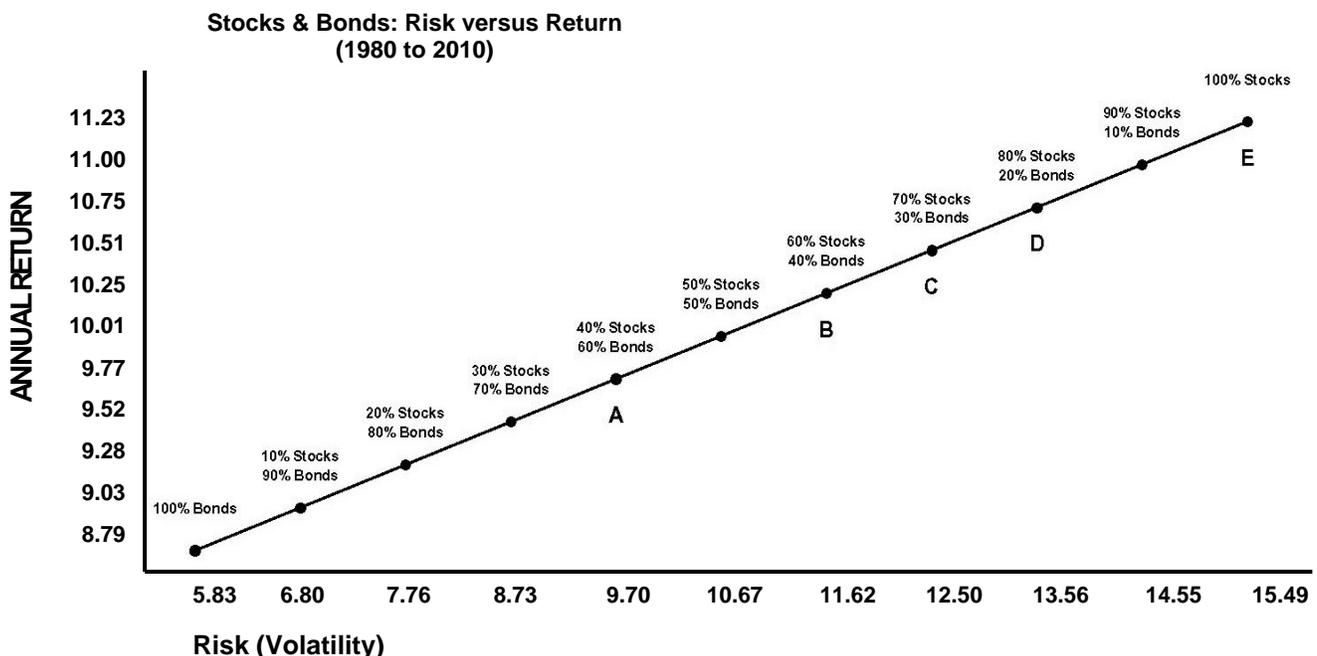
**A. Modern portfolio Theory (MPT)** - MPT is an investment philosophy that seeks to maximize investor’s efficiency by combining different asset classes such as stocks, bonds and real estate whose price movements are not directly correlated (i.e. the asset classes move in different directions part of the time). By diversifying assets across these investment categories within an investor’s risk tolerance and investment objective, MPT seeks to provide more consistent returns and less risk than more concentrated, less diversified portfolios.

**B. Asset Allocation and Investment Efficiency-** In Chapter 2 of his book “Stocks For The Long Run,” Wharton Business School Professor Jeremy Siegel discusses modern portfolio theory and the “efficient frontier<sup>(1)</sup>.” The theory illustrates the lowest risk point on a linear curve between differing combinations of bonds and stocks while achieving the highest possible return over 10, 20 and 30 year time periods<sup>(2)</sup>. Over a recent 200 year period the efficient frontier was approximately:

- 60% bonds / 40% stocks for 10 year periods
- 40% bonds / 60% stocks for 20 year periods
- 30% bonds / 70% stocks for 30 year periods
- 

These allocations are illustrated in the chart below as points **A, B** and **C**.

**C. The Intelligent Investor** – Benjamin Graham is known as the grandfather of “value” investing and Warren Buffett’s mentor. He is the author of the classic investment text “The Intelligent Investor. Graham encouraged stock investors to incorporate a “margin of safety” into their portfolios. He surmised that investors who were invested **100% in stock (Portfolio E)** would be more likely to panic and sell out of the market during periodic stock market declines. He felt that investors who invested **20% Bonds/80% Stocks (Portfolio D)** were more likely to remain fully invested for the long term, because the bond allocation dampened downside volatility.



We feel that most retiree investors who are receiving income distributions should allocate their assets between point **B** (40% stocks/60% bonds) and point **C** (60% stocks/40% bonds). Monitoring your asset allocation on an on-going basis and employing a disciplined re-balancing process can ensure that your assets remain in alignment with your investment objectives.

Verizon Savings Plan investors are advised to structure their assets so that their allocation matches their investment needs and comfort level. It is suggested to use input from the investor's profile, the "**efficient frontier**" and "**margin of safety**" concepts to determine an appropriate asset mix.

Active Verizon employees who are pension eligible may wish to invest a greater portion of their Savings Plan in stock investments. The pension can be viewed as a fixed income allocation that provides balance to a more growth oriented Savings Plan portfolio.

D. Stock Market Investing- Research indicates that investor's chances of success may be enhanced in the future if the following trends are incorporated into their portfolios:

- There is not a direct correlation between price movements of:

**Stock Market Capitalization:** US large cap stocks and US mid/small stocks

**Stock Asset Classes:** Value stocks and growth stocks

**Geographic Markets:** Domestic stocks and international stocks

Every few years these different stock styles and asset classes move in and out of favor versus each other in the financial market place<sup>(3)</sup>. As a result, combining these investments may reduce the peaks and valleys of investing in one stock category. It also may improve investment efficiency by providing potentially more consistent returns with less risk or volatility.

**Utilize US Large Cap Stocks as your stock foundation** (base of portfolio). Since large-cap stocks are usually less volatile, we suggest clients overweight this category. Adding mid and small-cap stocks to your portfolio in moderation may increase diversification, improve your performance potential and improve the consistency of your returns.

- **Invest in companies that pay healthy dividends.** Historically, dividends have provided a significant portion of stock returns. Since 1926, dividends have represented approximately 41% of the total return for large cap stocks, according to Ibbotson Associates.
- **Combine value and growth stocks.** Historic data (since 1965) indicates that value stocks with lower P/E ratios have provided investors with higher returns and dividends, and less risk than growth stocks with higher P/E ratios<sup>(5)</sup>. When blending value and growth stocks, consider overweighting value stocks.
- **Globally diversify your portfolio.** Currently, stock valuations are more attractive outside the United States (ex Japan) due to higher dividend yields, greater dividend growth rates and lower P/E ratios<sup>(6)</sup>. Investing in globally diversified portfolios may provide investors with increased diversification and more consistent returns than investing exclusively in U.S. securities.

### III. Verizon Savings Plan Investment Recommendations

#### A. For Management Employees

\*Target Date Funds provide “one stop shopping” since they combine investment in bond, real estate and stock

INVESTMENT CATEGORY	INVESTMENT OBJECTIVE				
	Income	Balance/Income	Balanced	Balanced/Growth	Growth
Emerging Market Stock	2	4	5	5	5
International Stock	6	16	20	25	30
Global Real Estate	6	6	6	6	6
U.S. Real Estate	4	4	4	4	4
U.S. Large Company Stock	10	16	25	32	37
U.S. Small Company Stock	2	4	5	8	10
Fixed Income	30	20	10	6	2
Global Bond	20	15	10	6	2
Inflation Protected Bond	10	10	10	6	2
Money Market	1	5	5	2	2
		<b>OR</b>			
<b>TARGET DATE FUNDS*</b>					
Income & Investment	100%				
2010 or 2015		100%			
2020			100%		
2025				100%	
2035-2050					100%

funds. The further out the target date year is into the future, the greater the stock allocation. The closer the target date is to the present, the greater the allocation is to fixed income.

B. For Associate Employee

INVESTMENT CATEGORY	INVESTMENT OBJECTIVE				
	Income	Balance/Income	Balanced	Balanced/Growth	Growth
U.S. Small Co. Stock			5	5	10
U.S. Large Company Stock	10	25	30	35	36
International Co. Stock	10	15	25	30	32
U.S. Real Estate	10	10	10	10	10
Gov't/Corp Bond	25	20	15	10	4
Inflation Protected Bond	20	15	10	5	4
Corporate Bond	20	15	10	5	4
Money Market	5				

		<b>OR</b>			
Balanced/Growth			40	80	100
Balanced		40	60	20	
Balanced/Income	100	60			

**Summary** – Decide how much of your income that you can contribute to the Verizon 401(k) Savings Plan that matches your investment objective and comfort level. Then define your investor profile. Select the mix of funds for your existing balances and future contributions.

Monitor your percentage allocations that are invested in stocks, bonds and real estate. Re-balance your assets when your balances move out of alignment with your investment objectives. Re-allocate your assets when there is a change in your feelings, current situation, family dynamics or future horizon.

Please contact us if you would like us to provide you with free advice on investing your Verizon 401(k) Savings Plan balances or if you would like us to brief you on the potential benefits of rolling over your In-Service withdrawal balance to an IRA.

Sincerely,

Andrew J. Krosnowski, CWS®  
 Senior Financial Consultant  
 email: akrosnowski@1stallied.com

Melissa Scott Paine, CFP®  
 Financial Consultant  
 email: mscott@1stallied.com

888-901-8310 / 123 Rowell Court / Falls Church, VA 22046  
 Securities offered through First Allied Securities, Inc. Member FINRA/SIPC  
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