WELLS FARGO Advisors

Taking control of your financial future

Investment and Insurance Products are:

- Not Insured by the FDIC or Any Federal Government Agency
- Not a Deposit or Other Obligation of, or Guaranteed by, the Bank or Any Bank Affiliate
- Subject to Investment Risks, Including Possible Loss of the Principal Amount Invested

It’s time to get control of your financial future

Let’s begin by stating the obvious: You can’t control the wind. Or the rain. Or what happens in Washington. Or the driver in the car in front of you. And that can be scary, because all of these things that you can’t control — and countless others — could profoundly affect you and your family.

Of course, the good news is that there are plenty of aspects of your life you can control. This brochure addresses one of the most important — your investments.

When it comes to planning for your financial future, you don’t have to feel like a kite helplessly buffeted by the wind. You can take control and help ensure your investments have you on track toward your goals. Your key to getting started is having a grasp of the basics. And that’s just what this brochure is all about.

In the following pages we’ll discuss the choices every investor makes and the role risk plays in the investment process. After that, we’ll touch on diversification strategies for your investment portfolio, and we’ll look at the most common investment types and vehicles: stocks, bonds, mutual funds, exchange-traded products (ETPs), qualified employer-sponsored retirement plans (QRPs), such as 401(k), 403(b), or governmental 457(b), IRAs, and education savings plans. We’ll also consider how the wise use of liabilities management strategies and advisory programs can complement your investment strategy and help you reach your financial goals.

Making choices

A common misconception is that you start investing by buying something. In fact, purchasing investments is just one part of a much bigger picture. Think of it this way: You wouldn't set out on a trip without first having a destination in mind. In the same way, the steps you take as an investor should be based on what you're trying to accomplish. In general, it's only after you know your goals and your strategy for working toward them that you should begin purchasing any investments. But don't worry about any of that quite yet. After you've reviewed this brochure, a financial advisor with our firm can help you get started on your own investment journey.

Clarify your objectives

There are many reasons to invest: to purchase a dream house or automobile, to vacation in exotic places, to start a new business.

These are all valid reasons, but the three most commonly cited reasons for investing are to:

- Help ensure a financially secure retirement
- Pay a child's or grandchild's higher education expenses
- Leave a financial legacy for heirs or, perhaps, a favorite charity

The clearer your objectives, the easier it will be for you to develop your strategy for working toward them. Therefore, it's essential that you take time to prioritize your objectives.

Determine your time horizon

Having a clear idea of your goals is important because it will help determine your time horizon. For example, if you want to save for a child's education, your time horizon will probably be shorter than if you are saving for your retirement.

Knowing your time horizon is important because it will help dictate the types of investments you should make, and may impact the costs of your investments. Having a longer time horizon usually means you can invest more aggressively because you may be able to ride out any short-term price volatility and have the potential to enjoy the increased returns that a riskier investment usually offers. (We'll discuss the relationship between risk and return in the next section.)

A shorter time horizon may require you to use more conservative investments. If, for example, you purchase an investment with plans to sell it in a year, it's usually best to choose a low-risk investment. If you hope to get a big return on a short-term investment, you should understand that you will need to make risky investments and face the very real likelihood that you may lose money.

Establish your starting point

Once you've clarified your objectives and time horizon, you need to determine where you are today. In other words, is your financial house currently in order? For example, if you're carrying a heavy debt burden, especially high-interest credit-card debt, you'll probably need to reduce it before you start investing.

A good way to determine where you stand financially is to start with your personal net-worth statement, which one of our financial advisors can prepare. This statement will give a snapshot of your assets (what you own) and liabilities (what you owe). It will also show how your assets are currently allocated between investments (stocks and bonds), bank accounts (checking, savings, and certificates of deposit), and real estate you own for investment purposes. Because it's essential to know where you're starting from, having a net-worth statement can be a valuable first step in developing your strategy.

The ups and downs of investing

The risks in your portfolio

Risk is an inherent part of investing. And though it may seem simple enough on the surface, risk can be one of the most difficult concepts for investors to understand. The most obvious risk of any investment is that you'll lose money. You purchase a stock at $50 a share, for example, and a year later it's worth only $25. This is called a "paper loss." You haven't lost anything until you sell the stock for less than $50. It could be that if you waited another year the stock might be at $75, and you could sell it at a gain.

The most important thing to understand about risk: It usually goes hand in hand with return potential.

Measuring an investment's ups and downs

A stock that has wide price swings, such as the one just discussed, would probably be described as a volatile investment. Volatility is the most common measurement of risk. It's the range of movement — both up and down — in an investment's price over a period of time that determines how risky it is.

Risk's role in your portfolio

Here's perhaps the most important thing to understand about risk: It usually goes hand in hand with return potential. A low-risk investment, for example, will often have a low return. As a result, investors may include riskier investments in their portfolios because they're looking for the greater return potential these investments may offer.

Feeling at ease with your investment choices

Your risk tolerance is simply the level of risk you can comfortably live with in your portfolio. The higher your risk tolerance, the better the returns you may be able to achieve.

Although higher returns may be attractive, you may be comfortable with a relatively low level of risk — and that's OK. You need to determine your risk tolerance and design your portfolio to fit within it, which may require you to adjust your objectives or time horizon.

For example, if you have a relatively low risk tolerance, want to start saving toward having $1 million for retirement, and have only a few years to do so, you're probably going to have to either adjust your objective to an amount you may realistically be able to achieve or decide to work and save longer.

Additional risks you need to understand

Price volatility is probably one of the biggest risks you face as an investor. However, there are numerous other risks investors face each day.

The risk of the rising cost of living

Another risk you need to understand is inflation risk, which can reduce your investment gains by diminishing your purchasing power. Every economy experiences periods of inflation, and it's been a reality for the U.S. economy since the end of World War II.

Although the inflation rate fluctuates from year to year, investors should factor inflation into their investment plans. To overcome inflation, you need investments with returns greater than the inflation rate. Of course, to get better returns, you generally will have to choose investments with increased risk.

The risk of the road not taken

If you have all of your money in low-risk investments, such as Treasury bills and bank certificates of deposit, you may be missing out on the opportunity to enjoy greater returns by diversifying into other investments. The possibility that you're missing out on the chance to earn better returns with a different investment is called opportunity risk.

Although past performance does not dictate the future, common stocks, for example, have historically offered higher returns than most other investments. Along with higher returns come increased risks, however, and there are periods when stock investors lose money. In spite of this risk, stocks have proven through the years to be one of the best investments for helping individuals work toward their long-term financial goals.

The spectrum of risk

The shoreline represents fixed, lower-risk investments. As you venture into deeper water, the investments become riskier — from conservative to speculative. As investments become riskier, they usually offer the potential for higher returns. Once you determine where you fit best as an investor, a financial advisor with our firm can help you select and manage investments considered appropriate for your objectives and risk tolerance.

Cash, money markets, and CDs

Bonds and income stocks

Growth stocks

Speculative stocks

The risk of an economic downturn

As many investors learned during the global economic recession that began in 2008, souring economies can rapidly affect stock markets as investors begin “panic selling.” Prices tumble and remain depressed — at least until signs of an economic recovery appear and investors take heart again.

Although it’s no secret that economies and markets move in cycles, a deep economic crisis is an unsettling event. It naturally leads to heightened concern and uncertainty. In addition, a proliferation of investment choices and the interconnectedness of global markets have added new terrain and complexity to the investment landscape. The average investor can easily feel overwhelmed and intimidated by it all.

But don’t hesitate to turn to a financial advisor with your questions and concerns. An advisor can help you identify savings, investment, and other vehicles designed to help protect your assets in tough markets and help position you for growth opportunities when conditions are right. To help you understand your choices, our firm offers many educational resources and materials that one of our financial advisors can share with you.

SIPC protection

Wells Fargo Advisors is a member of the Securities Investor Protection Corporation (SIPC), a nonprofit, Congressionally chartered membership corporation created in 1970. SIPC protects clients against the custodial risk of a member investment firm becoming insolvent by replacing missing securities and cash up to $500,000, including up to $250,000 in cash, per client in accordance with SIPC rules.

(Note that SIPC coverage is not the same as, nor is it a substitute for, FDIC deposit insurance; securities purchased through Wells Fargo Advisors are not FDIC-insured.) For more information about SIPC, please visit sipc.org.

Additional insurance coverage we provide

Above and beyond SIPC coverage, Wells Fargo Advisors maintains additional insurance coverage through London Underwriters (led by Lloyd’s of London Syndicates), referred to here as “Lloyd’s”.

For clients who have received the full SIPC payout limit, Wells Fargo Advisors’ policy with Lloyd’s provides additional coverage above the SIPC limits for any missing securities and cash in client investment accounts up to a firm aggregate limit of $1 billion (including up to $1.9 million for cash per client). In other words, the aggregated amount of all client losses covered under this policy is subject to a limit of $1 billion with each client covered up to $1.9 million for cash.

Protection measures safeguard your money

When you work with a financial advisor, your assets are always held separately from your brokerage’s own assets. In accordance with the Securities and Exchange Commission’s (SEC) Customer Protection Rule, any securities or funds held in your name may not be made available for any other use. The only exception to this rule is if a client has a loan from a margin account, an arrangement that permits the use of some of the assets in question and that can be established only through a written agreement.

Make it work for you

Developing your portfolio strategy

One of the keys to successful investing is constructing a portfolio with the right investment mix, or asset allocation, to help you work toward your objectives and best suit your risk tolerance. And it all starts with having a solid investment plan that takes into consideration what is happening now, what could happen next, and what may happen even later. Then it is key that you align your portfolio (asset allocation) with that plan to help ensure you remain on track to meeting your long-term financial goals.

Determining your investment mix

When you're in a traffic jam, do you ever notice how the lane next to you always seems to be the one that's moving while you're sitting still? Of course, if you change lanes, it will immediately stop and the one you just left will start moving. Wouldn't it be great if you could be in every lane? Then it wouldn't make any difference which one was moving.

Having a proper asset allocation is a time-tested strategy that offers the potential to "be in every lane" when it comes to managing your portfolio. Because no one knows for sure which investment is going to do well tomorrow, you should spread your money over a number of different types of investments.

Before you begin working on your strategy for your portfolio, you need to understand the primary asset classes and the roles they can play in your portfolio. Keep in mind there is no assurance that an asset-allocation strategy will protect you against market risk or guarantee against loss of principal.

Cash provides flexibility

Cash is the simplest asset class to understand, but don't let the name confuse you — it's more than simply the money you have in your wallet. When we talk about the cash percentage of your portfolio, we are including anything you have invested in what are known as "cash alternatives." These include certificates of deposit and bank money market funds.[1]

You need cash to pay day-to-day expenses, but cash alternatives as an investment offer a low return. Given inflation, even low inflation, chances are you're losing money on any cash you hold. That's why, for investment purposes, it's important to keep only a small portion of your assets in cash.

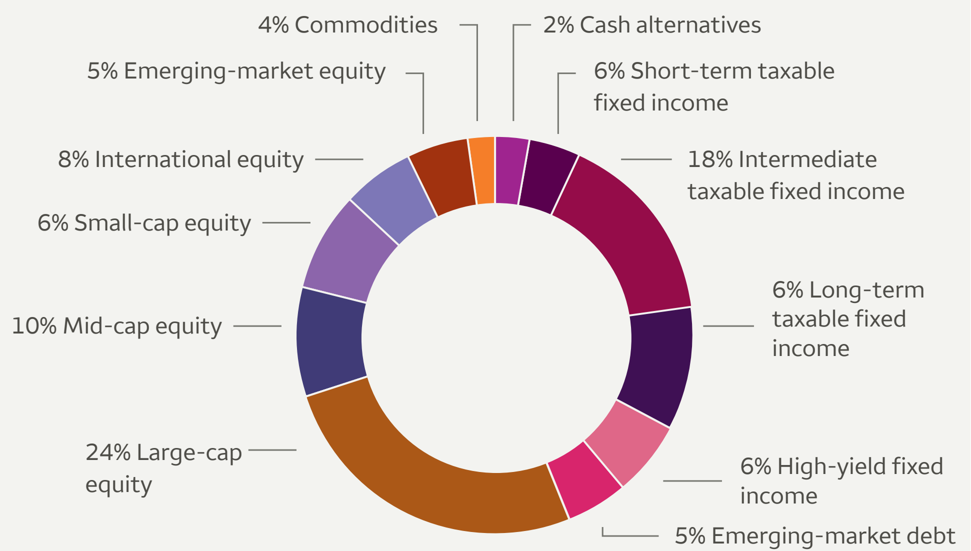
A good rule of thumb is to have an amount equal to six to 12 months of your household expenses in cash in case of an emergency, such as when a family member unexpectedly loses his or her job. You may also choose to keep a cash reserve to take advantage of investment opportunities that may arise. But holding too much in cash or cash alternatives can be costly. Not only are you giving up potentially stronger returns in other asset classes, but you must also consider the potential erosion of purchasing power due to the impact of inflation.

[1] Under FDIC coverage, if a bank or savings association fails, each depositor generally is insured for up to $250,000 for non-retirement accounts and up to $250,000 for IRAs and certain other retirement accounts. The FDIC coverage does not insure securities or mutual funds. More information can be found at fdic.gov or by contacting the FDIC at 1-877-ASK-FDIC.

Sample asset allocation

Moderate growth and income

The sample asset allocation has been provided for informational purposes only and is not intended to represent an investment recommendation. The prices of small-company stocks are generally more volatile than large-company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product diversification, and competitive strengths to endure adverse economic conditions. Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share-price volatility. Investing in emerging markets often accentuates those risks. There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations, and the impact of varied economic conditions. Investing in lower-rated debt securities (commonly referred to as junk bonds) involves additional risk because of the lower credit quality of the security.



Stocks add growth potential

Of the three major asset classes, stocks offer the best potential for growth and can play an important role in almost any portfolio.

Being a stockholder means, quite simply, you are part owner of a company. Think of it this way: If you and a friend went into business together and you both put up equal sums to get started, each of you would hold a 50% share in the company. In return, you each would have an equal say in how the company was run, and you would both expect to receive equal portions of any company profits. You would also see your investment's value increase if the company was successful and grew.

Common stock works the same way, only the numbers are much larger. If you owned, for example, 1,000 shares in a company with 2 million shares outstanding, you would own only 1/2,000 of that company. You would have a say in how the company was run, but your voice would be proportionate to your amount of ownership. Another stockholder with 5,000 shares could have a bigger say because he or she would own more of the company.

When a board of directors, which represents the stockholders, decides to distribute a portion of the company's profits, it does so in the form of a dividend. A stock that pays a cash dividend is called an income stock. On the other hand, a board of directors could also decide to retain profits and reinvest them in the company to help finance future growth. This type of stock is known as a growth stock. An investor in a growth stock would expect to see his or her profits from owning the stock to come primarily from appreciation in the stock's price as the company grows. (A growth stock can pay dividends, but they are minimal; otherwise, it could be considered an income stock.) Bear in mind that dividends are not guaranteed and may be reduced or eliminated at any time.

A company's stock prices are influenced by many factors, including its short- and long-term outlook and recent headlines. If investors believe a company is going to perform well, they will want to buy the stock, which will drive up its price. Fluctuations in a company's stock price often indicate how investors believe the company will perform in the future. If the price rises, investors probably think the company's prospects look good; a falling price, of course, indicates the opposite.

Stock investing

Advantages:	Disadvantages:
• Over an extended period, investing in stocks has historically provided a better return than most other investments. Of course past performance does not guarantee future results. • Some stocks pay dividends, which can be reinvested or used as income.	• Stock investing involves greater risk than many other investments. • If you make a profit on the sale of stocks, you could face capital-gains taxes. • The stock market is often driven by emotion, not logic, making it hard to predict which stocks will do well and which won't.

Bonds provide income and more

Unlike stocks, bonds do not represent an ownership position in the bond issuer. Instead, when you purchase a bond, you're making a loan to the issuer. It's similar to your home mortgage, only when you purchase a bond, you're the lender rather than the borrower.

When you take out a mortgage, you agree to pay the lender interest, which is simply your cost for taking out the loan. Likewise, when you purchase a bond, the issuer (the borrower) agrees to pay you (the lender) interest. Interest payments on a bond are usually made twice a year.

A significant difference between a home mortgage and a bond is in how the principal is repaid. A typical monthly mortgage payment includes both interest and principal. Unlike mortgage payments, the payments you receive from a bond issuer generally consist of interest only. Your principal is repaid only when the bond matures (unless the issuer calls the bond and repays the par value prior to maturity).

Bonds in your portfolio

Bonds usually serve two important functions within a portfolio. First, because bond prices are generally less volatile than stocks, bonds help give a portfolio stability. Second, because they pay interest on a regular basis, bonds provide income. For these reasons, conservative investors who seek stability and retirees who need income often have significant portions of their portfolios invested in bonds.

Most bonds are issued at par value, and their market price fluctuates at a premium or discount to par. Par value is a price equal to the original face amount of a security, which is distinct from its market value. On a debt security, the par, or face, value is the amount the investor is to receive from the issuer at maturity.

The market price is an indication of what investors would pay if they chose to purchase or receive if they decided to liquidate bonds in the secondary market. Regardless of the price paid for a bond, the amount of interest the owner earns is always based on the bond's par value. For example, a bond with a $1,000 par value and 5% coupon will pay $50 per year in interest, even when the bond's market price rises above or dips below par.

Several factors can influence a bond's market price, including a move in interest rates or a change in credit quality. Generally, when interest rates rise, the prices of existing bonds fall because the income they pay is less than what investors could receive on a new bond. When interest rates fall, existing bond prices rise because the income they pay is more than what investors can receive on new bonds.

Bond investing

Advantages:	Disadvantages:
• Bonds can provide income. • U.S. government and municipal bonds can offer income-tax advantages. • Bonds are considered less risky than stocks.	• Although bonds are generally not as risky as stocks, it's still possible to lose part or all of your investment. • With all bonds, you face the risk that the issuer of the bond may default on its loan. • Over time, bonds generally underperform stocks in terms of total investment return. • If interest rates decrease and the security matures or gets called, you may have to reinvest in a bond paying less interest. This is known as interest rate risk.

Investors seek diversification with mutual funds

Selecting the right stocks and bonds in which to invest and monitoring their performance can be intimidating, especially for novice investors. That's why mutual funds are so popular. These funds let you invest without having to decide exactly which stocks and bonds to purchase.

Purchasing shares in a mutual fund can help an investor diversify. The mutual fund manager may use money from many investors to purchase a variety of investments.

Mutual funds and dollar cost averaging

One of mutual funds' advantages is you can purchase fractional shares, making it easy to dollar cost average, which is the practice of investing a set amount into a particular investment on a regular basis. For example, you could invest $100 each month in a mutual fund. In a fluctuating market, this practice lets you purchase additional shares when prices are low and fewer when prices increase, thus avoiding the potential pitfalls of trying to time the market — buying when prices are low and selling when they're high. Although market timing may sound appealing, it's extremely difficult to do successfully, even for seasoned investors.

Like any investment strategy, dollar cost averaging doesn't guarantee a profit or protect against loss in a declining market. Because dollar cost averaging requires continuous investment regardless of fluctuating prices, you should consider your financial and emotional ability to continue the program through both rising and declining markets.

Effective dollar cost averaging requires discipline. To help stay on track with your dollar-cost-averaging strategy, consider taking advantage of a systematic investing program, such as Wells Fargo Advisors' Periodic Investment Purchases and Sells (PIPS). This program lets you choose an amount to be invested into your choice of mutual funds from a broad array of alternatives. Once you sign up for the program, the money is automatically invested each month without any further action on your part.

To take advantage of PIPS, you must have a sufficient balance in your Wells Fargo Advisors account's cash investment alternative.

How dollar cost averaging works

Using mutual-fund investing to work toward your goals.

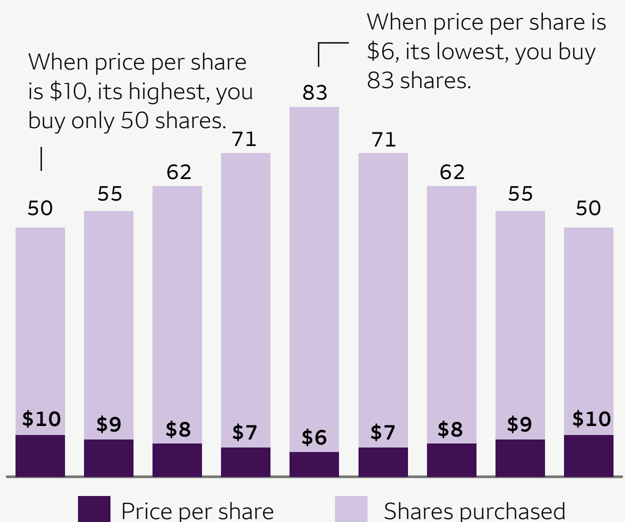


Chart assumes $500 periodic purchases. Example is for illustrative purposes only and does not reflect the performance of a specific investment.

Mutual-fund investing

Advantages:	Disadvantages:
• Investing in mutual funds can be a cost-effective way to invest in a variety of investments. • Because a mutual fund owns a variety of investments, it's less likely to be affected by the poor performance of one or two investments. • Mutual fund managers are generally seasoned professionals who study the markets and adapt their funds' portfolios to try to achieve maximum performance.	• When you purchase mutual-fund shares, you invest in the fund itself and have no control over investments within the fund. The investment return and principal value will fluctuate, and shares, when sold, may be worth more or less than the original cost. No capital gains taxes are due when fund shares are sold within a tax-advantaged account, such as a QRP or IRA. Traditional IRA and QRP distributions are taxed as ordinary income. Qualified Roth IRA and designated Roth account distributions are not subject to state and local taxation in most states. Qualified Roth IRA and designated Roth account distributions are also federally tax-free, provided a Roth account has been open for more than five years and the owner has reached age 59½ or meets other requirements. An IRS 10% additional early distribution tax may be due from QRPs and IRAs if withdrawals are taken prior to age 59½.

Building a portfolio with exchange-traded products

Exchange-traded products (ETPs) are securities that derive their value from a basket of securities — such as stocks, bonds, commodities, or futures — and are traded like individual stocks on an exchange. When you purchase an ETP, you are purchasing shares of an overall portfolio, not actual shares of underlying investments or index components. ETPs can track a wide variety of sector-specific, country-specific, and broad-market indices.

Although similar to mutual funds in offering a level of diversification difficult to obtain through single-investment purchases, ETPs typically carry low management fees and normally generate fewer capital gains.

Investors may choose to invest in actively managed ETPs. While not as common as the passive variety, actively managed ETPs are exchange-traded funds (ETFs) managed by a single fund manager or team of managers. Actively managed ETFs do not seek to replicate the performance of a particular index. Instead, they use an active investment strategy to help meet their investment objectives.

Also, since they are traded like stocks, ETPs offer liquidity throughout the day as opposed to the end-of-day pricing system for mutual funds. An ETP typically, but not always, offers transparency, meaning its investment holdings are typically viewable online daily, while mutual funds normally adhere to a requirement that holdings be disclosed every 90 days.

More ETPs are hitting the market as investors continue to discover their low fees, tax efficiency, and transparency, but you can find ETPs that cater to just about any investment appetite. A single ETP often mirrors an entire index, such as the S&P 500, Dow Jones Industrial Average℠, or Nasdaq Composite Index®; an entire sector of the equities market, such as large capitalizations, small capitalizations, growth stocks, or value stocks; or whole industries, such as technology, energy, or biotech.

How do ETPs differ from mutual funds?

The table below summarizes the main differences between ETPs and mutual funds.

	ETP	Mutual fund
Management style	Active or passive	Active or passive (index funds)
Exchange traded	Yes	No
Purchase/sell at	Price on exchange	NAV
Premium/discount to NAV*	Yes	No
Share classes	Common shares	Several (by cost structure)
NAV pricing*	Intraday	Daily

* Net asset value (NAV) – The value of a collective investment fund based on the market price of the securities held in its portfolio. Units in open-end funds are valued using this measure. NAV per share is calculated by dividing this figure by the number of ordinary shares. ETPs can trade at NAV, or their price can be at a premium or discount to NAV.

ETP investing

Advantages:	Disadvantages:
• ETPs offer a cost-effective way to invest in a large number of diverse or specialized investments. • ETPs offer trading flexibility and typically generate few capital gains, providing potential tax advantages.	• Some ETPs may be thinly traded, which could impact your ability to sell your shares with efficient pricing. ETPs are subject to risks similar to those of stocks. Investment returns may fluctuate and are subject to market volatility so that an investor's shares may be worth more or less than their original cost when redeemed or sold. ETPs seek investment results that, before expenses, generally correspond to the price and yield of a particular index. There is no assurance that the price and yield performance of the index can be fully matched.

Managing the liabilities side of your balance sheet

Some people think of liabilities only in terms of borrowing to pay for expensive purchases such as homes, cars, and luxury items. But there's much more to liabilities management than that.

Your personal balance sheet comprises assets — what you own — and liabilities — what you owe. When or whether you eventually reach your long-term financial goals can depend on how both sides work together. When managed wisely, strategic borrowing can complement your financial and investment plans. In other words, it sometimes makes more sense to borrow money rather than sell assets or investments when deciding how to cover life's expenses. Of course, everyone's financial situation is different, so borrowing may not be advisable for everybody, especially those who can't afford to repay the loan or already have a high percentage of household income going toward existing debt.

The following are some reasons why you might consider incorporating liabilities management into your financial strategy:

- Provides potential tax efficiencies[2]
- Allows you to maintain investment positions and potentially grow assets rather than sell them at inopportune times
- Can even out your cash flow and provide a source of funds
- Helps you establish an emergency fund
- Offers the opportunity to provide financing at a competitive interest rate

Know your financing alternatives

As a Wells Fargo Advisors client, you have access to products offered through Wells Fargo Advisors and Wells Fargo Bank affiliates that can help you meet your short- and long-term borrowing needs:

- Securities-based lending
- Residential mortgages
- Business financing
- Credit cards

A financial advisor can help you examine how changes in your assets and liabilities can affect your overall financial picture.

If you are a Wells Fargo Advisors client, you may also qualify for pricing discounts on select products based on the amount of assets currently managed on your behalf.

Liabilities management

Advantages:	Disadvantages:
• When used wisely as part of a comprehensive financial strategy, liabilities management can provide tax-efficient[2] means to help grow an investment portfolio, increase cash flow, and cover life expenses. • Managing all of your finances (assets and liabilities) in one place has other benefits, too — such as easy access to all of your funds and the convenience of a monthly statement that consolidates all of your Wells Fargo accounts.	• Liabilities that exceed a level at which an individual can comfortably pay them off on schedule can put his or her financial health at risk. • With securities-based lending, market fluctuations may cause the value of pledged assets to decline, resulting in the selling of securities to maintain equity. Selling securities under such a scenario may cause adverse tax consequences.

[2] Wells Fargo Advisors and its affiliates are not tax or legal advisors. Please consult your tax and legal advisors to determine how this information may apply to your own situation.

Selecting suitable accounts

We've discussed many of the elements required to help you take control of your financial future, such as understanding asset allocation and the roles different types of investments can play in your portfolio. But when the rubber meets the road and you begin to put what we've covered into practice, you'll need to start with a brokerage account. In fact, by the time you're through, you'll probably have a number of different accounts to help you address different objectives.

Tax-advantaged investing

There are a number of different accounts designed to help you save for retirement or fund your children's education. For example, you may have both a Traditional and a Roth IRA for your retirement savings. You could also have Coverdell Education Savings Accounts (ESAs) and 529 plan accounts to save for your children's education.

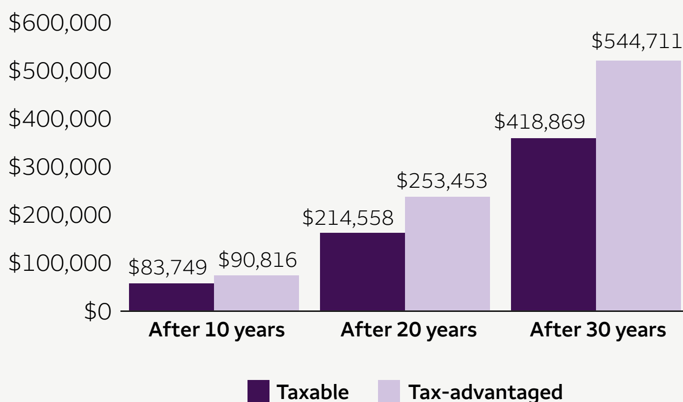
Before we look at the features of these different account types, you need to understand the effects of taxes on your investments. Simply stated, taxes can reduce your net return.

The chart below shows the potential long-term effects of taxes. This hypothetical example assumes an annual fixed rate of return of 6% and a 24% cumulative tax rate with $6,500 annual contributions and taxes in the taxable account paid annually. You would have over $100,000 more in the tax-deferred account than you would have if you had invested that same amount in a taxable account.

If you're in a different tax bracket, your numbers will vary, of course, but the principle is still the same — you'll end up with more if you don't have to pay taxes annually on your potential earnings.

The previous statement may seem rather obvious, but you need to understand that taxes work against your achieving your financial objectives, which leads to an important conclusion: You should consider taking advantage of accounts that let you defer or avoid paying taxes on your earnings.

Hypothetical value of $6,500 annual contributions over 30 years



This example does not consider the advantage of deductible contributions. The growth of the tax-deferred account is before-tax and distributions are subject to ordinary income tax and may be subject to an IRS 10% additional tax if taken prior to age 59½. It does not represent the returns of any particular investment and should not be used to predict or project performance. There is no guarantee you will earn 6% on investments and your account value may fluctuate over time. Investing involves risk, including the possible loss of principal. It assumes all earnings are reinvested and does not include transaction costs, fees, or expenses associated with the account or any individual investment made in the account. If potential expenses of the hypothetical investment had been reflected, the ending value of the tax-deferred investment would be lower. Lower tax rates on capital gains and dividends could make the investment return for the taxable investment more favorable, thereby reducing the difference in performance between the accounts shown. Changes in tax rates and tax treatment of investment earnings may impact the comparative results. You should consider your personal investment horizon and income tax bracket, both current and anticipated, when making an investment decision as these may further impact the results of the comparison. Wells Fargo Advisors does not provide tax or legal advice. Please see your tax and legal advisors for guidance.

Qualified employer-sponsored retirement plans offer tax advantages

An excellent place to start your retirement saving is with a qualified employer-sponsored retirement plan (QRPs). These are defined contribution plans such as a 401(k), 403(b), or governmental 457(b); defined benefit or pension plans; profit sharing plans; and money purchase plans. While SEP and SIMPLE IRAs are employer-sponsored, they are IRAs and not Employee Retirement Income Security Act (ERISA) plans so they do not fall under Department of Labor (DOL) rules. Although they differ in the details, these plans share something important in common: They are tax-advantaged accounts, which allow you to defer a portion of your salary into an account.

Most QRP participants fund their plan by deferring a portion of their salaries on a before-tax basis. Taxes are not paid on the amount deferred nor or any growth on investments until you take distributions, which is usually in retirement.

Your 401(k), 403(b), or governmental 457(b) plan may offer a designated Roth account option as well. You can elect to defer after-tax amounts to this account. Any earnings on investments can be distributed tax-free if you meet both of the following requirements:

- You're age 59½ or older or are disabled
- It's been more than five tax years since you made your first designated Roth account contribution

Contact your employer's benefits department to find out if a designated Roth account is available in your retirement plan.

Qualified employer-sponsored retirement plan

Features:	Keep in mind:
• Your employer may match your contributions up to a certain percentage. • With most QRPs, salary deferred into the account is deducted from your taxable income (unless electing the designated Roth account). • Money invested has tax-deferred growth potential. • You avoid an IRS 10% additional tax on early or pre-59½ distributions (10% additional tax) on distributions from the plan if you leave the company in the year you turn age 55 or older (age 50 or older for certain public safety employees).	• In addition to ordinary income tax, distributions prior to age 59½ may be subject to a 10% additional tax. • Investment options may be chosen by the plan sponsor, and you chose from those options. • Required minimum distributions (RMDs) from your former employer's QRP begin April 1 following the year you reach 73.

Understanding your IRA choices

There are two main types of IRAs — Traditional or Roth. Both types of IRAs offer investment flexibility, tax advantages, and the same contribution limits.

Traditional IRAs

Traditional IRAs offer tax-deferred growth potential. You pay no taxes on any investment earnings until you withdraw or "distribute" the money from your account, presumably in retirement.[3] You can contribute at any age as long as you, or your spouse, if filing jointly, have earned income. Additionally, depending on your income, your contribution may be tax deductible. You can contribute even if you don't qualify for the deduction. A distribution before age 59½ may be subject to a 10% additional tax, unless an exception applies. RMDs begin by April 1 following the year you reach age 73 and annually thereafter.

Roth IRAs

Roth IRAs offer tax-free growth potential. Investment earnings are distributed tax-free, if the Roth IRA has been funded for more than five years and you are at least age 59½, or you are disabled, or using the first-time homebuyer exception or taken by your beneficiaries due to your death.[3] Since contributions to a Roth IRA are made with after-tax dollars, there is no tax deduction regardless of income. If your income exceeds the modified adjusted gross income (MAGI) limit, you are not eligible to contribute. You can contribute at any age as long as you or your spouse, if filing jointly, have earned income and are at or under MAGI limits. A distribution before age 59½ may be subject to a 10% additional tax, unless an exception applies. You are not required to take RMDs during your lifetime.

Thinking about your options

When deciding which IRA might be appropriate for your situation, be sure to consider such factors as:

- Your current and anticipated future tax rates as well as your current income
- When you will need these funds and for what purpose
- Your preference for potentially tax-free income in retirement or a tax deduction now
- Whether you'd like the flexibility of not taking RMDs
- Your access to other forms of retirement income

IRAs

Features:	Keep in mind:
• Traditional IRAs offer tax-deferred growth potential. • Roth IRAs offer tax-free growth potential. • Your Traditional IRA contribution may be tax deductible. • You are not required to take RMDs from a Roth IRA during your lifetime.	• Distributions before age 59½ may be subject to a 10% additional tax. • Roth IRA contribution eligibility is subject to MAGI limits. • RMDs from Traditional IRAs begin April 1 following the year you reach 73, and must be taken annually thereafter.

[3] Traditional IRA distributions are taxed as ordinary income. Qualified Roth IRA distributions are federally tax-free provided a Roth IRA has been open for more than five years and the owner has reached age 59½ or they are disabled or using the first-time homebuyer exception or the distributions are taken by the beneficiaries after the owner's death. Both may be subject to a 10% additional tax if distributions are taken prior to age 59½. Qualified Roth IRA distributions are not subject to state and local taxation in most states.

Figuring out how to afford higher education

Higher-education costs have increased dramatically in recent years — to the point where few families can afford to pay them out of their current income while they have children in college. As a result, many families need a savings program to give their children the opportunity to enjoy a quality education in a tax-deferred and potentially tax-free manner.

Investors have two tax-efficient vehicles with which to save for education and avoid income taxes: Coverdell Education Savings Accounts (ESAs) and Section 529 plans.

Enjoy flexibility with a Coverdell ESA

A Coverdell ESA helps families save for education in much the same way a Roth IRA helps individuals save for retirement. Whether you can contribute to an ESA depends on your MAGI. The after-tax dollars contributed into an ESA have the opportunity to grow tax-free as long as distributions are used to pay the beneficiary's qualified education costs. If distributions aren't used for qualified expenses, income taxes will be owed on the amount of earnings distributed, along with a 10% additional tax, unless an exception applies.

The Wells Fargo Advisors Coverdell ESA includes the following provisions:

- Contributors are typically parents or grandparents; however, a contributor does not have to be related to the child.
- Contributions may be made until the child, sometimes referred to as the designated beneficiary, reaches age 18.
- Annual, non-deductible contributions are limited to a total of $2,000 per child from all contributors, regardless of the number of ESAs for that beneficiary.
- This should be after the bullet "Contributions may be made until the child, sometimes referred to as the designated beneficiary, reaches age 18.
- Coverdell ESAs may be established and contributions may be accepted for a particular tax year until the due date for filing the individual's federal income tax return — no extensions. When the due date falls on a Saturday, Sunday, or legal holiday, the due date is delayed until the next business day.
- Contributions can be made to both an ESA and a state sponsored 529 plan for the same year for the same beneficiary.
- Qualified distributions are federally tax-free.
- An amount distributed from an ESA is not taxable if rolled within 60 days of distribution to another ESA for the same beneficiary or a qualified member of the beneficiary's family. One 60-day rollover per taxpayer is permitted every 365 days.
- Coverdell ESAs may be transferred to an ESA for qualified members of the beneficiary's family. When transferring ESA to ESA, the receiving ESA beneficiary must be under age 30 (except for special needs beneficiaries).
- Qualified members of the beneficiary's family extend beyond immediate family members and include nieces, nephews, certain in-laws, and first cousins.
- Funds may be transferred from an ESA to a 529 plan as long as it is on behalf of the designated beneficiary or an eligible family member. A transfer is considered a qualified education expense and not taxable.

Coverdell ESA investing

Advantages:	Disadvantages:
• Contributions have the potential to grow tax-deferred until distributed. • There are few restrictions on how contributions can be invested. • Account funds can be used for qualified expenses for grades K-12 as well as for qualified higher-education expenses. • You can change the designated beneficiary to another family member of the current beneficiary if the new beneficiary is under age 30.	• Distributions not used for qualified expenses may be subject to regular income tax as well as well as a 10% additional tax. • Your ability to contribute is based on your MAGI. • Annual contributions per child are limited to $2,000 per year regardless of the number of donors or accounts.

Help build education savings with a 529 savings plan

Although income limits prohibit some individuals from contributing to an ESA, anyone at any income level can contribute to a 529 savings plan. These plans are sponsored by states, and the majority of states and Washington, D.C., currently have plans.

Each state determines the investments available in its plan. These plans are not all created equal, and it's possible you won't be happy with the investments available in your state's plan. If so, keep in mind that most states permit nonresidents to participate in their plans; however, state tax benefits may be greater for residents than for nonresidents.

529 savings plans allow you to make federal tax-free withdrawals for qualified expenses at eligible postsecondary education institutions. Additionally, qualified education expenses were expanded to also include up to $10,000 per year per beneficiary for tuition only at elementary or secondary schools, expenses for registered apprenticeship programs and qualified student loan repayments for a designated beneficiary or siblings (up to $10,000 lifetime each, not annual). Beginning in 2024, the Secure Act 2.0 expanded the definition of 529 plan qualified expenses to include the ability to transfer amounts to a ROTH IRA for the 529 plan beneficiary, subject to certain limits and requirements. State laws may vary. Withdrawals not used for qualified education expenses may be subject to ordinary income tax and a 10% additional tax on the earnings portion of the withdrawal unless an exception applies. State tax rules pertaining qualified education expenses may be different from federal treatment, so check with your tax advisor on the treatment of distributions in your state.

The amount you are allowed to contribute to a 529 savings plan is significantly higher than a Coverdell ESA's limit. The maximum 529 plan account balance varies from state to state.

For 2023, the federal government lets an individual contribute up to $85,000 ($170,000 for a married couple) for a beneficiary in a single year without incurring gift taxes. However, if you contribute this much, any additional gifts given to the beneficiary within the following five years may trigger gift-tax consequences in the years the gifts are made. A portion of the value of contributions to the plan may be included in the donor's estate if he or she dies before the five-year period has passed, which could have estate-tax implications.

An investment in a 529 plan will fluctuate such that an investor's shares, when redeemed, may be worth more or less than the original investment. Investors should carefully consider the investment objectives, risks, charges, and expenses of 529 plans before investing. This and other important information can be found in the 529 plan issuer's official statement, which should be read carefully before investing.

Estimated annual college costs*

Year	Public*	Private*
2023	$24,490	$54,670
2028	$27,708	$63,378
2033	$31,349	$73,472
2038	$35,469	$85,174

* Total yearly costs for in-state tuition, fees, books, and room and board (transportation and miscellaneous expenses not included). Base is 2022 – 2023 school year. Costs for all future years projected by Wells Fargo Advisors in November 2022 assuming a 2.5% national average increase per year for public and a 3.0% national average increase per year for private (based on a 10-year historical average).

Source: Trends in College Pricing and Student Aid. **collegeboard.org**

529 plan investing

Advantages:	Disadvantages:
• Anyone can contribute. • Contributions have the potential to grow tax-deferred. • You can change the beneficiary to another qualified family member if the original beneficiary doesn't use it. • Withdrawals may be tax-free if used for qualified education expenses for the beneficiary.	• Risk of loss of principal. Investment return and principal value will fluctuate. • The sponsoring state dictates the available investments. • Withdrawals not used for qualified education expenses may subject the earnings portion to income tax and an IRS 10% additional tax.

What you can expect as our client

We believe every client deserves to understand our service offerings and how we work together to help you meet your financial goals.

While there are a variety of ways to invest with us, if you choose to work with one of our financial advisors or team of financial advisors, we will strive to build an enduring relationship together, based on trust and client-first, objective advice. The foundation of this partnership is collaboration — making sure your financial advisor understands who you are, where you are now, and what you want to achieve.

Your advisor will communicate with you on your terms, work with you to fine-tune your plan by providing ongoing guidance and support to address your unique financial needs, proactively watch your investments' performance, and reach out to you when your plan needs attention.

Your advisor will take seriously the responsibility to be available, responsive, and respectful of your time — always.

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