



Know Your Risk Tolerance When Allocating Your Assets

One of the most important decisions you make as an investor is how to allocate your hard-earned money. With numerous investment choices, understanding how much risk you can tolerate can help you find the allocation mix that is appropriate for you.

Risk Tolerance. Your tolerance for risk should factor in several considerations, such as age; the length of time you will be investing to achieve a particular financial goal; current and anticipated financial status, including resources, lifestyle, savings and obligations; and long-term investment goals.

Most investors find they will fit into one of five broad categories.

- **Conservative:** A conservative investor has a low tolerance for risk, tending to value protecting principal over seeking appreciation. There is usually a willingness to accept lower returns for a higher degree of liquidity and stability.
- **Moderately Conservative:** A moderately conservative investor may accept a small degree of risk to seek some degree of appreciation while continuing to value preservation of principal and liquidity.
- **Moderate:** A moderate investor values mitigating risk and enhancing returns in relatively equal parts. There is usually a willingness to accept short-term fluctuations in principal and a lower degree of liquidity in exchange for seeking long-term growth.
- **Moderately Aggressive:** A moderately aggressive investor is willing to accept some risk for the opportunity for higher long-term returns. Principal preservation and liquidity are not primary determinants for this investor.
- **Aggressive:** An aggressive investor seeks maximum long-term returns and is willing to accept significant risk and considerable volatility to achieve that goal. Principal preservation and liquidity are usually not of concern.

Keep in mind that finding your risk tolerance is more art than science, according to Larry Swedroe, author of *Think, Act and Invest Like Warren Buffett: The Winning Strategy to Help You Achieve Your Financial and Life Goals*. The key is to have the fortitude and discipline to stick with your predetermined investment strategy when the going gets rough, advises Mr. Swedroe.¹

Asset Allocation. Once you understand your tolerance for risk, you can make better decisions about the allocation of your portfolio's assets. While asset allocation does not ensure a profit and may not protect against loss, it can help you establish a sound long-term investment strategy.

Depending on the factors above, consider investments among the broadest asset classes, including equities, fixed income and cash equivalents, such as CDs or money market funds. Each asset class has a different risk and return profile, and, historically, the returns of these major asset classes have a low correlation to each other, *i.e.* their relative returns tend to perform differently at any given time. Factors that cause one asset class to perform well often drive another asset class to weaker returns. Thus, the theory behind asset allocation is to potentially reduce the overall risk of the portfolio by offsetting any losses in one asset class with gains in another over time.

Time is key for two reasons:

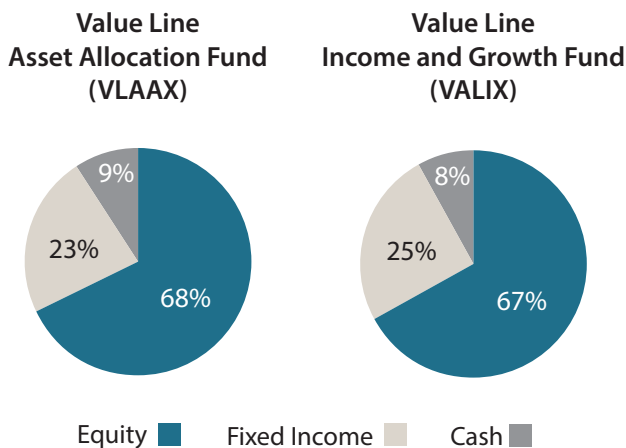
- 1) Asset allocation is not a static decision. As each asset class performs differently in a given time period, it is important to rebalance your investments to bring your portfolio back to your original asset allocation.
- 2) Risk tolerance is not static. Lifestyle changes, financial circumstances and timeframe can all impact your asset allocation plan. Periodically monitor the progress of your portfolio to make sure you are on the right path to meeting your goals.

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An Asset Allocation Solution

Value Line Funds offers two diversification strategies for investors: the Asset Allocation Fund and the Income and Growth Fund. Both Funds hold allocations to fixed income and equities. The Funds rely on Value Line's time-tested methodology for the equity portion, targeting companies that have demonstrated an ability to increase their earnings and stock price consistently over the past 10 years or more. These defensive growth stocks combined with an allocation to bonds could be the ideal fit for those investors concerned with risk.

As of March 31, 2014, the Asset Allocation Fund and the Income Growth Fund held a 68% and 67% weighting in stocks, respectively, while the fixed income portion was around 25%.



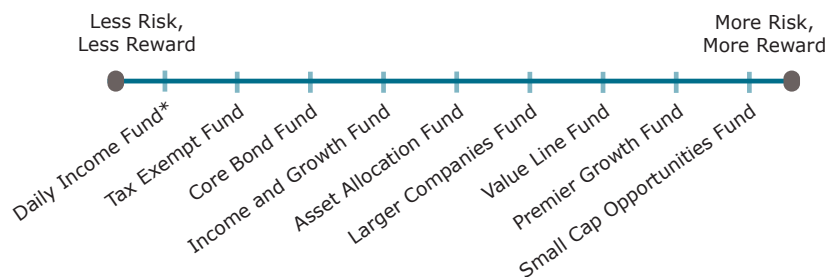
Learn more about this diversification strategy at www.vlfunds.com

Risk vs. Uncertainty: It's a Difference of Data

Risk and uncertainty are often used interchangeably when discussing investments. They are not the same, and the difference is important. One can be mitigated; the other, not so much. Risk is inherent in investing—it may be defined as the possibility that things do not turn out as expected. More specifically, it may be defined, as Frank Knight does in his book, *Risk, Uncertainty and Profit*, as events that can be analyzed and predicted with probability and statistics. There needs to be data to analyze the probability that something might happen. On the other hand, uncertainty, which is also inherent in investing, is when there is little, if any, consistent data. Intuition and guesswork—and sometimes luck—take the place of analysis.² Given that both risk and uncertainty are unavoidable, the question is not how to avert them, but rather how best to tackle these forces?

The portfolio managers of the Value Line Funds seek to mitigate risk and reduce the potential impact of uncertainty by staying disciplined to their investment strategies, regardless of shifting macroeconomic, geopolitical, policy and market conditions. And they seek to do so by focusing on the data, including the fundamentals of individual securities and the issuing company's own track record. The portfolio managers of the Value Line Funds have had an enduring commitment to helping investors meet their long-term investment goals as prepared as possible for inevitable risk and uncertainty. We look forward to continuing to earn your ongoing trust.

Value Line Family of Funds Risk/Reward Relationship



For more information, call 800.243.2729 or visit www.vlfunds.com.

¹Source: Larry Swedroe, "Asset Allocation Guide: What is your risk tolerance?", MoneyWatch, February 12, 2014.

²Sources: Frank H. Knight, *Risk, Uncertainty and Profit*, Boston, MA: Hart, Schaffner & Marx; Houghton Mifflin Co., 1921 and David Blitzer, "It's What You Don't Know That Matters," Journal of Indexes, May/June 2014.

*Managed by Reich & Tang Asset Management, LLC, an unaffiliated investment manager with EULAV Asset Management. The Fund is distributed by EULAV Securities LLC.

Past performance is no guarantee of future results. You should carefully consider investment objectives, risks, charges and expenses of Value Line Mutual Funds before investing. This and other information can be found in the fund's prospectus, which can be obtained from your investment representative or by calling 800.243.2729.

Please read it carefully before you invest or send money.

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