

The “new math” of retirement

Investors in the accumulation phase often have time on their side — time to adjust to unforeseen events, make midcourse corrections and weather market declines.

That’s not the case for those in the retirement distribution phase, when time frames are compressed and there’s less margin for error. The effects of market volatility and inflation can be much worse on a portfolio that’s already dwindling from withdrawals to meet living expenses.

As retirement approaches, investors must take a new approach to portfolio development, balancing the need for capital appreciation with an awareness of the potential threat of market declines. While standard deviation is a useful measure of a fund’s volatility, it doesn’t provide any insights into a key component of a successful distribution plan — downside risk management.

A new metric: Capture ratio

For retirees, losing less during down markets can be more important than making more in up markets. That’s why it’s important to choose an investment manager whose philosophy and process are consistent with downside resilience.

One way to gauge a fund’s success in good or bad times is capture ratio, which compares a fund’s returns with those of its benchmark index during up and down markets. For example, an upside measure of 75% means that a fund achieved 75% of an index’s positive returns during up markets. A downside measure of 50% means that the fund avoided half the decline. Thus, during up markets, higher ratios are better; during down markets, lower numbers are preferable.

Here are American Funds equity funds capture ratios for the past 10 years through December 31, 2006:

Capture ratios: 1997–2006 (based on quarterly data for Class A shares)

Capture ratios reflect the annualized product of fund vs. index returns for all quarters in which the index had a positive return (upside capture) or negative return (downside capture).

Fund	Benchmark index	Fund vs. benchmark index		Peer group/ Lipper index	Fund vs. Lipper index	
		Upside capture	Downside capture		Upside capture	Downside capture
Growth funds						
AMCAP Fund®	S&P 500	101%	80%	Growth Funds	98%	68%
EuroPacific Growth Fund®	MSCI All Country World Index ex USA	109	92	International Funds	113	99
The Growth Fund of America®	S&P 500	126	99	Growth Funds	122	83
The New Economy Fund®	S&P 500	131	130	Growth Funds	128	111
New Perspective Fund®	MSCI World Index	120	96	Global Funds	116	92
SMALLCAP World Fund®	S&P/Citigroup Global/World Indexes*	125	141	Global Small-Cap Funds†	108	110
Growth-and-income funds						
American Mutual Fund®	S&P 500	68	40	Growth & Income Funds	81	55
Capital World Growth and Income Fund SM	MSCI World Index	108	63	Global Funds	104	60
Fundamental Investors SM	S&P 500	102	80	Growth & Income Funds	117	95
The Investment Company of America®	S&P 500	87	64	Growth & Income Funds	100	76
Washington Mutual Investors Fund SM	S&P 500	78	54	Growth & Income Funds	93	70
Equity-income funds						
Capital Income Builder®	S&P 500	60	8	Income Funds	142	83
The Income Fund of America®	S&P 500	59	18	Income Funds	137	104
Balanced fund						
American Balanced Fund®	S&P 500/Lehman Aggregate Bond Index	90	50	Balanced Funds	97	52

Lipper indexes typically comprise the 30 largest funds in each peer group. Investors cannot invest directly in an index.

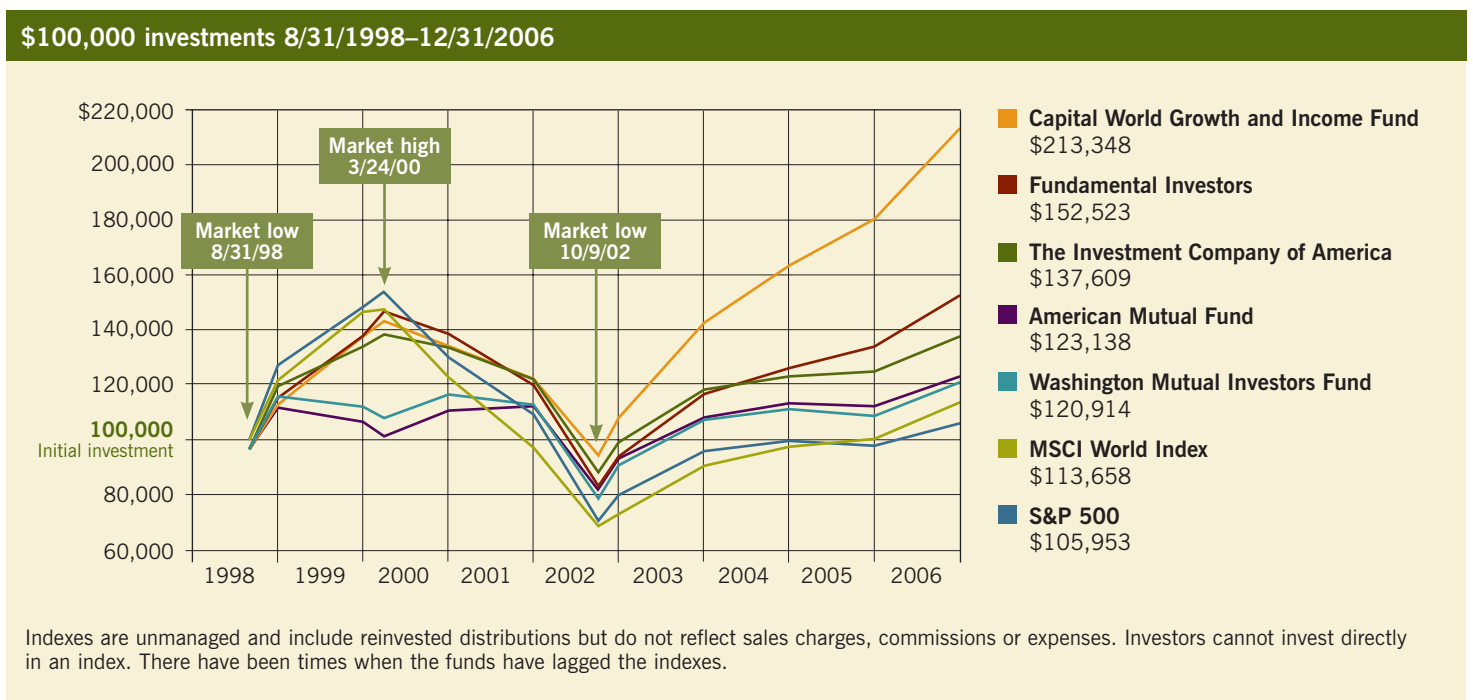
*These indexes track more than 8,000 publicly traded small-cap companies.

†Lipper does not compile a small-cap index; these figures reflect fund results versus the Lipper Global Small-Cap Funds Average.

Figures shown are past results for Class A shares and are not predictive of results in future periods. Current and future results may be lower or higher than those shown. Share prices and returns will vary, so investors may lose money. Investing for short periods makes losses more likely. Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity. For current information and month-end results, visit americanfunds.com.

The benefit of downside resilience

The effect of resilience during market declines can be seen in the five growth-and-income American Funds, which are popular nest egg choices for retirement investors. The chart below shows how these funds held up during the most recent full market cycle and since. It assumes \$100,000 investments in each of the five funds at the 3.50% maximum applicable sales charge, with monthly withdrawals totaling 5% of the initial investment, increasing by 4% each year. All distributions are reinvested.



Here are the funds' average annual total returns on a \$1,000 investment in Class A shares for periods ended December 31, 2006 (the most recent calendar quarter), with all distributions reinvested, assuming payment of the **5.75%** maximum sales charge at the beginning of the stated periods:

	1 year	5 years	10 years	Gross expense ratio
American Mutual Fund	9.57%	6.63%	8.81%	0.58%
Capital World Growth and Income Fund	15.33	15.33	13.12	0.73
Fundamental Investors	12.38	9.30	10.48	0.61
The Investment Company of America	9.28	6.73	9.82	0.57
Washington Mutual Investors Fund	11.26	6.29	9.23	0.60

The funds' investment adviser is waiving a portion of its management fees. Results shown reflect the waiver, without which they would have been lower. Gross expense ratios do not reflect the waiver; therefore, the actual expense ratios for the funds are lower than the amounts shown. Please refer to each fund's most recent shareholder report for details.

Intended for financial/investment advisers, bank trust companies, consultants and institutional clients of American Funds. **Investors should carefully consider the investment objectives, risks, charges and expenses of the American Funds. This and other important information is contained in each fund's prospectus, which can be obtained from a financial adviser and should be read carefully before investing.** Investing outside the United States involves additional risks, such as currency fluctuations, as more fully described in each fund's prospectus.

The Capital Group Companies