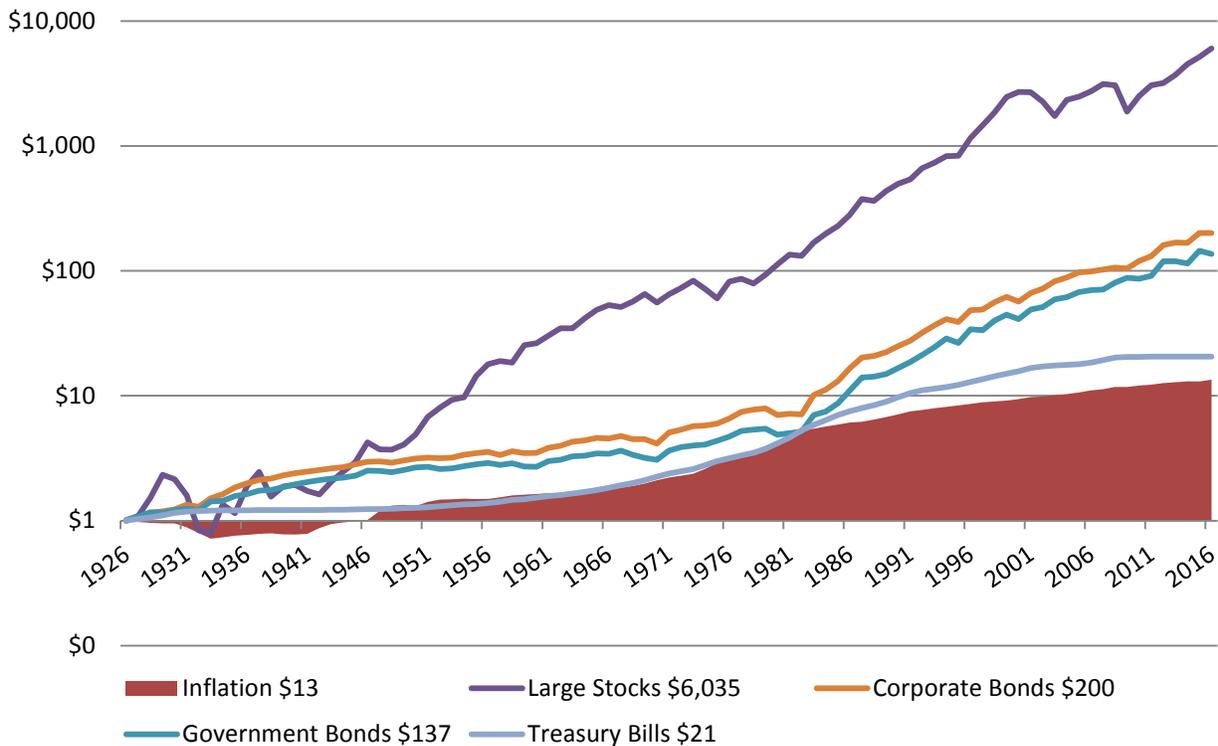




Why invest in stocks?

Why should someone invest in stocks? Historically, stocks have performed well when compared to other financial assets, and have typically outpaced inflation. These characteristics should allow patient stock investors to build wealth over time.

Figure 1 – Hypothetical investment in the U.S. capital markets 1926-2016



Sources: Ibbotson Associates, Wells Fargo Advisors. Past performance is no guarantee of future results. Hypothetical value of \$1 invested at the beginning of 1926. Performance results assume reinvestment of income and no transaction costs or taxes that would be applicable to an actual investment. This information is hypothetical and is provided for illustrative purposes only. It is not intended to represent any specific return, yield, or investment, nor is it indicative of future results. Please see the Disclosures on page 5 for definitions of representative indices.

While stocks generally have a greater potential return than government securities, they involve a higher degree of risk. Government securities, unlike stocks, are guaranteed as to payment of principal and interest by the U.S. government if held to maturity. Although government bonds are considered free from credit risk, they are subject to interest rate risk. Bonds are subject to market, interest rate, credit/default, liquidity, inflation and other risks. Prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline of the value of an investment in all types of bonds. Credit risk is the risk that an issuer will default on payments of interest and principal. This risk is higher when investing corporate bonds.

Investment and Insurance Products: ▶NOT FDIC Insured ▶NO Bank Guarantee ▶MAY Lose Value

Please see pages 5-6 for Disclosures

Figure 1 on the previous page depicts the hypothetical outcome of one dollar invested in each of several financial asset classes in 1926 and held through 2016. All income is reinvested in this illustration; in other words, dividends received purchased more shares of stock and interest payments from bonds purchased more bonds. The study shows that stocks have significantly outperformed both corporate and government bonds and T-bills over this very long 91-year period. Numerically, the \$1 investment in stocks grew on a nominal (more on this later) compound annual basis of 10%, corporate and government bonds by 6% and T-bills by 3%. What investors may not appreciate when looking at Figure 1 is how dramatically large cap stocks have outperformed other asset classes during this period, as Figure 1 uses a logarithmic scale for the vertical axis in order to fit the graph on a single page.

If we focus on shorter timeframes that may be more relevant for an investor, a similar story emerges. Taking rolling periods of one, five, ten, fifteen and twenty years, large cap equities again show superior returns. In periods that we would consider long-term (five years and longer), equities outperformed fixed income in more than 70% of the instances and posted negative returns only 16 times.

Figure 2 – Summary of returns for different holding periods (nominal terms 1926-2016)

	Number of Periods	Times Equities Outperformed Fixed Income		Times Equities Had Negative Returns	
		Number	Percent	Number	Percent
1 Year	91	56	62%	24	26%
5 Years	87	62	71%	12	14%
10 Years	82	63	77%	4	5%
15 Years	77	63	82%	0	0%
20 Years	72	65	90%	0	0%

Sources: Ibbotson Associates, Wells Fargo Advisors. Past performance is no guarantee of future results.

As the old saying goes, there's no such thing as a free lunch, and these outsized returns are no exception. To explain why, let's take a step back and define some terms. Fixed income securities (also referred to as bonds or debt) are contractual obligations of an entity. As with any contract, the terms and stipulations will vary, but simplistically, an investor lends money to an entity (a corporation or government) for a specified period of time at a specific interest rate. At maturity, the principal amount of the debt is repaid. The "fixed" aspect relates to the fact that the terms of the loan (interest rate, payment frequency, maturity, etc.) are all pre-defined and do not change. Common stock (or equity), on the other hand, represents an ownership stake in a company. Common stock doesn't expire or mature, dividend payments (if any) are not guaranteed, and in the event of a bankruptcy, could be worthless. Invest in a bond and you're lending money to the company, invest in a stock and you own the company (or at least a small piece of it).

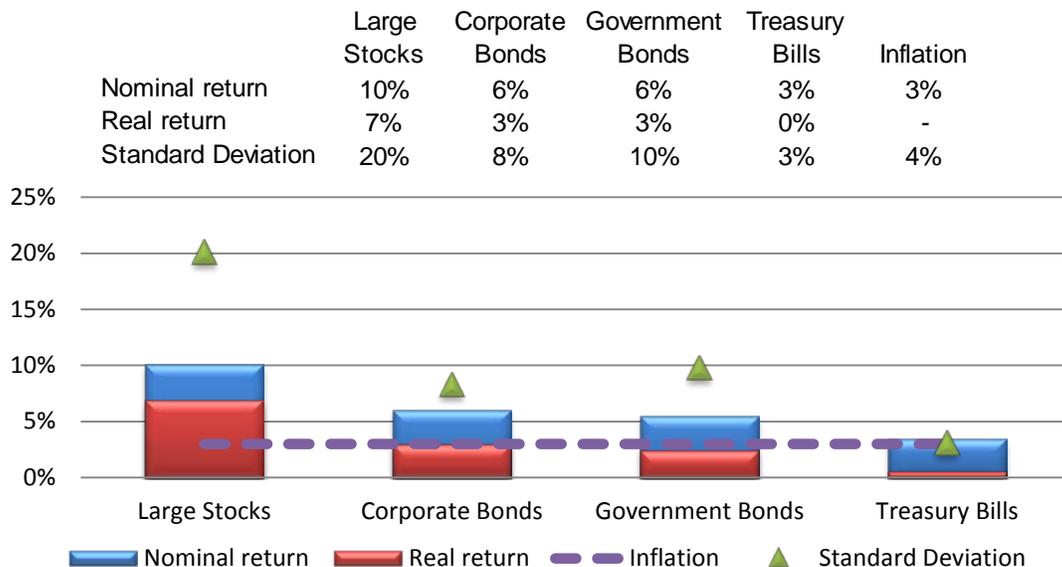
Fixed income securities are generally considered to be lower risk when compared to equities due to their senior position in the capital structure of a company. In the event of a bankruptcy, debt holders (the company's lenders) are repaid first and equity holders (the owners of the company) are entitled to whatever is left after all outstanding debts have been satisfied, which could be nothing. Debt issued by the U.S. government is even considered to be risk-free since it's backed by the full faith and credit of the United States government. The increased risk involved with common stock investments is derived from the fact that as an owner, your financial success is tied to that of the company. If the company is profitable and growing, that will be reflected in the price of the stock. If the company goes belly-up, the stock would be

worthless. Many investors are willing to accept the risk of loss in exchange for the possibility of greater returns. The key difference between fixed income investments and equity investments lies in the growth potential of equities relative to fixed income. *Potential* is the operative word.

The risk level of the various asset classes or securities within them is often measured using standard deviation. Without wading too far into the deep end of the statistics pool, standard deviation measures the amount of variation or dispersion in a set of values. In our case, those values are returns. Basically, the wider the variation among returns, the less certain an investor can be when estimating what future returns might be. Over the 91-year illustration in Figure 1, the average standard deviations of the annual returns were 20% for stocks, 8% for corporate bonds, 10% for government bonds and 3% for T-bills. Tying the returns and volatility together, we see that in order to achieve the historical 10% compound annual growth generated by stocks, an investor would have had to tolerate a potential decline of 10% in any given year. The corporate bondholders, in their quest for 6% growth, would have expected a potential decline of 2% and the government bondholders a decline of 4%. Growth and volatility expectations are directly related. For reference, the greatest calendar year decline for stocks in our 91-year study was -43% (in 1931) compared to -8% (1969) and -15% (2009) for corporate and government bonds, respectively. The greatest annual gains were +54% (1933), +43% (1982), and +40% (also 1982) for stocks, corporate and government bonds, respectively.

As mentioned above, the returns we've examined thus far are nominal returns, meaning they ignore the effects of inflation. Adjusting nominal returns for the nearly ever-present force that eats away at spending power gets us to real returns. Theoretically, if inflation in any given year is 3%, an individual's income would need to grow by 3% simply to maintain purchasing power. Therefore an investor needs some level of growth above inflation, real growth, to make headway. Over our 91-year investment in Figure 1, inflation has been 3% per year on average. Subtracting that from our previously noted returns provides real returns for the asset classes of 7% stocks, 3% corporate and government bonds, and 0% for T-bills. Stocks again come out on the top of the heap and provide returns that comfortably exceed inflation on a real basis. Returns and their associated standard deviations are summarized in Figure 3.

Figure 3 – Summary of returns (1926-2016)



Sources: Ibbotson Associates, Wells Fargo Advisors. Please see the Disclosures on page 5 for definitions of representative indices. Figures shown are hypothetical and for illustrative purposes only. They assume that \$1 was invested in 1926.

Assuming the risk and return profile of stocks fits an investor's suitability and risk tolerance, we'll now turn our focus to filling that allocation. From a big picture perspective, we believe an investor should assemble a well-diversified equity portfolio with 20-30 stocks weighted at 3-5% apiece from at least six to eight different sectors of the economy. We recommend limiting individual stocks and sectors to no more than 10% and 30%, respectively, of a portfolio. We believe one of the key aspects of successful investing is to be familiar with the actual companies related to your investments. Understanding a company's product offerings, growth prospects and place within its industry can provide a basis for setting reasonable expectations for both potential reward and risk. The Advisory Services Group of Wells Fargo Advisors offers six thematic recommended lists with varied time horizons and objectives to assist with stock selection. Brief descriptions are provided below. For more information on any of these strategies, please contact your financial advisor.

Wells Fargo Advisors Recommended Equity List Strategies

Core: The Core List Strategy is comprised of blue chip, industry-leading companies that we believe can withstand the test of time. The objective is to provide a list of high-quality stocks that can be used to build a well-diversified portfolio or to supplement an existing portfolio.

DSIP (Diversified Stock Income Plan): The DSIP List Strategy focuses on companies that we believe will provide consistent annual dividend growth over a long-term investment horizon. Our objective is to provide a broad list of high quality, industry leading companies from which an investor can assemble a well-diversified portfolio. Through consistent dividend growth, our goal is to help investors stay ahead of the wealth eroding effects of inflation.

Dynamic Growth: The Dynamic Growth Equity List Strategy focuses on companies that we believe offer above average growth potential and may be on track to become leaders in the markets they serve. Our objective is to offer investors a list of stocks that they can use to help build a well-diversified portfolio or to fill holes in an existing portfolio.

Focus: The Focus List Strategy includes 25 stocks and represents a combination of the equity sector guidance from Wells Fargo Investment Institute and security selection from our Wells Fargo Advisors Equity Sector Analysts. The objective is to exceed the total return of the S&P 500 over an approximate one-year timeframe.

High Yield Equity Income: The High Yield Equity Income List Strategy emphasizes companies with notably higher dividend yields than the broader market (as measured by the S&P 500). Our objective is to offer a list of stocks for investors seeking a higher level of income and willing to accept a higher level of risk.

SMID (Small- and Mid-Cap): The SMID List Strategy includes stocks representing companies with market capitalization (at the time of addition) ranging from \$1.0 to \$12.5 billion from across the Global Industry Classification Standard (GICS) sectors. Our objective is to exceed the total return of the S&P 1000 over a minimum one-year time horizon.

Disclosures

Equity investments are subject to market risk which means their value may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. Investments in equity securities, especially growth securities, are generally more volatile than other types of securities. There is no guarantee that dividend-paying stocks will return more than the overall stock market. Dividends are not guaranteed and are subject to change or elimination. The prices of small and mid-cap 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.

Regarding Figures 1 and 3: Large stocks are represented by the Standard & Poor's Composite from 1926-1928, the Standard & Poor's 90 index from 1928 through February 1957 and the S&P 500 index thereafter. Corporate bonds are represented by the Ibbotson Long-Term Corporate Bond Index. Government bonds are represented by the 20-year U.S. government bond and Treasury bills by the 30-day U.S. Treasury bill. Inflation is measured by the Consumer Price Index, which measures changes in the price level of a market basket of consumer goods and services.

Wells Fargo Advisors publishes several theme-based lists of recommended equity securities. Each list is based on a specific investment objective and time horizon which may be different from the other lists. This may cause Wells Fargo Advisors to recommend an equity security to be added to one list and removed from another list. Thus, one list may contain different recommendations or conclusions that could result in short-term price movements contrary to the recommendations in another list.

Index Definitions

An index is unmanaged and not available for direct investment

S&P 90 Index - In 1928 Standard & Poor's realized the need to disseminate its market indicator information more frequently. Instead of trying to calculate the 233 Composite on an hourly or even a daily basis, which would have been difficult to do in an era before sophisticated calculators or computers were available, Standard & Poor's created a more manageable subset of stocks. This new index was the first daily, and then the first hourly index published by Standard & Poor's. Comprised of 50 Industrial, 20 Railroad, and 20 Utility stocks, it became known as the S&P 90 Stock Composite Index.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

Ibbotson U.S. Long-Term Corporate Bond Index is a market value-weighted index which measures the performance of long-term U.S. corporate bonds. For the period 1926-1945, Standard and Poor's monthly High-Grade Corporate Composite yield data were used, assuming a four percent coupon and a 20-year maturity. The conventional present-value formula for bond price was used for the beginning and end-of-month prices. The monthly income return was assumed to be one-twelfth of the coupon. For the period 1946-1968, Ibbotson and Sinquefeld backdated the Salomon Brothers' Long-Term High-Grade Corporate Bond Index, using Salomon's monthly yield data with a methodology similar to that used for 1969-present. Capital appreciation returns were calculated from yields assuming (at the beginning of each monthly holding period) a 20-year maturity, a bond price equal to APR, and a coupon equal to the beginning-of-period yield. For the period 1969 to present, long-term corporate bond total returns are represented by the Salomon Brothers Long-Term High-Grade Corporate Bond Index. The Index includes nearly all Aaa- and Aa -rated bonds with at least 10 years to maturity. If a bond is downgraded during a particular month, its return is included in the Index for that month before removing it from future portfolios. The Ibbotson U.S. Long-Term Corporate Bond Index includes reinvestment of income.

Additional information available upon request. Past performance is not a guide to future performance. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee as to its accuracy or completeness. This material is published solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or investment product. Opinions and estimates are as of a certain date and subject to change without notice.

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