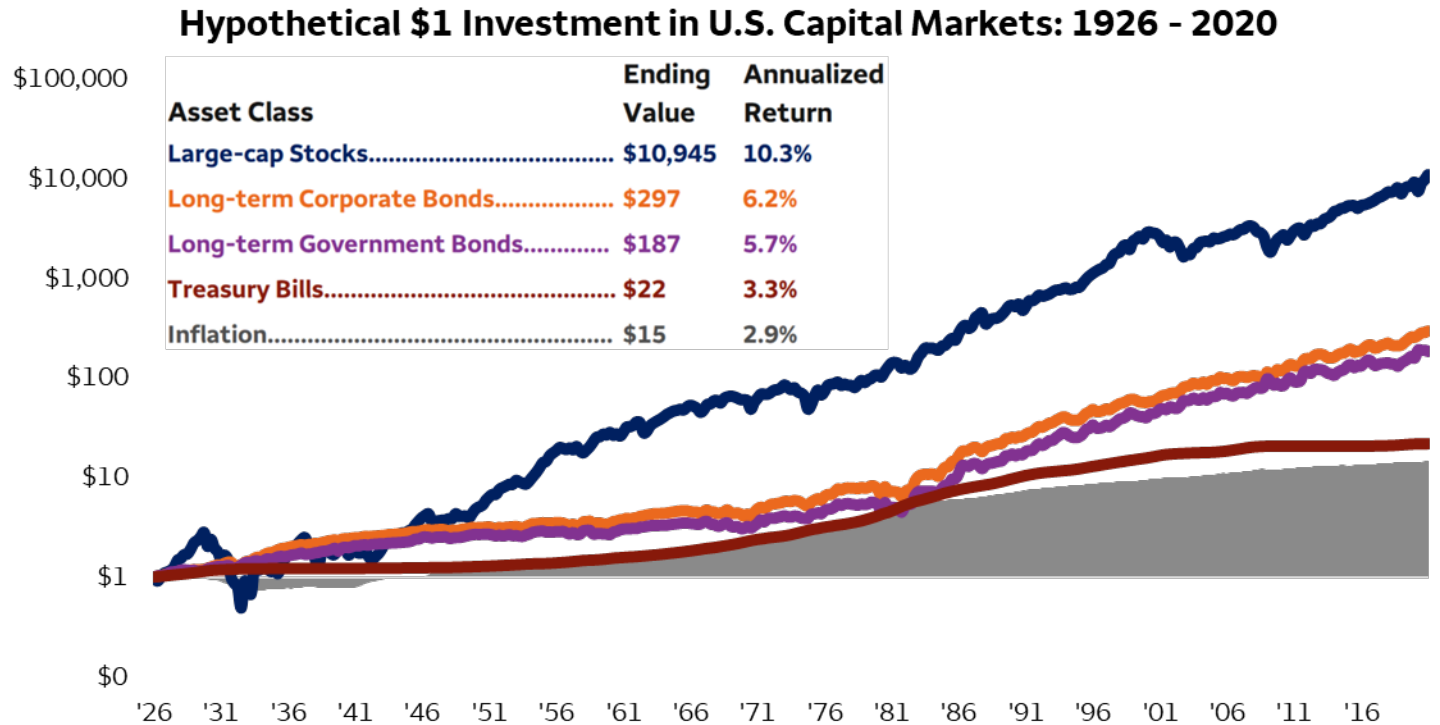


Why Invest in Stocks?

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

Figure 1



Sources: Morningstar Direct, Wells Fargo Advisors. 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. Chart shows the hypothetical value of \$1 invested at the beginning of 1926 to the end of 2020. Performance results assume reinvestment of income and no transaction costs or taxes that would be applicable to an actual investment. In addition, the calculation of return does not take into account inflation over the time period. An index is unmanaged and not available for direct investment. **Hypothetical and past performance is no guarantee of future results.** Please see the end of the report for the definitions of the representative indices and the risks involved with the various asset classes.

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. Corporate 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.

Figure 1 on the previous page depicts the hypothetical outcome of \$1 invested in different U.S. asset classes in 1926 and held through 2020. 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 large-cap stocks have significantly outperformed long-term corporate bonds, long-term government bonds, and Treasury bills over this 95-year period. It shows that the \$1 investment in large-cap stocks grew 10.3% on a nominal, annualized basis while long-term corporate bonds advanced 6.2%, long-term government bonds advanced 5.7%, and Treasury bills advanced 3.3%. What investors may not appreciate when looking at Figure 1 is how dramatically large-cap stocks have outperformed other asset classes over the long-term, as Figure 1 uses a logarithmic scale for the vertical axis in order to fit the chart on a single page.

If we focus on shorter timeframes that may be more relevant for an investor, a similar story emerges. Reviewing rolling periods from one month to 20 years, large-cap stocks again show superior returns. In periods that we would consider long-term (five years and longer), equities outperformed fixed income more than 70% of the time.

Figure 2

Time Period	Total Periods	# of Times Stocks Outperformed Bonds	% of Times Stocks Outperformed Bonds	# of Times Stocks Had Positive Returns	% of Times Stocks Had Positive Returns
1 Month	1,140	618	54%	714	63%
1 Year	95	58	61%	70	74%
5 years	91	65	71%	79	87%
10 Years	86	67	78%	82	95%
15 Years	81	67	83%	81	100%
20 years	76	65	86%	76	100%

Sources: Morningstar Direct, Wells Fargo Advisors. All periods of one year and greater are calculated yearly over rolling time periods. 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. Index returns do not represent investment performance. An index is unmanaged and not available for direct investment. **Hypothetical and past performance is no guarantee of future results.** Please see the end of the report for the definitions of the representative indices and the risks involved with the various asset classes.

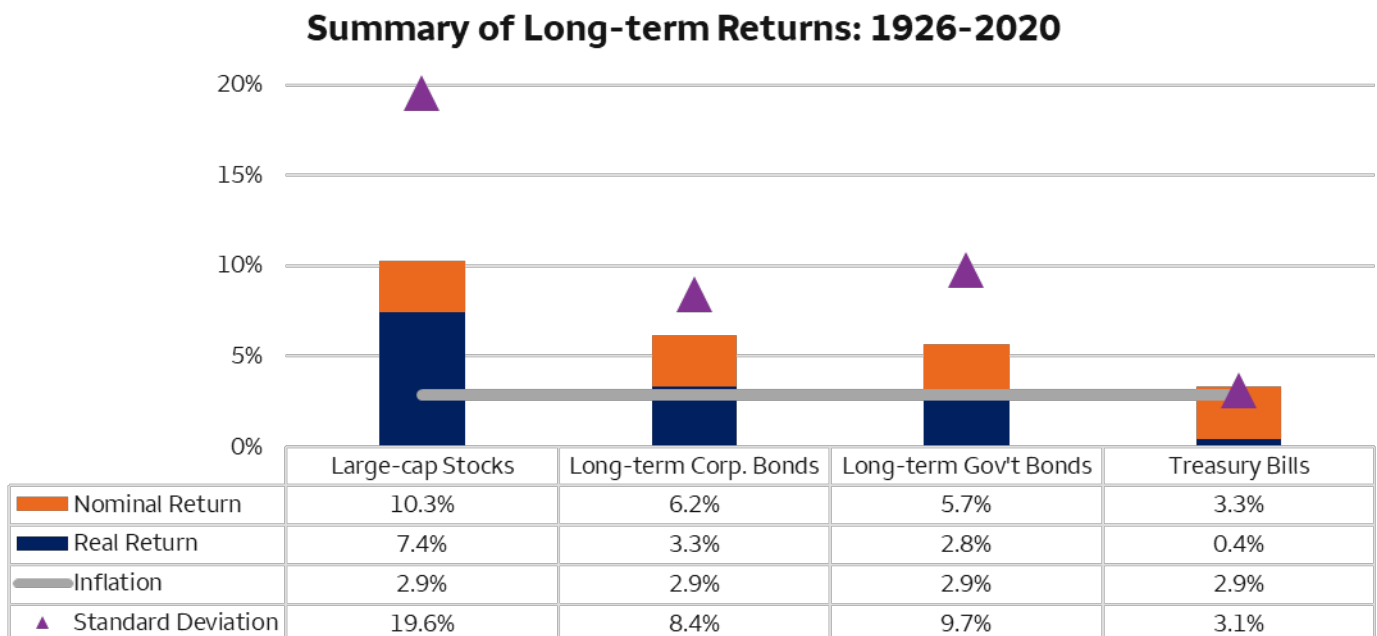
As the old saying goes, there's no such thing as a free lunch, and large-cap stocks' outsized returns are no exception. To explain why, let's take a step back and define some terms. Fixed income securities (also referred to as bonds or debt) are contractual obligations of an entity. As with any contract, 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 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 95-year illustration in Figure 1, the average standard deviations of the annual returns were 19.6% for large-cap stocks, 8.4% for long-term corporate bonds, 9.7% for long-term government bonds and 3.1% for Treasury bills. Tying the returns and volatility together, we see that in order to achieve the historical 10.3% compound annual growth generated by large-cap stocks, an investor would have had to tolerate a potential decline of about 10% in any given year. The long-term corporate bondholders, in their quest for 6% growth, would have expected a potential decline of about 2% and the long-term government bondholders a decline of about 4%. Growth and volatility expectations are directly related. For reference, the greatest calendar year decline for stocks in our 95-year study was -43.3% (in 1931) compared to -8.1% (1969) and -14.9% (2009) for corporate and government bonds, respectively. The greatest annual gains were +54.0% (1933), +42.6% (1982), and +40.4% (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 95-year investment in Figure 1, inflation has been 2.9% per year on average. Subtracting that from our previously noted returns provides real returns for the asset classes of 7.4% large-cap stocks, 3.3% long-term corporate bonds, 2.8% long-term government bonds, and 0.4% for Treasury bills. Large-cap stocks again come out on the top of the heap and provide returns that comfortably exceeded inflation on a real basis. Returns and their associated standard deviations are summarized in Figure 3.

Figure 3



Sources: Morningstar Direct, Wells Fargo Advisors. 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. Chart shows the 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. In addition, the calculation of return does not take into account inflation over the time period. An index is unmanaged and not available for direct investment. Index returns do not represent investment performance. An index is unmanaged and not available for direct investment. **Hypothetical and past performance is no guarantee of future results.** Please see the end of the report for definitions of the representative indices and the risks involved with the various asset classes.

Assuming the risk and return profile of stocks fits an investor's 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 Advice & Research Group of Wells Fargo Advisors offers eight 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 the lists, please contact your financial advisor.

List Descriptions:

The **Core List** 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 can be used to supplement an existing portfolio.

The **DSIP List** (Diversified Stock Income Plan List) 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.

The **Dynamic Growth Equity List** focuses on companies that we believe offer an 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.

The **Focus List** is a concentrated list of stocks that represents a combination of the equity sector guidance from the Wells Fargo Investment Institute (WFII) and security selection from our Wells Fargo Advisors Equity Sector Analysts. The objective is to exceed the total return of the S&P 500 Index over an approximate one-year timeframe.

The **High Yield Equity Income List** (High Yield List) focuses on companies with higher dividend yields than the broader market. Our objective is to provide a diverse list of high yielding stocks with secure dividend streams that an investor can utilize as part of an income-producing portfolio and are willing to accept a higher level of risk.

The **International Equity List** is designed to provide exposure to non-U.S. domiciled companies. While leaning toward large, well-known industry leaders, often with global operations, the strategy is flexible, and may include companies with a regional or country focus, or companies that have a comparatively small, but growing international presence. We envision this strategy complementing an otherwise domestic equity portfolio with an investing horizon of three to five years. Adding international investments to a portfolio can introduce new opportunities for investors, as well as additional risks to consider versus a purely U.S.-focused portfolio.

The **Small and Mid-Cap List** (SMID List) includes stocks representing companies with market capitalizations ranging from \$1.0 billion to \$20 billion at the time of addition. The objective is to exceed the total return of the S&P 1000 Index over a minimum one-year time horizon.

The **Value Equity List** focuses on companies that we believe are trading below their underlying intrinsic value and have the potential to reduce or eliminate this valuation discount. Our objective is to provide investors a list of stocks that may generate attractive returns as the stock price approaches what we believe to be the underlying value of the company.

Index Definitions

Regarding Figures 1 and 3: Large-cap 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. Long-term corporate bonds are represented by the Ibbotson Long-Term Corporate Bond Index. Long-term 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.

Regarding Figure 2: 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. Bonds are represented by the Ibbotson Long-Term Corporate Bond Index.

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 U.S. 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.

Risk Considerations

Individual securities should be reviewed by investors and their Wells Fargo Advisors Financial Advisor to determine whether a particular security is appropriate for their portfolios, with full consideration given to existing portfolio holdings.

You should be aware that investments can fluctuate in price, value and/or income, and you may get back less than you invested. We recommend that existing shareholders consider their objectives, their risk tolerance, and the size of their positions relative to their portfolios when evaluating their holdings.

Equity securities are subject to market risk which means their value may fluctuate in response to general economic and market conditions and the perception of individual issuers. Investments in equity securities are generally more volatile than other types of securities.

Investments in fixed-income securities are subject to interest rate, credit/default, liquidity, inflation and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and principal. This risk is higher when investing in high yield bonds, also known as junk bonds, which have lower ratings and are subject to greater volatility. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity.

U.S. government securities are backed by the full faith and credit of the federal government as to payment of principal and interest. Unlike U.S. government securities, agency securities carry the implicit guarantee of the U.S. government but are not direct obligations. Payment of principal and interest is solely the obligation of the issuer. If sold prior to maturity, both types of debt securities are subject to market risk.

General Disclosures

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.

Wells Fargo Advisors is registered with the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with Wells Fargo Advisors.

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