Factors To Consider in the Asset Allocation Process

Your Investment Objectives

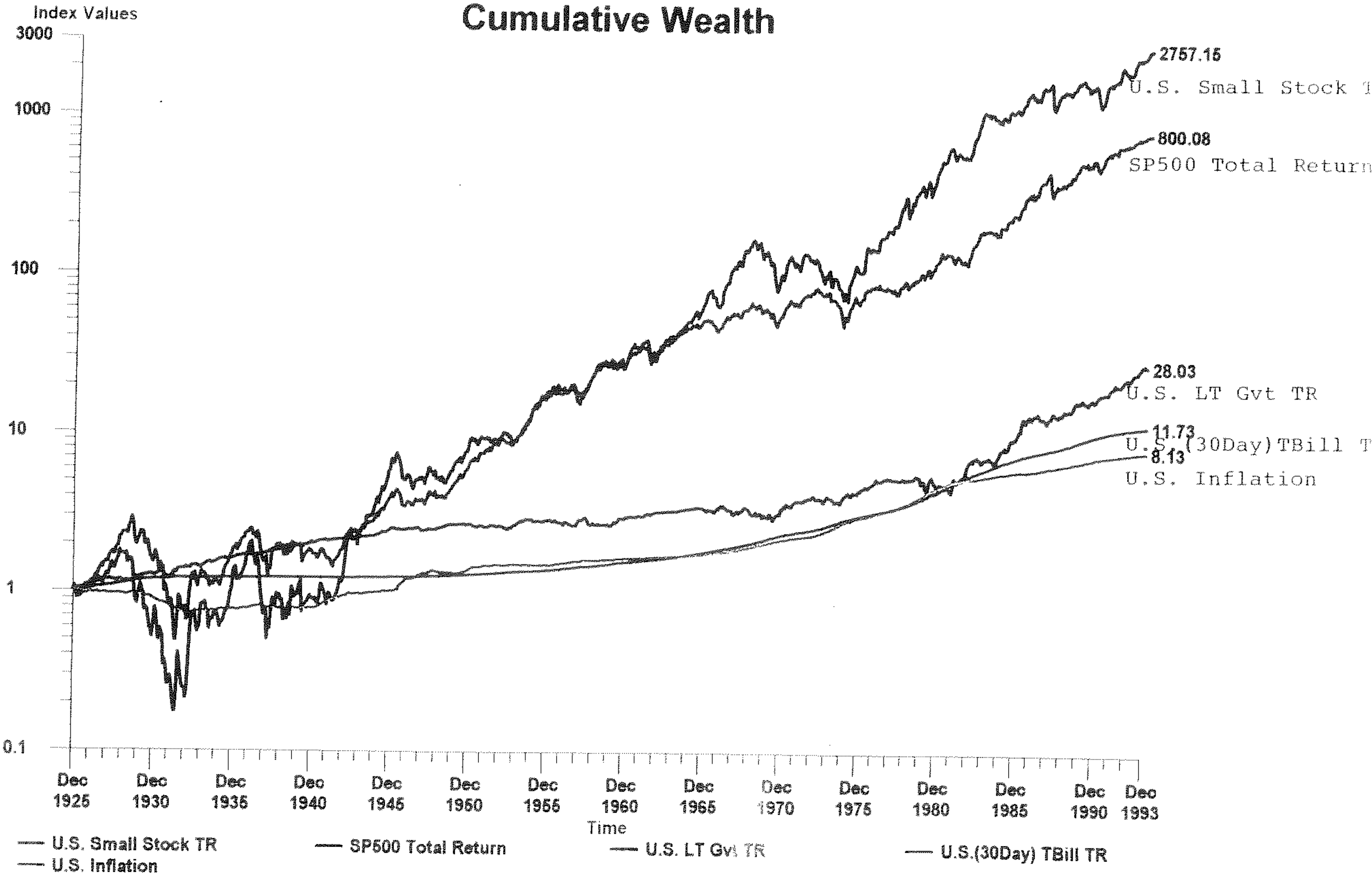
Your Level of Risk Tolerance

Your Investment Time Horizon

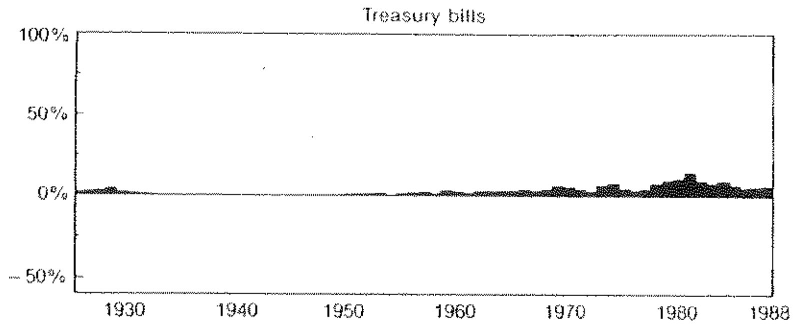
These three factors combine to determine whether your investment portfolio should be structured for greater principal stability with correspondingly lower returns or, alternatively, for higher potential growth with greater volatility.

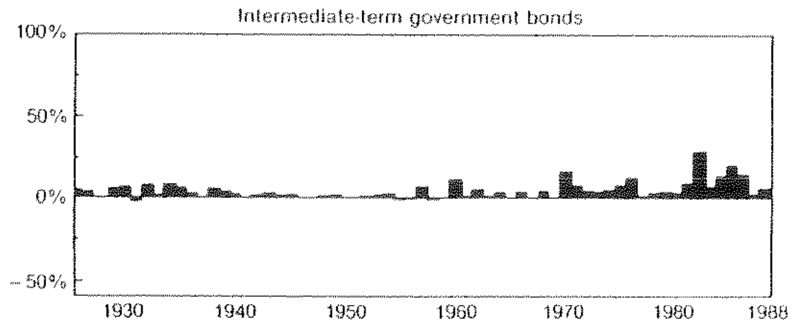
Your goal should be to diversify your portfolio among the various asset classes in order to achieve the highest expected return relative to the risk you assume.

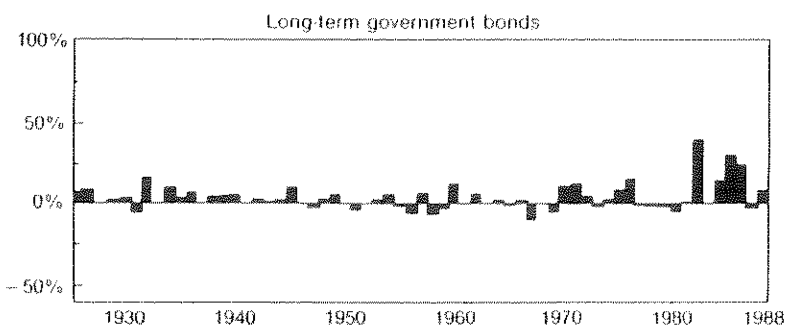
Cumulative Wealth



Total Annual Returns in Percent (1926–1988)

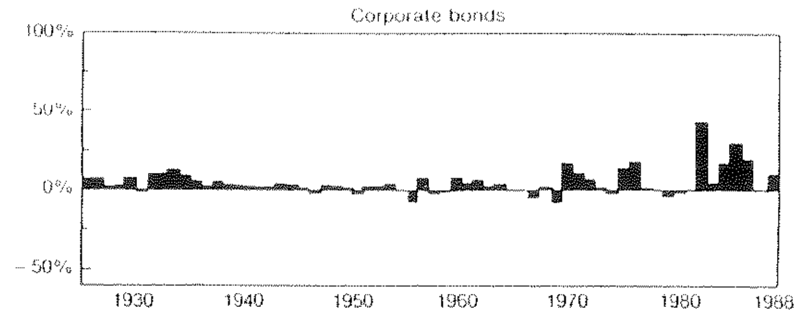


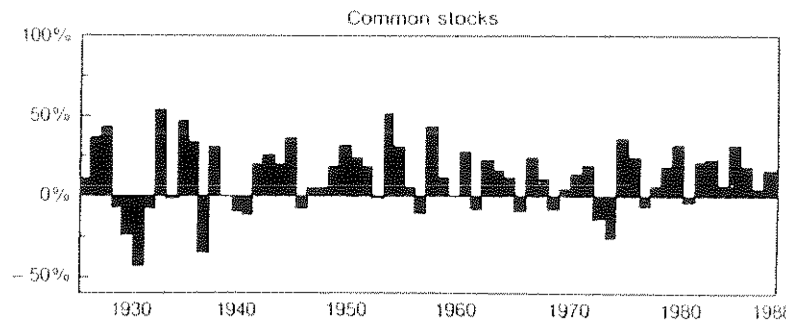


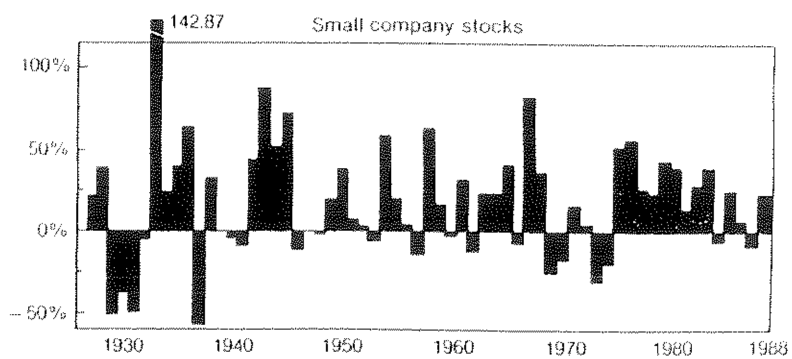


Source: Based on data from Roger G. Ibbotson and Rex A. Sinquefield, *Stocks, Bonds, Bills, and Inflation* (SBBI), 1982, updated in *SBBI 1989 Yearbook*, Ibbotson Associates, Chicago.

Total Annual Returns in Percent (1926–1988)







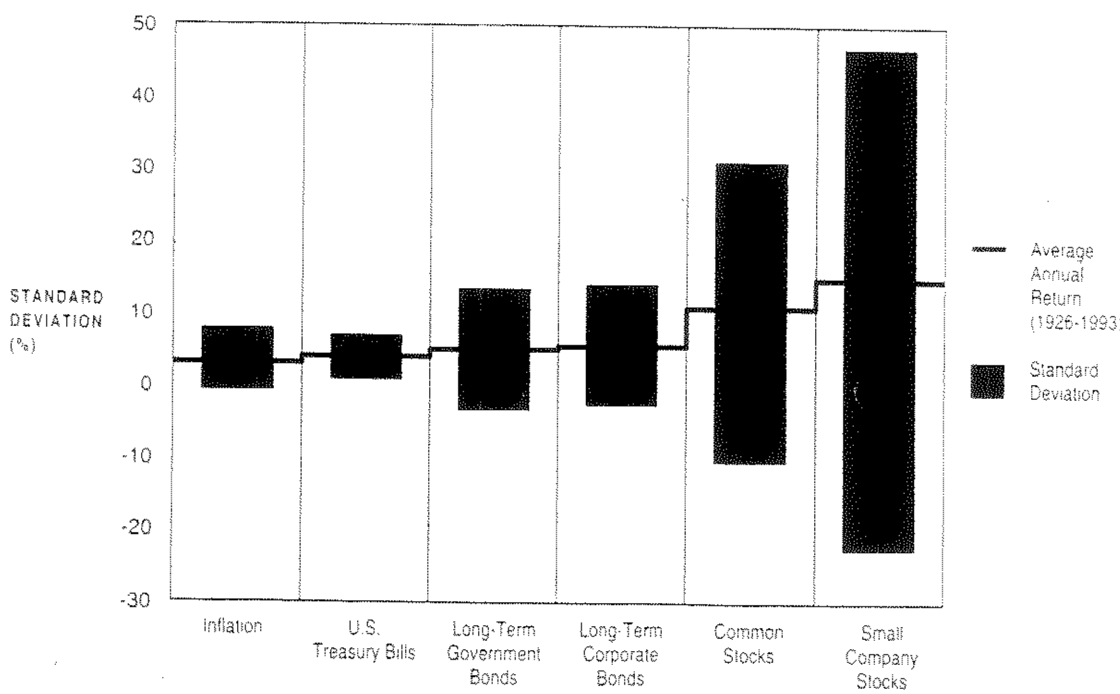
Source: Based on data from Roger G. Ibbotson and Rex A. Sinquefield, *Stocks, Bonds, Bills, and Inflation* (SBBI), 1982, updated in *SBBI 1989 Yearbook*, Ibbotson Associates, Chicago.

Risk and Standard Deviation

The more widely an investment's return may vary from its expected return, the more risky it is.

Standard Deviation is the commonly used measure of how widely an investment's return may vary from its expected return.

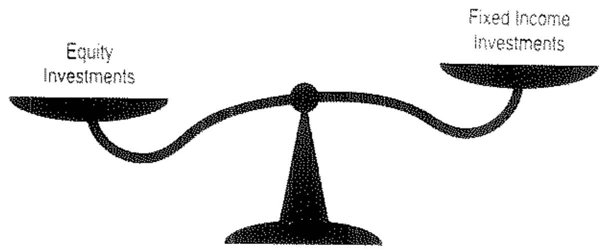
	1926 — 1993 Average Annual Return	Standard Deviation
Inflation	3.1%	4.6%
U.S. Treasury Bills	3.7%	3.3%
Long-term Government Bonds	5.0%	8.7%
Long-term Corporate Bonds	5.6%	8.4%
Common Stocks	10.3%	20.5%
Small Company Stocks	12.4%	34.8%



Sources: Small Company Stocks: The fifth capitalization quintile of stocks on the New York Stock Exchange for 1926-1981 and the performance of the Dimensional Fund Advisors (DFA) Small Company Fund 1982-Present. Common Stock Returns: Standard & Poors 500 Composite Index, generally regarded as representative of the U.S. stock market. Long-Term Corporate Bonds: Salomon Brothers Long-Term High Grade Corporate Bond Index. Long-Term Government Bonds: A one bond portfolio (20-year maturity). U.S. Treasury Bills: A one bill portfolio (30-day maturity). All of the above represent the total return of unmanaged portfolios. Inflation: Consumer Price Index – All Urban Consumers, not seasonally adjusted. All data from: Roger G. Ibbotson and Rex A. Sinquefield, *Stocks, Bonds, Bills, and Inflation (SBBI)*, 1982, updated in *SBBI 1994 Yearbook*, Ibbotson Associates, Inc., Chicago.

The chart above is presented for illustrative purposes only and is not intended to be representative of the performance for any specific investment.

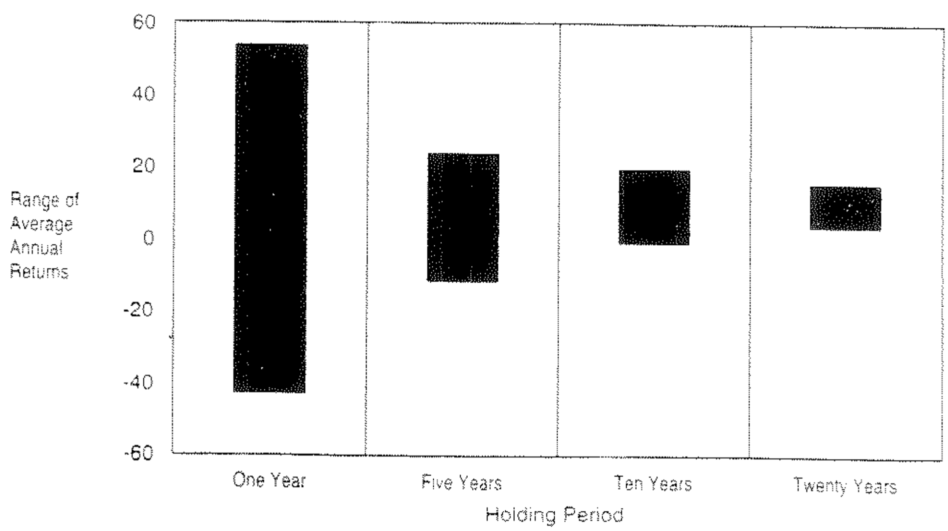
Investment Time Horizon



Your **Investment Time Horizon** is a critical variable in determining the appropriate balance between equities and fixed income investments.

The risk associated with an investment generally decreases as the time horizon increases.

Common Stocks
1926-1993



Longer Time Horizon

- Inflation poses a greater risk than stock market volatility
- Portfolio orientation:
  Equities

Shorter Time Horizon

- Stock market volatility poses a greater risk than inflation
- Portfolio orientation:
  Fixed Income Investments

Sources: Common Stock Returns: Standard & Poors 500 Composite Index, an unmanaged portfolio generally regarded as representative of the U.S. stock market. All data from: Roger G. Ibbotson and Rex A. Sinquefield, *Stocks, Bonds, Bills, and Inflation (SBBI)*, 1982, updated in *SBBI 1994 Yearbook*, Ibbotson Associates, Inc., Chicago.

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