

Asset Allocation

Overview

- 1) Investment Goals and Investment Horizon
- 2) Description of Asset Key Classes
- 3) Historical Returns of Key Asset Classes
- 4) Description of Asset Allocation & Diversification
- 5) Benefits of Asset Allocation
- 6) Diversified Portfolios & Hypothetical Returns
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- 8) Questions & Answers

Investment Goals and Investment Horizon

- Retirement ➤ Long-Term
- Education ➤ Medium- / Long-Term
- House Down Payment ➤ Short- / Medium-Term
- Major Expenditures ➤ Short- / Medium-Term
- Wealth Transfer ➤ Long-Term

Key Asset Classes

Cash Equivalents:

Short-term investments such as CD's, Money Market Funds and U.S. Treasury Bills. They are usually very stable in value.

Bonds:

Bonds are also referred to as Fixed Income. Governments, Municipal Entities as well as Companies issue bonds. They pay regular interest and come in various maturity ranges, usually from 1 to 40 years.

Key Asset Classes (cont.)

Large Cap Stocks:

Large-Cap Stocks (sometimes called equities) are typically stocks of corporations with a total market value of \$10 billion or more. Because large companies are often mature and established, their stocks tend to be less volatile than those of smaller companies.

Small-Cap Stocks:

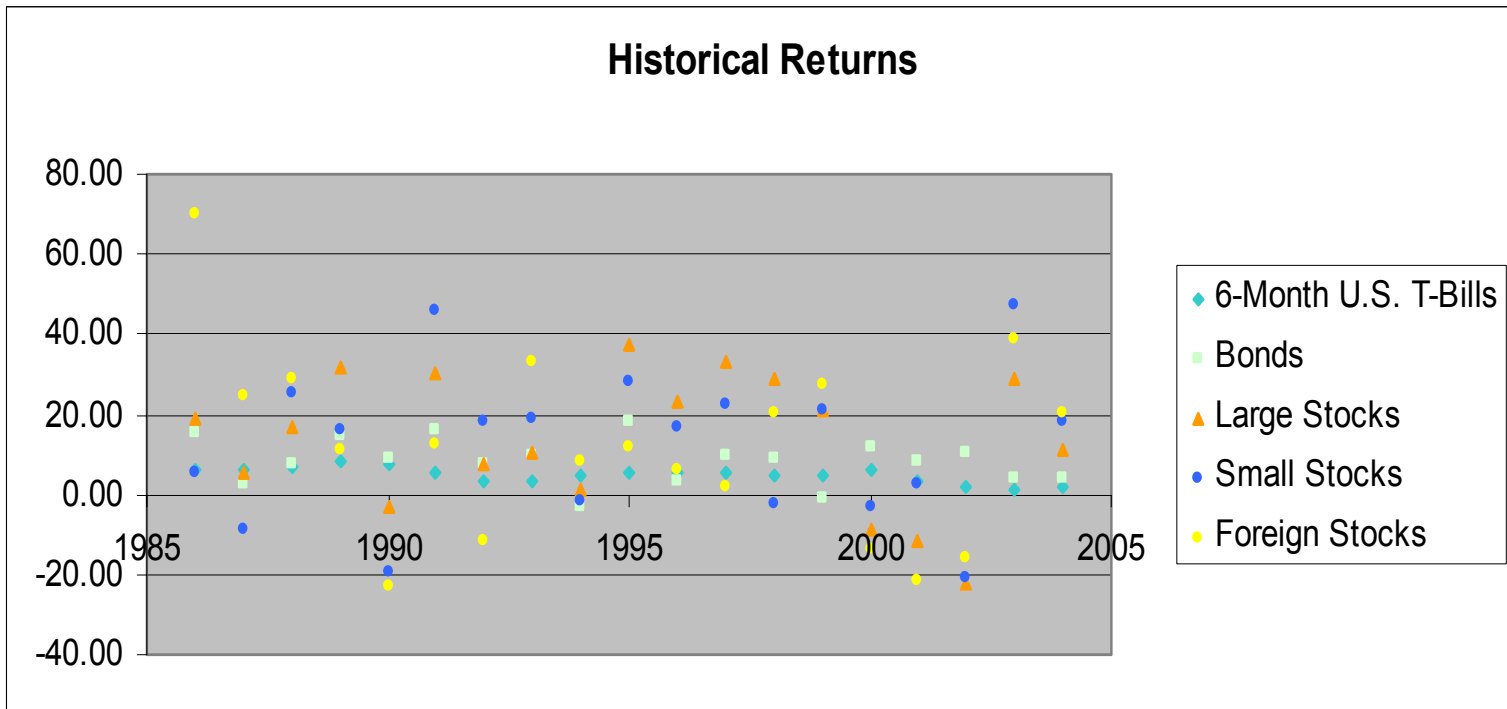
Small-Cap Stocks are issued by corporations with a total market value of \$1.5 billion or less. Smaller companies can offer the potential to grow quickly, but can be more volatile than larger-company equities, particularly over the short-term.

Key Asset Classes (cont.)

Foreign Stocks:

Foreign Stocks are issued by corporations based outside of the United States. While some foreign stocks move in tandem with the U.S. equities market, many do not.

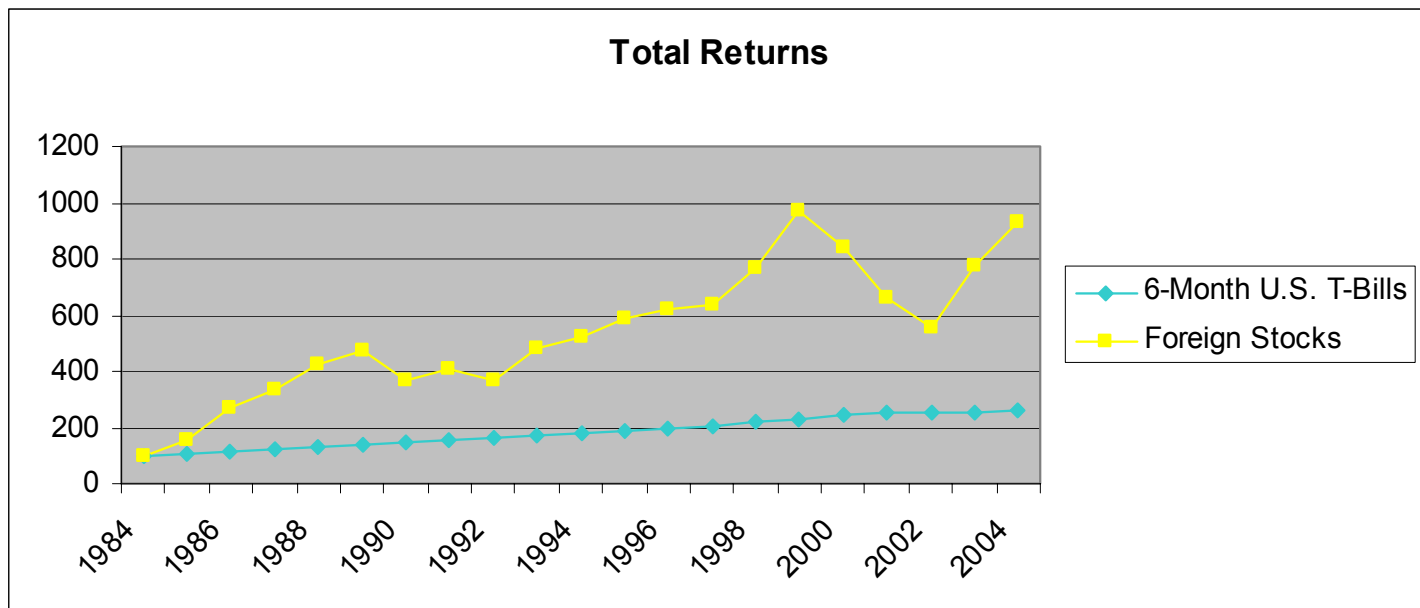
Historical Returns 1985 - 2004



Sources: Standard & Poor's Micropal; U.S Federal Reserve, HSH Associates

Total, Cumulative Returns

6-Month U.S. T-Bills / Foreign Stocks



Sources: Standard & Poor's Micropal; U.S Federal Reserve, HSH Associates

Asset Allocation

- Asset Allocation is investing your money in different categories of assets, typically cash equivalents, bonds and stocks so that your holdings are well diversified.
- The goal of a good asset allocation is to develop a portfolio that will help you reach your financial goals with the degree of risk that is acceptable to you.
- An appropriate asset allocation will also take your time horizon into consideration.

Benefits of Asset Allocation

- Reduced Risk
- More Consistent Returns over Time
- Stay Focused on your Goals

Hypothetical Sample Portfolio

“Conservative”

15% Cash Equivalents (6-Month U.S. T-Bills)

55% Bonds

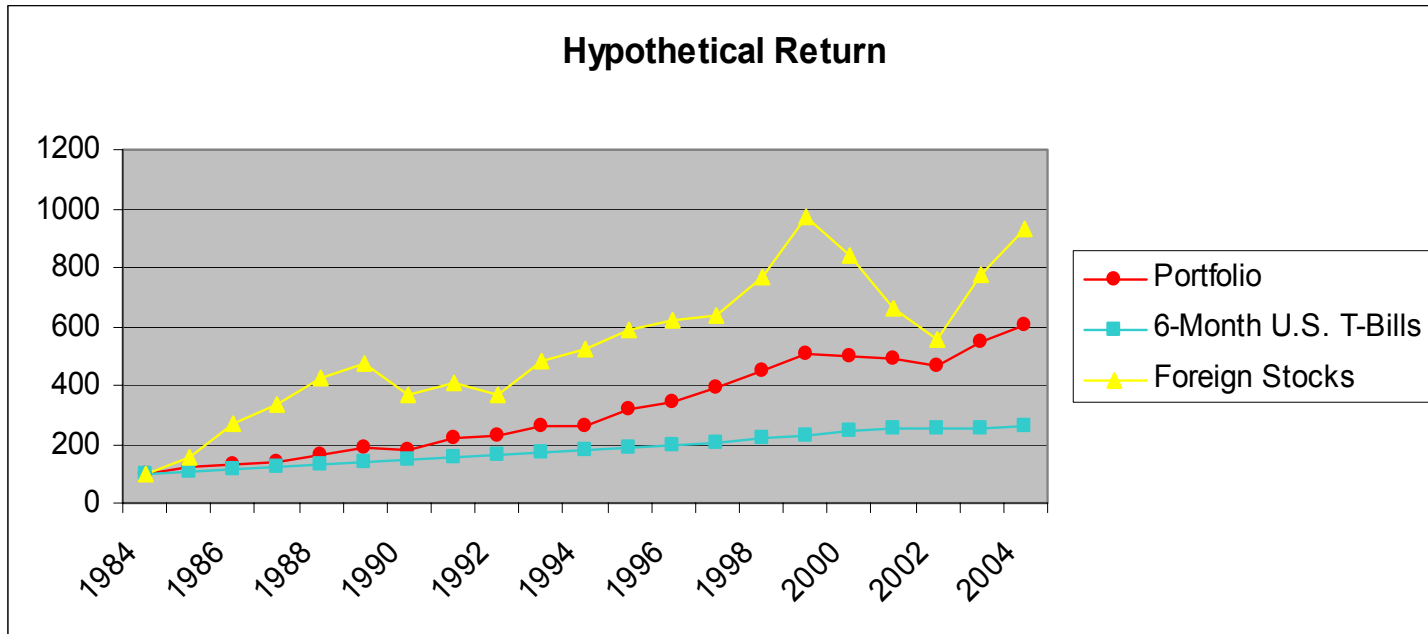
10% Large Cap Stocks

10% Small Cap Stocks

10% Foreign Stocks

Hypothetical Performance

“Conservative” Portfolio



See disclaimers on page 19

Hypothetical Sample Portfolio

“Moderate”

10% Cash Equivalents (6-Month U.S. T-Bills)

45% Bonds

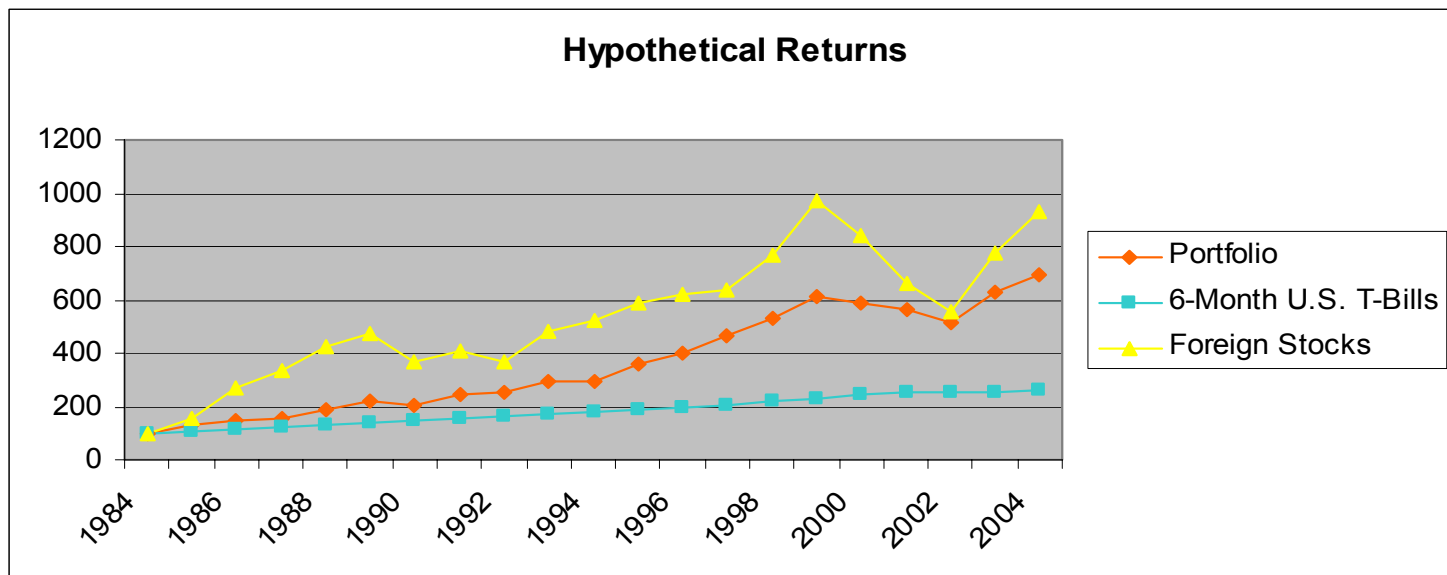
15% Large Cap Stocks

15% Small Cap Stocks

15% Foreign Stocks

Hypothetical Performance

“Moderate” Portfolio



See disclaimers on page 19

Hypothetical Sample Portfolio

“Growth”

5% Cash Equivalents (6-Month U.S. T-Bills)

35% Bonds

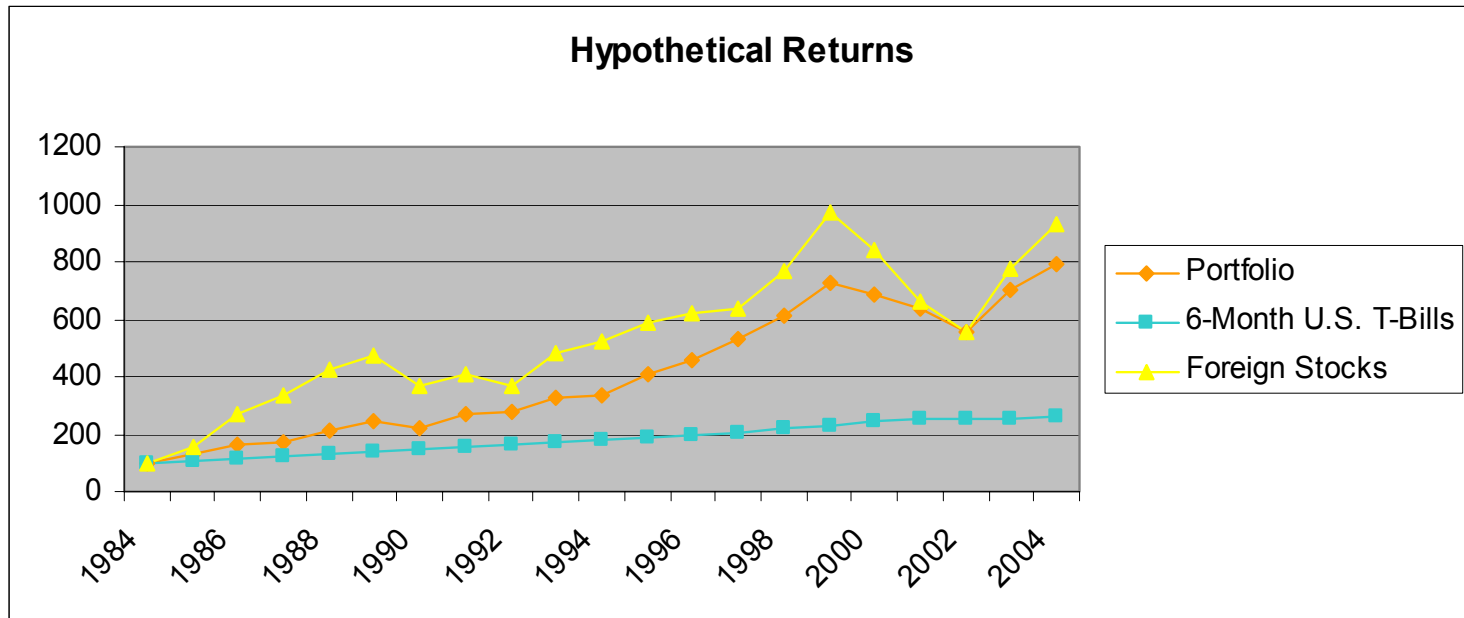
20% Large Cap Stocks

20% Small Cap Stocks

20% Foreign Stocks

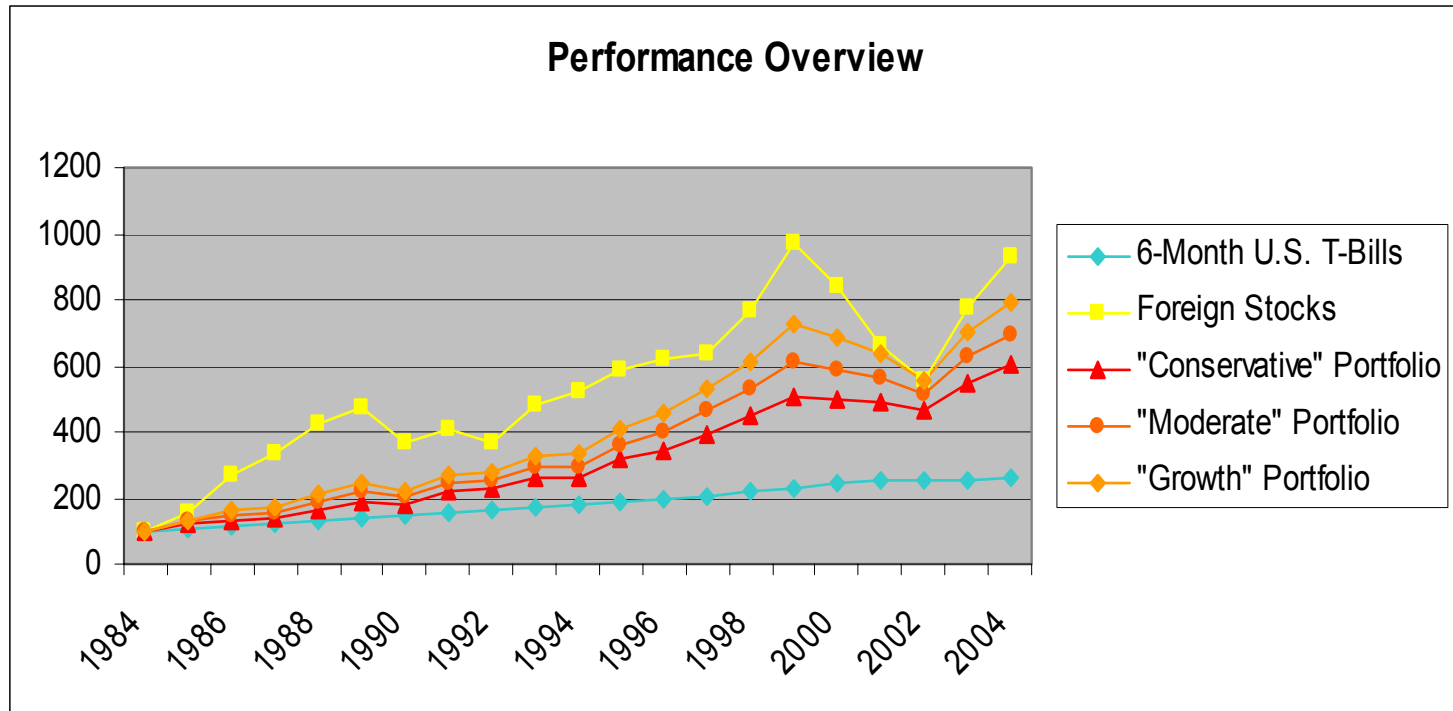
Hypothetical Performance

“Growth” Portfolio



See disclaimers on page 19

Overview of Portfolio Returns



See disclaimers on page 19

Rebalancing / Adjustments

- Positions have become too large or too small
- Financial goal(s) have been achieved
- Objective(s) have changed
- The time horizon has changed

Important Disclaimers

Sources: Standard & Poor's Micropal, Federal Reserve, HSH Associates

Indices: Large Stocks are represented by the S&P 500 Index; Small Stocks are represented by the Russell 2000® Index; Foreign Stocks are represented by the MSCI EAFE Index; Bonds are represented by the Lehman Brothers U.S. Aggregate Index; and 6-Month U.S. Treasury Bills are represented by the Auction Average and Adjusted to Constant Maturity 6-Month Treasury Bills.

Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares when redeemed may be worth more or less than their original cost.

Investors should consider the investment objectives, risks, charges and expenses of each security carefully before investing