Using the Historical Asset Allocation Report with Clients

Overview

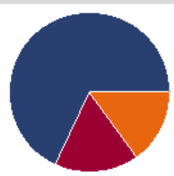
This document explains the data available in the Historical Asset Allocation report, and how to use it with clients.

The Historical Asset Allocation report reviews the past performance of a portfolio over the trailin 15 year-period, as well as how it would have performed in both short-term and long-term bear markets.

First, let's look at the Growth asset allocation mix in question:

Broad Asset Allocation

This pie graph and table highlight the proposed allocation to broadly-defined asset classes: cash, U.S stock, Non-U.S. stock, bonds, and a composite of other types of securities.



Asset Allocation	%
Cash	0.00
US Stocks	68.00
Non-US Stocks	17.00
Bonds	15.00
Other	0.00
	100.0

Detailed Asset Allocation

This pie graph and table more precisely define the proposed allocation to asset classes. The asset classes in this section are a subset of those broadly-defined in the graph and table.

Asset Allocation	%
Cash	0.00
US Large-Cap Value Stocks	16.32
US Large-Core Stocks	14.96
US Large-Cap Growth Stocks	16.32
US Mid-Cap Stocks	10.20
US Small-Cap Stocks	10.20
Non-US Developed Stocks	12.75
Non-US Emerging Stocks	4.25
US Investment Grade Bonds	10.50
US High-Yield Bonds	3.00
Non-US Bonds	1.50
Other	0.00
	100.0

This asset allocation calls for 85% of its assets allocated to stocks, and just 15% for fixed income holdings. This is a high-risk, high-reward approach to investing.

☞ The graphic above was taken from the Target Asset Allocation report for the client.

Long Term Performance

The first graph on this report shows the performance of the proposed asset allocation, the S&P 500 index and Lehman Brothers' Aggregate Bond index.

Release date 08-31-2006 | Existing Holdings 09/25/2006

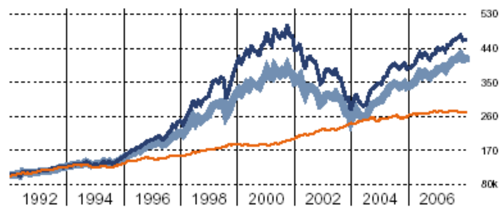
Historical Asset Allocation Performance Report for John and Betty Smith

Growth

This report demonstrates how money invested in the asset allocation shown in the Proposed Asset Allocation Report would have performed over a long investing horizon and over two shorter-term periods of generally poor market performance. Please read the disclosures for important information on how these results were generated.

Long-Term Perfomance

This graph shows how $100,000 invested would have performed over the past 15 years. The return and risk for the portfolio are also given.



Jul 1991-Jun 2006

- Asset Mix
- Standard & Poor's 500
- Lehman Bro's Agg Bond Index

Asset Mix Return %	9.89
Asset Mix Risk (Stnd Dev)	12.47
Start Balance $	100,000
End Balance $	411,727

For the Growth asset allocation model (above), you can see that this mix is likely to track, but slightly trail, the S&P 500 index. Also, over the past 15 years, this asset allocation has seen more peaks and valleys than that experienced by the fixed-income index.

The table to the right of the graph shows that $100,000 invested in this asset allocaiton mix 15 years ago would have returned 9.89% annually, for a total value of $411,727. That's the good news. For the other side of the coin, see the section below on the asset allocation model's Bear Market Performance.

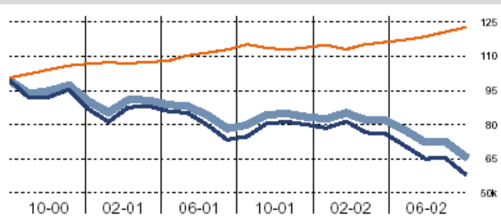
Bear Market Performance - Long Term

This section contains two graphs illustrating how this asset allocation mix would have performed during a bear market.

The first graph shows the bear market period from October 2000-September 2002. This period immediately followed the bursting of the Internet tech bubble.

Bear Market Performance

This graph shows how $100,000 invested would have performed during two years of a recent, longer-term market downturn.



Oct 2000-Sep 2002

- Asset Mix
- Standard & Poor's 500
- Lehman Bro's Agg Bond Index

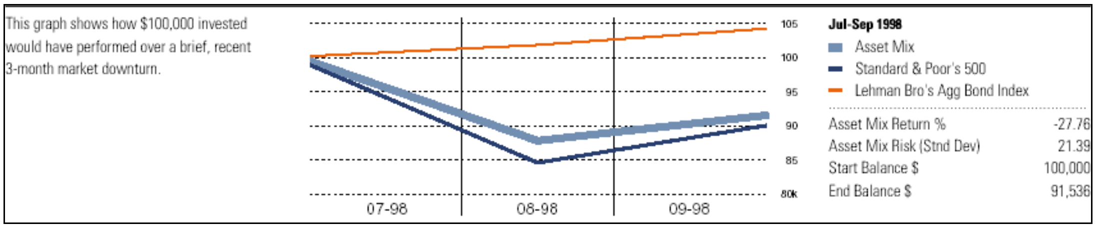
Asset Mix Return %	-18.65
Asset Mix Risk (Stnd Dev)	12.11
Start Balance $	100,000
End Balance $	66,177

Here you can see that during this period, the asset allocation mix again closely tracks the S&P 500 index. This time, though, both the asset mix and the index lose money over this two-year period, while the fixed-income index grows in value over these two years.

Also, in the table to the right, you can see that although the Standard Deviation for these two years is similar to the Long-Term Performance, during this period, the portfolio loses over a third of its value.

Bear Market Performance - Short Term

The second graph in this section shows the reaction of the asset allocation mix over short-term periods. In this case, we can see the performance over the three-month period from July-September 1998.



This period marks a precipitous drop over a single quarter. Here, the asset allocation mix lost almost 9% of its value, and played out over an entire year, it would have lost over a quarter of its value.

Assessing the report

While the clients will likely be thrilled to see the rise in value demonstrated in the Long-Term performance, be sure to point out the many valleys along the way.

In both Bear Market scenarios, the clients needs to honestly assess how they would feel about experiencing these downswings in their portfolio's value. Are they comfortable with sustaining losses over a potentially protracted period?