

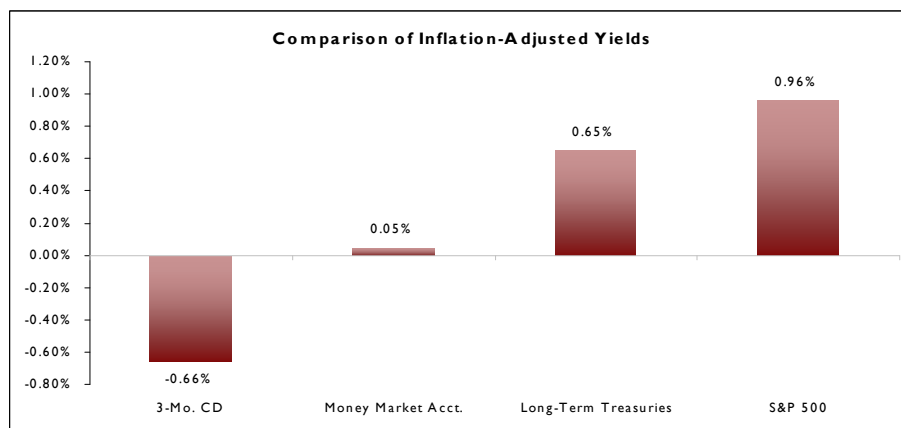
## How Low Can You Go? The Price of Stability in a Low-Interest-Rate Environment

The market turmoil of recent months has forced a growing number of investors to flee to the sidelines, with many emphasizing significant allocations to savings accounts or money market funds. But this conservatism carries a price: low returns and little growth potential, especially in the current low-interest-rate environment.

### Losing Out to Inflation and a Potential Recovery

- Returns of 3-month certificates of deposit (CDs) have declined more than 300 basis points compared with one year ago and currently trail core inflation. Meanwhile, yields of long-term Treasuries have hit 50-year lows as investors have elected safety in lieu of return.<sup>1</sup>
- The average yield of dividend-paying stocks within the S&P 500, in contrast, currently exceeds core inflation by a margin of more than 170 basis points.<sup>2</sup>
- Past performance is no guarantee of future results, but if history is any guide, when stocks rebound, the upside could come quickly, eclipsing investors who stayed on the sidelines. Since 1950, during the first 20 trading days following a bear-market bottom, the S&P 500 has recovered an average of 24% of the point loss experienced during the bear.<sup>3</sup>
- Some cash may potentially balance the short-term volatility of stocks, but too much cash can cause an investor to forfeit the long-term growth that comes from periodic stock market rallies.

*Since 1950, during the first 20 trading days following a bear-market bottom, the S&P 500 recovered an average of 24% of the point loss experienced during the bear.*



*Sources: BankRate.com; Bureau of Labor Statistics; Federal Reserve; Standard & Poor's. Rates of 3-month CDs and Long-Term Treasuries (average yields of 10-, 20- and 30-year Treasury bonds) are based on data from the Federal Reserve as of December 31, 2008; the S&P 500 yield on the price and dividend rate of the S&P 500 Index as of December 31, 2008; money market account national average published by BankRate.com on January 7, 2009; inflation on the core Consumer Price Index (2.0%) as of November 2008.*

## Portfolio Strategies

When considering portfolio strategies for 2009, keep the following in mind:

- **When allocating your portfolio, think long term.** In 2008, nearly all asset classes took a hit as bond and equity markets succumbed to the turmoil in credit markets. But over the longer term, a diversified asset allocation has historically enhanced returns and reduced volatility. An allocation of 50% stocks and 50% bonds would have outperformed the S&P 500 over the past one, five, and 10 years. Over the past 20 and 30 years, the mixed portfolio would have experienced about half the volatility when compared with an all-stock portfolio.<sup>4</sup>
- **Prepare for volatility.** Although additional ups and downs can be expected as the economy continues to struggle, an allocation to equities may position you to capitalize on an eventual rebound.
- **Consider dividend-paying stocks.** The yields of many dividend-paying stocks currently exceed both inflation and the yields of U.S. Treasury bills. Cash dividends may be a source of income and a dividend reinvestment program may enhance an equity allocation over the long term.

Despite the uncertain market outlook and market volatility, there is value to be found in today's investment landscape. If history is any guide, patient investors with a diversified asset allocation should eventually be rewarded with attractive relative returns.

<sup>1</sup>*Sources: Bureau of Labor Statistics; The Federal Reserve. For the period beginning May 1958 and ending December 2008. Past performance is no guarantee of future results.*

<sup>2</sup>*Source: Standard & Poor's; Bureau of Labor Statistics. Data as of December 31, 2008.*

<sup>3</sup>*Source: Standard & Poor's. For the period beginning January 1, 1950, and ending September 30, 2003.*

<sup>4</sup>*Source: Standard & Poor's; Barclays Capital. Stocks are represented by the S&P 500 Index; bonds by the Barclays Aggregate Bond Index, volatility by standard deviation. For the periods ending December 31, 2008.*