

diversification across hundreds of securities within each asset class and allowing investors to move assets overnight between funds with little or no cost.

- **Bear markets really do exist.**

Properly implemented, a dynamic asset allocation strategy should lessen an investor's exposure to declining markets, blunting the impact of bear markets and preserving capital and the majority of prior gains. The more investors lose money in a down market, the more they lose valuable time and opportunity. A look at the bear markets of the past 110 years shows that investors spent 76% of their time suffering through bear markets and the struggle back to breakeven. Only 24% of their time was spent increasing their original investment.

S&P 500 Index Bear Market Study

September 1929 through March 2003

Bear Market	Duration	% Decline	Time Needed To Breakeven
Sept. '29 – June '32	33 months	86.7	25.2 years
July '33 – Mar. '35	20 months	33.9	2.3
Mar. '37 – Mar. '38	12 months	54.5	8.8
Nov. '38 – Apr. '42	41 months	45.8	6.4
May '46 – Mar. '48	22 months	28.1	4.1
Aug. '56 – Oct. '57	14 months	21.6	2.1
Dec. '61 – June '62	6 months	28.0	1.8
Feb. '66 – Oct. '66	8 months	22.2	1.4
Nov. '68 – May '70	18 months	36.1	3.3
Jan. '73 – Oct. '74	21 months	48.2	7.6
Nov. '80 – Aug. '82	21 months	27.1	2.1
Aug. '87 – Dec. '87	4 months	33.5	1.9
July '90 – Oct. '90	3 months	19.9	0.6
Sept. '00 – Mar. '03	30 months	49.0	—

Source: Telephone Switch Newsletter, Summer 1992. Updated by the Society of Asset Allocators and Fund Timers, Inc. through 2001.

Technology Gives the Dynamic Asset Allocator Powerful Tools

Computers and on-line databases have given investment managers powerful tools for analyzing the market and developing complex dynamic allocation models. By backtesting these models against historical data, dynamic asset allocators have developed parameters and models which indicate the asset classes that appear to be in sustained upward trends and should surpass other investments in the current market climate.

Given a working knowledge of the markets and cycles, today's allocator can track a multitude of indicators to determine what people are doing in the market and which actions or data signal a fundamental change

in economic climate. After weighing the attractiveness of different asset classes, the money manager develops an asset allocation strategy which distributes monies among different funds/asset classes based on return probabilities. When the asset allocation model indicates changes in the attractiveness of an asset class, monies are moved to different funds.

Dynamic Asset Allocation's Goals: Reducing Risk and Achieving Higher Risk-Adjusted Returns

The objective of dynamic asset allocation is to reduce the risk or fluctuation in the value of an investor's account while achieving higher returns than other investments with similar risk.

The success of a dynamic asset allocation approach depends upon the ability of the investment advisor to identify those asset classes achieving the highest returns in each market phase. Not every investment decision will be perfect, but over a full market cycle, a dynamic asset allocation approach offers the potential for superior risk-adjusted results, outperforming the impact of taxes and inflation, and leaving the investor with real growth.

Past performance does not guarantee future results.

Before you invest, always ask for and examine an advisory agreement and disclosure brochure (SEC Form ADV or comparable state disclosure), along with current prospectuses on any suggested mutual funds.



DYNAMIC ASSET ALLOCATION

A TOOL FOR SEEKING

- **REDUCED RISK**
- **ENHANCED RETURNS**

What if there was a way you could be invested consistently in the best performing asset classes year after year?

Ideally you would...

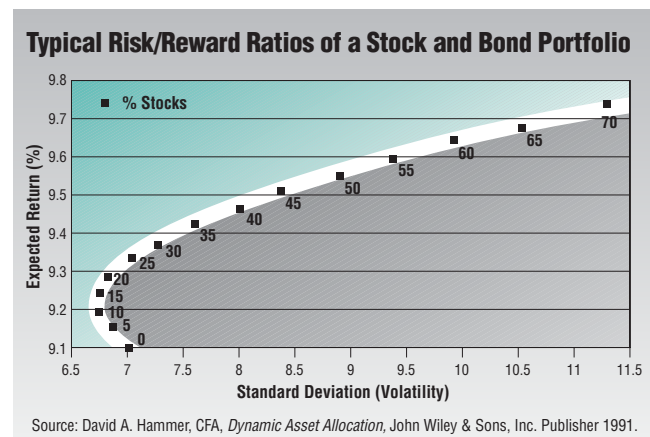
- Achieve the superior returns experienced by rising segments of the market,
- Avoid declining segments of the market, thereby reducing downside risk,
- Benefit from lower risk through diversification among different asset classes.

Dynamic Asset Allocation — Adding a New Dimension to Portfolio Performance

One of the most important ways to accumulate money for your future is to make certain your savings are working for you. That requires investing in assets with the potential to outperform inflation and taxes and to achieve real growth in purchasing power. The higher the return on your investments, the faster your savings will grow. But higher returns also mean higher risk... the risk of seeing the value of your investments decline in down markets and not having your money when you need it.

Asset allocation is a tool for reducing risk. This chart shows what happens to expected return and risk with different “fixed” blends of stocks and bonds. The higher the percentage of stocks in a portfolio, the higher the expected returns but the greater the volatility (standard deviation).

To construct an asset allocation portfolio, one invests among various asset classes, such as stocks, bonds, cash and others. The returns of the asset classes tend to be affected by different factors and thus, face different risks.



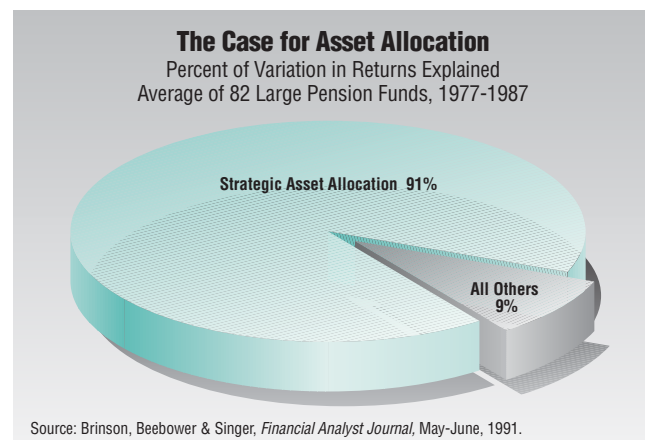
Traditional asset allocation uses a fixed ratio to distribute assets among different investment categories. The ratio is typically determined based on parameters such as an investor’s age, financial objectives or risk tolerance. Because no investment performs well all the time, when the return of one asset class is down, the fixed asset allocation approach assumes something else will be up. The rising investment may then offset the impact of the declining investment.

While this approach reduces risk, it makes no attempt to adjust the distribution of assets to take advantage of market conditions and leaves significant portions of the portfolio vulnerable to market downturns. As a result, overall return lags the performance of the individual investment categories, “averaging down” total return. The more categories used to diversify risk, the more return tends to be reduced compared to the best performing segments of the market.

Reducing Risk Without Sacrificing Performance

Dynamic asset allocation, like a “fixed” asset allocation strategy, seeks to reduce risk through diversification among different investment categories. Using dynamic asset allocation, however, the investor selects or weights investments based on those categories with the greatest potential for superior returns, given current market conditions. The allocation of assets becomes dynamic — changing in response to market conditions and perceived opportunities for profit.

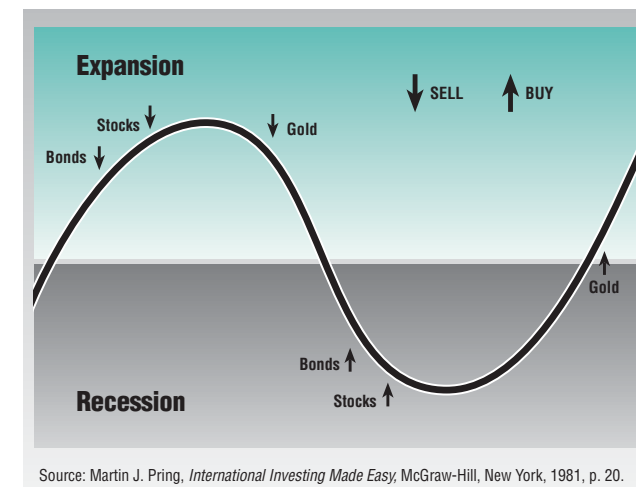
In studies of the performance of money managers, asset allocation decisions, rather than individual stock selection, have been shown to account for 80 to 90% and more of a portfolio’s performance. Top performing managers are those who are invested in the best performing asset classes during different periods of the market.



Why Does Dynamic Asset Allocation Work?

A number of factors make dynamic asset allocation a viable strategy:

- **The financial markets tend to move in cycles.** Over a century of market history has clearly shown that dissimilar investment categories behave differently at different times in the economic cycle. The dynamic asset allocator’s challenge is to use technical and/or fundamental analysis to attempt to identify where we are in the cycle and what investment categories appear to have the strongest potential for appreciation.



- **The dynamic asset allocator doesn’t have to be 100% right.**

The objective of dynamic asset allocation is to reduce risk by a greater amount than return is sacrificed and achieve real growth after taxes and inflation. Eliminating risk from a portfolio is very easy. All one has to do is buy Treasury Bills. But with the lower risk comes lower returns. Dynamic asset allocation is a strategy for managing risk without unduly diminishing returns.

- **Investing in the right sector of the market at the right time can dramatically increase returns.**

This is a key reason that dynamic asset allocators don’t have to be 100% right to produce higher risk-adjusted returns. It’s not uncommon for top performing sectors to experience advances of 50% or more annually. While the downside risk of some market sectors makes investing in these areas potentially dangerous in a fixed asset allocation strategy, dynamic asset allocation can harness their positive features and energize investor portfolios.

- **Dynamic asset allocation works well with mutual funds.**

Using mutual funds in a dynamic asset allocation strategy further reduces risk by providing instant