STIFEL INVESTING

Asset Allocation

INVESTING WITH DISCIPLINE

In today's markets, investing with discipline involves selecting investments that are in line with an overall asset allocation and diversification strategy based upon your needs, goals, time frames, and your ability to assume risk. To meet goals, investors must identify their financial objectives and an investment mix to help them pursue those goals.

Of course, when it comes to investing, greater reward generallycarries greater risk. So if you're looking for a smart way to reduce investment volatility while still retaining profit potential, then consider the advantages of asset allocation.

The Benefits of Asset Allocation

Asset allocation is the process of deciding what percentage of your money to put into the three major asset classes: stocks, bonds, and cash.

Because each type of asset responds differently to shifts in the economy and financial markets, some investments may be up while others may be down. With asset allocation, a portfolio may experience less fluctuation in value than individual assets within the portfolio.

This investment technique may have a significant impact on the ultimate success of your portfolio. In fact, asset allocation has more influence on portfolio variance than any other single investment decision.

In an important study published by the research team of Brinson, Singer, and Beebower in 1991, asset allocation was shown to account for as much as 91.5 of the variation in total return, far outweighing other significant factors such as market timing and security selection.

Though each investor invests differently, the goals of asset allocation remain the same. For example, asset allocation may help you:

— Maximize portfolio return at a reasonable level of risk;
— Create a prudent diversification of investment assets;
— Meet stated financial goals, such as education or retirement funding, and other objectives such as the purchase of a home; and
— Accommodate your risk tolerance, investment time horizon, and tax situation.

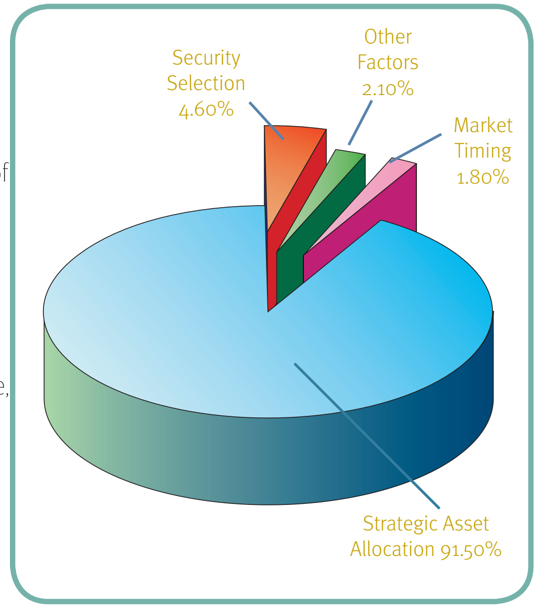
Developing Your Investment Strategies

Upon defining your time horizon, funds needed to meet goals, and planned current and future contributions, you can begin to determine appropriate asset classes, and diversification strategies that will help develop the right portfolio for you.

There's also something more to consider: your tolerance for risk. For an investment strategy to work for you, it's imperative that you're comfortable with the risk you assume. Even though your financial situation may point toward a higher level of risk, your peace of mind might dictate a more conservative investment plan.

While traditional asset allocation identifies stocks, bonds, and cash as the three major asset classes, such classes can be further defined in terms of market capitalization, style (value or growth investments), and international or domestic securities.

Investing today is about more than stock picks and bond selections. In fact, stocks and bonds are only a small part of the equation. The current investing environment offers numerous alternatives, and savvy investors recognize the many choices they have. Stock investments offer the highest potential returns with the greatest amount of risk. Fixed income investments respond to changes in interest rates. Money market funds have proven to offer stability; however, historically they have not produced returns much greater than the rate of inflation.



Source: Brinson, Singer, and Beebower, "Determinants of Portfolio Performance II: An Update," Financial Analysts Journal, May-June 1991.

That's why it's important to spread investment dollars over various asset classes. While diversification does not ensure a profit or protect against loss, a combination of money market, fixed income, and equity investments can provide potentially higher returns than either money market or fixed income investments alone.

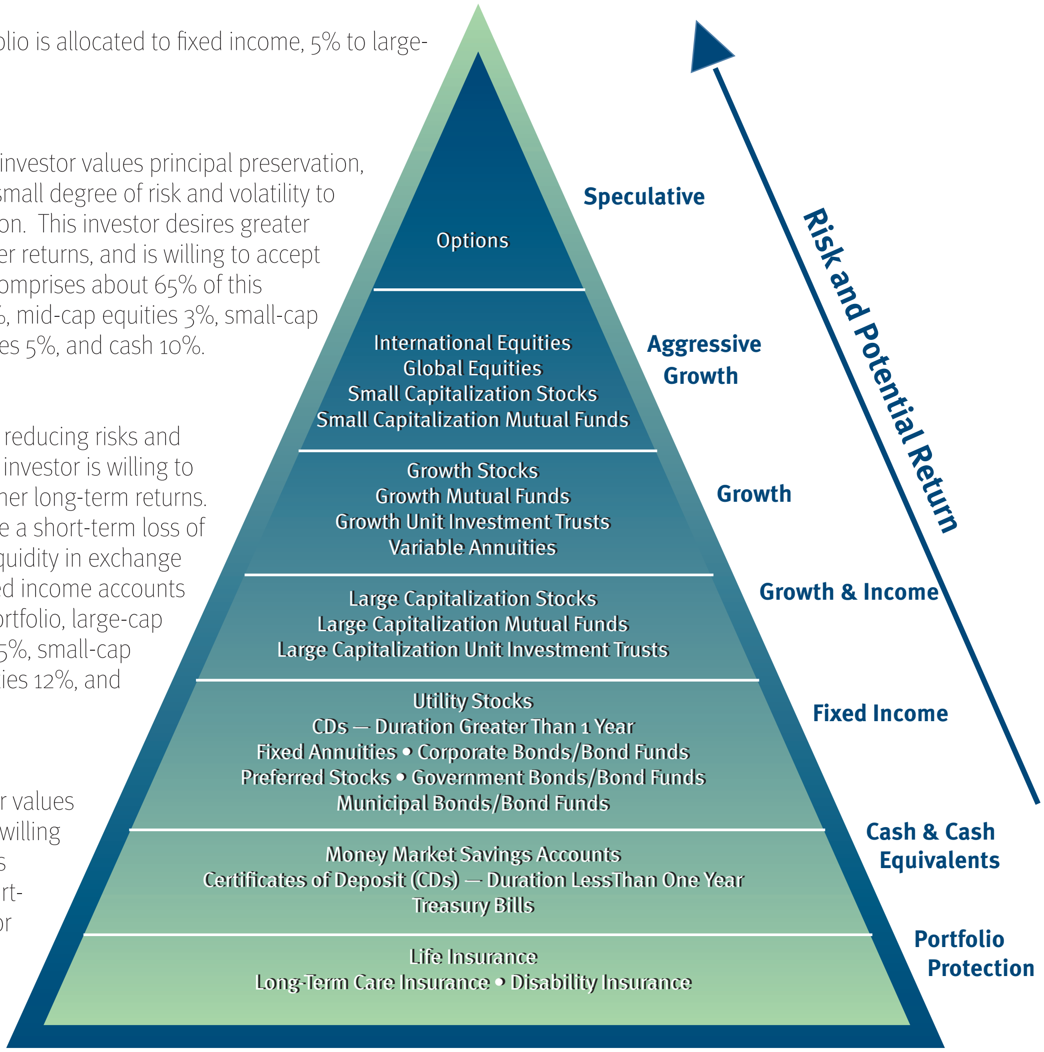
Model Portfolios

Following are some model asset allocation portfolios:

Conservative

A Conservative investor values protecting principal over seeking appreciation. This investor is comfortable accepting lower returns for a higher degree of liquidity and/or stability. Typically, a Conservative investor primarily seeks to minimize risk and loss of principal.

Approximately 75% of the portfolio is allocated to fixed income, 5% to large-cap equities, and 20% to cash.



Moderately Conservative

A Moderately Conservative investor values principal preservation, but is comfortable accepting a small degree of risk and volatility to seek some degree of appreciation. This investor desires greater liquidity, is willing to accept lower returns, and is willing to accept minimal losses. Fixed income comprises about 65% of this portfolio, large-cap equities 10%, mid-cap equities 3%, small-cap equities 7%, international equities 5%, and cash 10%.

Moderate

A Moderate investor values reducing risks and enhancing returns equally. This investor is willing to accept modest risks to seek higher long-term returns. A Moderate investor may endure a short-term loss of principal and lower degree of liquidity in exchange for long-term appreciation. Fixed income accounts for approximately 45% of the portfolio, large-cap equities 20%, mid-cap equities 5%, small-cap equities 13%, international equities 12%, and cash 5%.

Moderate Growth

A Moderate Growth investor values higher long-term returns and is willing to accept considerable risk. This investor is comfortable with short-term fluctuations in exchange for seeking long-term appreciation. The Moderate Growth investor is willing to endure larger short-term losses of principal in exchange for the potential of higher long-term returns. Liquidity is a secondary concern to a Moderate Growth investor. Fixed income investments make up 25% of the portfolio, with large-cap equities 20%, mid-cap equities 10%, small-cap equities 20%, international equities 20%, and cash 5%.

Moderately Aggressive

A Moderately Aggressive investor primarily values higher long-term returns and is willing to accept significant risk. This investor believes higher long-term returns are more important than protecting principal. A Moderately Aggressive investor may endure large losses in favor of potentially higher long-term returns. Liquidity may not be a concern to a Moderately Aggressive investor. Fixed income investments make up 10% of the portfolio, with large-cap equities 25%, mid-cap equities 13%, small-cap equities 25%, international equities 25%, and cash 2%.

Aggressive

An Aggressive investor values maximizing returns and is willing to accept substantial risk. This investor believes maximizing long-term returns is more important than protecting principal. An Aggressive investor may endure extensive volatility and significant losses. Liquidity is generally not a concern to an Aggressive investor. Large-cap equities may comprise 20% of the portfolio, mid-cap equities 18%, small-cap equities 30%, international equities 15%, emerging equities 15%, and cash 2%.

Asset Allocation In Your Long-Term Plans

While some investors fall into these general profiles, most actually fall in between such categories. Asset allocation does not assure a profit or protect against loss. However, it is a strategy to help you invest with discipline.

Asset allocation is not a static strategy. To be effective, an asset allocation plan should be reviewed periodically. Also, any changes in your financial goals, lifestyle, time frame, and financial circumstances, plus changes in market conditions, could necessitate revision of your asset allocation plan.

Please call me with any questions you might have concerning asset allocation. Stifel can help you create an asset allocation plan that matches your particular circumstances and works toward your specific investment objectives.