The Asset Allocation Investment Process

The Case for Diversification

The chart below shows the importance of exposing your portfolio to investments in many different markets. This diversification allows you to reduce the volatility that is associated with investments in just one investment category. Asset allocation provides a way to efficiently allocate your assets among many markets. Your Financial Advisor can show you the asset allocations that may be appropriate for your objectives.

The following chart shows highest performing asset class in a given year in black. For comparison, annual inflation (CPI) is indicated in red.

	Short Term Reserves	Bonds	Large Cap Stocks	Mid Cap Stocks	Small Cap Stocks	Int'l Stocks	Inflation (CPI)
Dec-85	7.8	18.1	32.2	32.0	31.1	**56.7**	**3.8**
Dec-86	6.2	13.1	18.5	18.2	5.7	**69.9**	**1.1**
Dec-87	5.9	3.7	5.2	0.2	(8.8)	**24.9**	**4.4**
Dec-88	6.7	6.8	16.8	19.8	24.9	**28.6**	**4.4**
Dec-89	8.6	12.8	**31.5**	26.3	16.2	10.8	**4.6**
Dec-90	7.9	**9.2**	(3.2)	(11.5)	(19.5)	(23.2)	**6.1**
Dec-91	5.8	14.6	30.6	41.5	**46.1**	12.5	**3.1**
Dec-92	3.6	7.2	7.7	16.3	**18.4**	(11.9)	**2.9**
Dec-93	3.1	8.7	10.0	14.3	18.9	**32.9**	**2.8**
Dec-94	4.2	(1.9)	1.3	(2.1)	(1.8)	**8.1**	**2.7**
Dec-95	5.8	15.3	**37.5**	34.5	28.5	11.5	**2.5**
Dec-96	5.3	4.1	**23.1**	19.0	16.5	6.4	**3.3**
Dec-97	5.3	7.9	**33.4**	22.4	22.4	2.1	**1.7**
Dec-98	5.1	8.4	**28.6**	10.1	(2.6)	20.3	**1.6**
Dec-99	4.7	0.4	21.0	18.2	21.3	**27.3**	**2.7**
Dec-00	6.0	**10.1**	(9.1)	8.3	(3.0)	(14.0)	**3.7**
Dec-01	4.1	**9.0**	(11.9)	(5.6)	2.5	(21.2)	**1.6**
Dec-02	1.7	**9.8**	(22.1)	(16.2)	(20.5)	(15.6)	**2.4**
Dec-03	1.1	4.3	28.7	40.1	**47.3**	39.2	**1.9**
Dec-04	1.2	3.0	10.9	20.2	18.3	**20.7**	**3.3**
20 Years Avg. Annualized	**5.0**	**8.1**	**13.2**	**14.8**	**11.5**	**11.8**	**3.3**

Highest Return in each year is shown in black.

Indices used to represent these markets are as follows: Short Term Reserve, The 3-month T-Bill Average; for Bonds the Lehman Intermediate Govt./Corp. Index; for Large Cap Stocks, the S&P 500 Indexes; for Mid Cap Stocks, the Russell Mid Cap Index; for Small Cap Stocks, the Russell 2000 Index; and for International Stocks, the Morgan Stanley EAFE Index. Indices used are for illustrative purposes only. An investor cannot invest directly in an index. Past performance is no guarantee of future results.

The Asset Allocation Investment Process

About Asset Allocation and the Efficient Frontier

One of the greatest challenges facing any investor is determining the best blend of assets for his portfolio; one which will achieve the investment objectives (goals) of the portfolio, while still exposing the investor to a level of risk he can tolerate both personally and financially.

Recent studies show that this “blend of assets”—the division of a portfolio between stocks, bonds, cash, and their subclasses—is the most important component of portfolio planning[1]; and Nobel Prize winning theory forms the basis for how such planning should be done.

Harry Markowitz and William Sharpe, pioneers of what is now known as Modern Portfolio Theory, determined that securities can be grouped into classes—stocks, bonds, and cash, for example—which have certain characteristic behavior. Using historical data, the risk level and rate of return of each asset class can be qualified to help set expectations for investment portfolios. The works of Markowitz and Sharpe also showed that some types of investments tend to have opposite or dissimilar patterns of behavior from other types, and that combining assets with “low or negative correlation” into one portfolio actually has the effect of reducing the potential risk of the total portfolio, while still preserving its potential for return. This is known as the power of diversification.

It is generally understood that as an investor takes more risk, he can expect to be rewarded with a higher rate of return. Markowitz and Sharpe showed that at each level of risk, there exists an optimal portfolio which provides the highest return potential for that risk level (and vice versa). These “optimal portfolios” are known as being “efficient” and when plotted in a single line upon a “risk/return” graph, are called the “efficient frontier.”

As you travel along the efficient frontier at right, you can see that the model in the lower left corner (Low Risk) takes less risk and expects less return than the model in the upper right (Aggressive Growth), which expects higher risk and a higher return.

The asset mix best suited for an investor will depend on his individual investment goals and tolerance for risk.

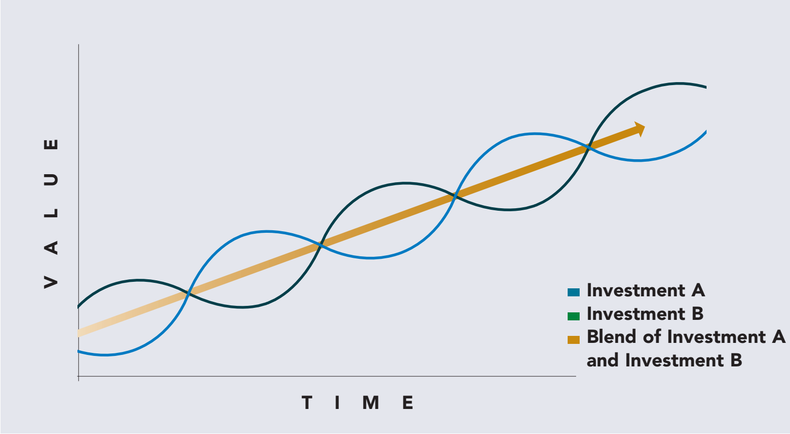
How Diversification Can Reduce Portfolio Volatility

“Don’t put all your eggs in one basket” is the oldest of investment guidelines. Indeed, we believe that proper diversification lies at the heart of successful investing.

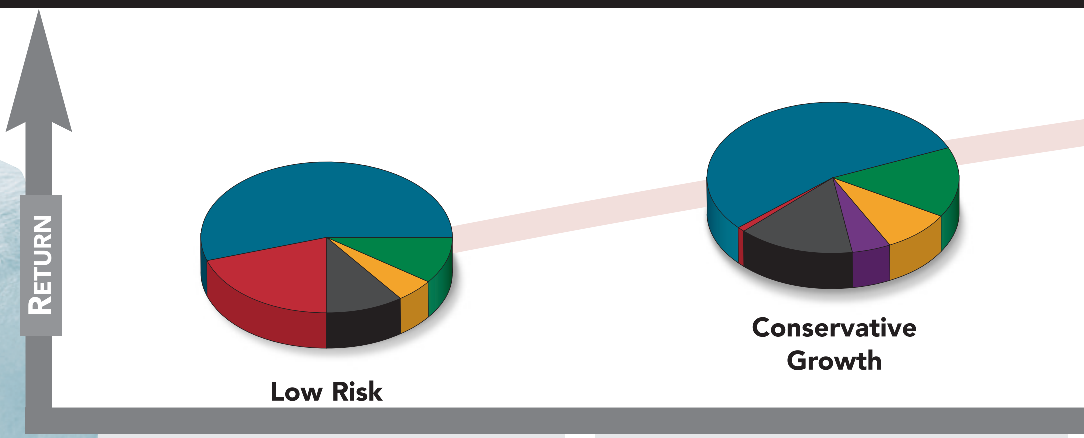
The power of diversification springs from a more subtle concept: correlation. Simply put, correlation is the degree to which the performance of different markets vary over short periods of time.

As the recent history of worldwide financial markets illustrates, markets don’t move in lockstep. Some years see great advances in stocks, other years bonds are king. Sometimes both of these take a back seat to small company or international markets.

As the chart below illustrates, understanding how markets correlate allows you to combine investments which can increase your return—while actually decreasing your risk.



This chart illustrates two hypothetical investments in different markets which fluctuate in opposition; when investment A is up, investment B is off. The investor who owns both evens out investment results.



Low Risk

Low Risk investors seek some increase in value of their investments while maintaining a high level of protection for their capital. These investors require more income than growth and have a moderate time frame.

Since the majority of the portfolio assets is in bonds and cash, risk avoidance is the primary objective. This strategy also seeks to enhance performance through exposure to both large- and mid-capitalization equity investments.

Cash	20%
Intermediate Bonds	55%
Large Cap Equity	10%
Mid Cap Equity (Blend)	5%
International Equity	10%

Conservative Growth

Conservative Growth investors have dual objectives of capital appreciation and current income while controlling risk. These investors, having a moderate time frame, look for growth of assets while maintaining safety of principal.

This strategy aims to accomplish this objective by maintaining the majority of assets in fixed income investments and broadly diversified equity exposure.

Cash	1%
Intermediate Bonds	55%
Large Cap Equity	15%
Mid Cap Equity (Blend)	9%
Small Cap Equity	5%
International Equity	15%

Asset Allocation

Illustrations using market index performance

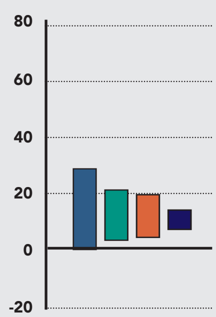
Benchmark Portfolios—Historic Returns

- 1 year
- 3 years
- 5 years
- 10 years

Note: Please see additional important information about these performance returns on reverse side. Indices used are for illustrative purposes only. An investor cannot invest directly in an index. Past performance is no guarantee of future results.

**Average of rolling returns for periods ended 12/31/02.*
***Calculations based upon quarterly returns.*

Low Risk



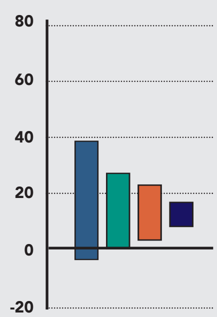
Historical Performance
(January 1979 – December 2002)

Avg. Annual Return	9.9%
Down Market Risk Tolerance	0-5%

ROLLING TIME PERIODS**

	Average Return*	Lowest Return	Highest Return
1 yr	9.9	(0.6)	27.4
3 yr	9.9	1.8	19.5
5 yr	10.1	4.1	18.0
10 yr	9.9	6.4	13.8

Conservative Growth

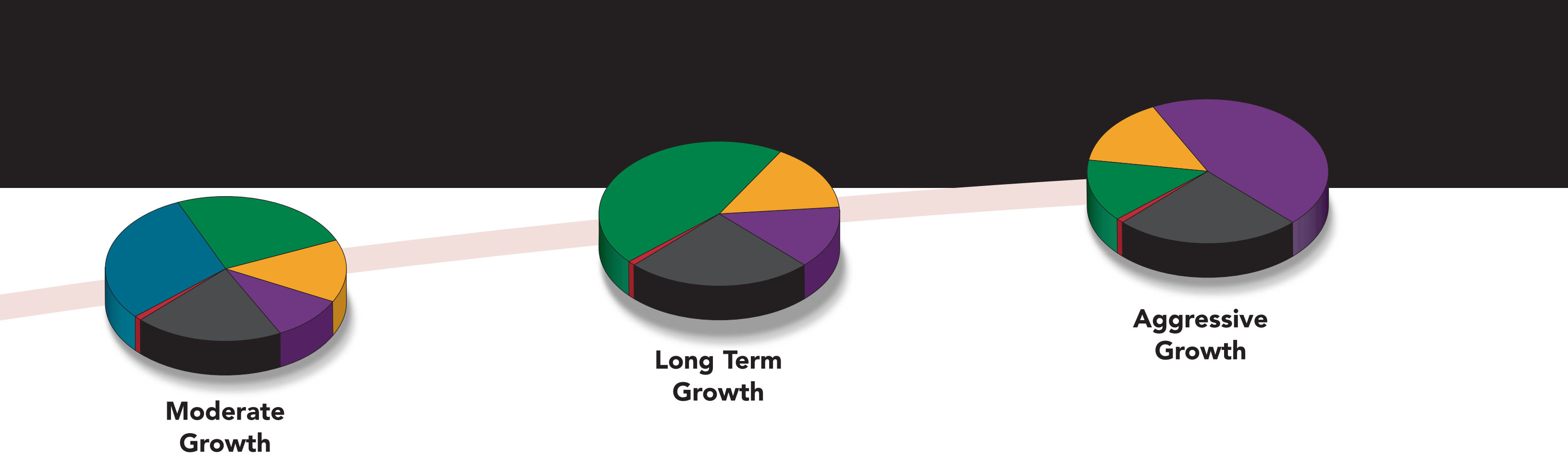


Historical Performance
(January 1979 – December 2002)

Avg. Annual Return	11.4%
Down Market Risk Tolerance	5-10%

ROLLING TIME PERIODS**

	Average Return*	Lowest Return	Highest Return
1 yr	11.4	(5.5)	37.8
3 yr	11.2	(1.6)	25.2
5 yr	11.5	2.7	22.1
10 yr	11.4	6.9	15.7



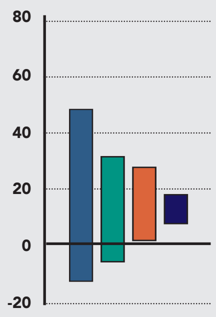
RISK

MODERATE GROWTH

Moderate Growth investors pursue growth of principal with a secondary goal of current income. These investors will tolerate reasonable volatility over a moderate to long-term time horizon in order to achieve their objectives.

This strategy seeks to provide growth through diversified equity exposure, while relying on fixed income investments both to help temper risk and to add modest income to the portfolio.

Cash	1%
Intermediate Bonds	30%
Large Cap Equity	25%
Mid Cap Equity (Blend)	14%
Small Cap Equity	10%
International Equity	20%



HISTORICAL PERFORMANCE
(JANUARY 1979 – DECEMBER 2002)

Avg. Annual Return 12.8%
Down Market Risk Tolerance 10-15%

ROLLING TIME PERIODS**

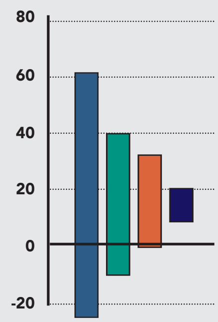
	AVERAGE RETURN*	LOWEST RETURN	HIGHEST RETURN
1 YR	12.8	(14.7)	47.7
3 YR	12.2	(7.5)	30.9
5 YR	12.6	(0.1)	26.4
10 YR	12.7	7.0	17.4

LONG-TERM GROWTH

Long-Term Growth investors seek capital appreciation as their primary investment goal. A moderate to long-term time horizon and low need for income enables these investors to tolerate fluctuations in their portfolio's value.

With a substantial allocation to a diversified equity portfolio, this strategy is designed to offer considerable return potential within defined risk parameters.

Cash	1%
Large Cap Equity	45%
Mid Cap Equity (Blend)	15%
Small Cap Equity	14%
International Equity	25%



HISTORICAL PERFORMANCE
(JANUARY 1979 – DECEMBER 2002)

Avg. Annual Return 14.5%
Down Market Risk Tolerance 15-20%

ROLLING TIME PERIODS**

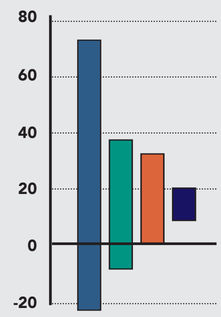
	AVERAGE RETURN*	LOWEST RETURN	HIGHEST RETURN
1 YR	14.5	(25.2)	59.5
3 YR	13.2	(14.8)	37.9
5 YR	13.9	(3.8)	31.7
10 YR	14.0	6.9	19.2

AGGRESSIVE GROWTH

Aggressive Growth investors seek maximum long-term capital appreciation and have no need for current income. These investors are willing to tolerate a considerable amount of year-to-year volatility in portfolio value in exchange for the potential of long-term appreciation.

This strategy emphasizes investment in small and mid-capitalization equities. These sectors have historically offered the highest rates of return, but are also more volatile than more conservative investment alternatives.

Cash	1%
Large Cap Equity	14%
Mid Cap Equity (Blend)	15%
Small Cap Equity	45%
International Equity	25%



HISTORICAL PERFORMANCE
(JANUARY 1979 – DECEMBER 2002)

Avg. Annual Return 14.4%
Down Market Risk Tolerance 20.0%+

ROLLING TIME PERIODS**

	AVERAGE RETURN*	LOWEST RETURN	HIGHEST RETURN
1 YR	14.4	(24.5)	69.9
3 YR	12.6	(18.2)	34.8
5 YR	13.0	(3.8)	30.1
10 YR	13.1	6.2	18.8

Performance Description: The historical returns shown are intended only to demonstrate the general risk and return characteristics of asset allocation; they do not reflect any actual account or the returns of any specific investment product. The returns shown are calculated by using the historical performance of market indices for the period January 1, 1979 to December 31, 2002. The asset classes used are represented by market indices as follows: For "Cash", the 3-month T-Bill return; for "Intermediate Bonds", the Lehman Intermediate Govt./Corp. Index; for "Small Cap Equity", the Russell 2000 Index; and for "International Equity", the Morgan Stanley EAFE Index. The returns of the hypothetical portfolios are created using a percentage of each asset class, based on the current recommended allocation mix. Current allocation constraints are: 1% minimum in cash equivalents, and 25% maximum in international stocks. Index performance includes reinvestment of dividends but does not reflect any commission charges or fees. Had fees and expenses been shown, the returns would have been lower.

Global/International investing involves risks not typically associated with US investing, including currency fluctuations, political instability, uncertain economic conditions and different accounting standards.

Stocks of small companies are typically more volatile than stocks of larger companies. They often involve higher risks because they may lack the management expertise, financial resources, product diversification and competitive strengths to endure adverse economic conditions.

"Down Market Risk" reports the Reports the risk tolerance range for a one year period, of a typical investor using this type of investment strategy.

Clients should be aware that there is no guarantee or assurance that any account losses will not exceed the loss figures indicated or that historical results can or will be duplicated in the future.

Asset allocation/investment timing cannot eliminate the risk of fluctuating prices and uncertain returns.

Be sure to consult with your own tax and legal advisors before taking any action that would have tax consequences.

The asset allocations discussed represent strategic models developed for illustration only and do not include all possible allocations. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Investors must make their own decisions based on their specific investment objectives and financial circumstances.

[1] Source: Brinson, Singer and Beebower, "Determinants of Portfolio Performance," Financial Analysts Journal, May/June 1991.

60628 4/05

0000557308
(1ea. Rev05)