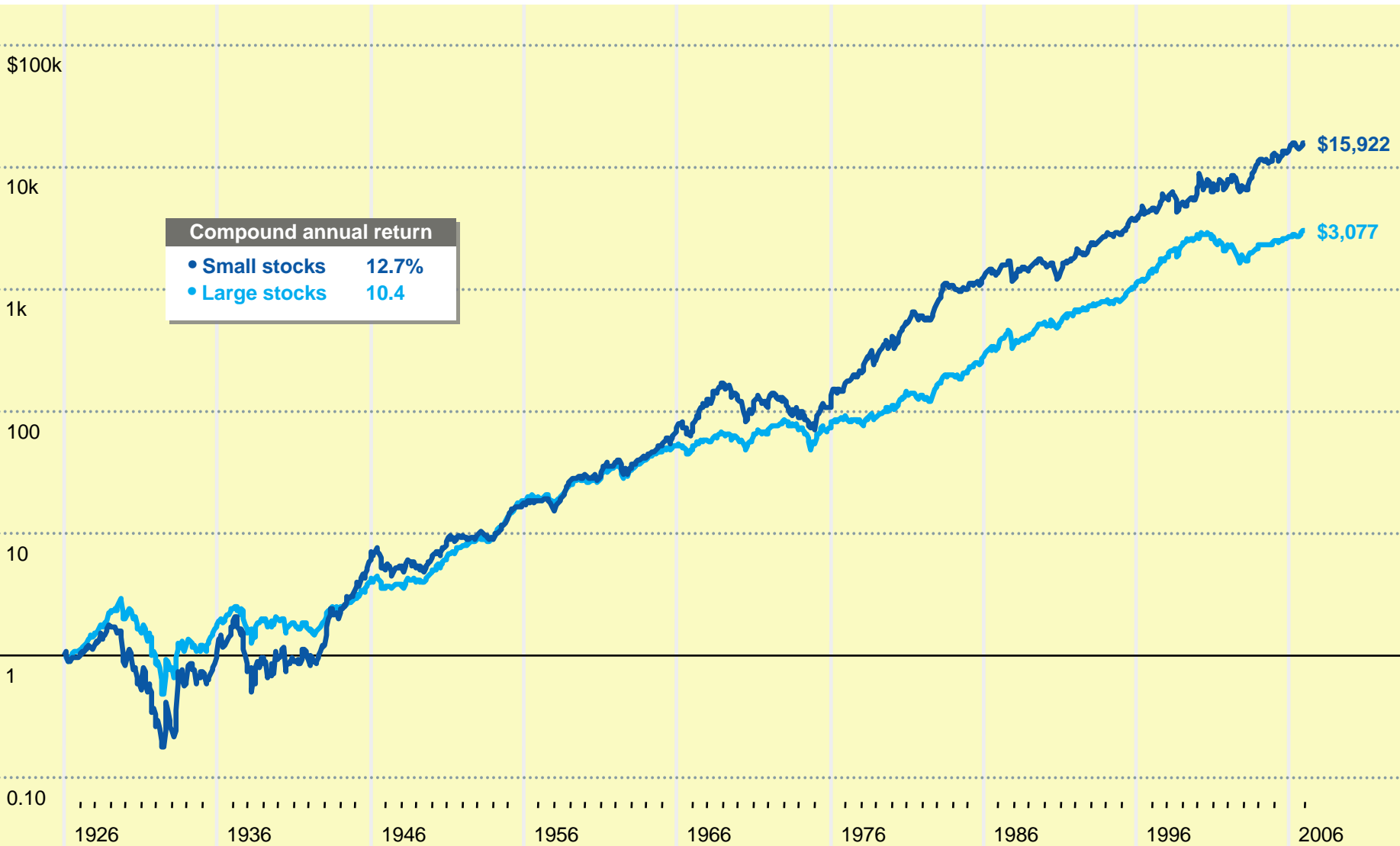

Investment Basics: Stocks & Bonds

Investing in Stocks

- ▶ Ownership in a corporation
- ▶ Voting rights
- ▶ Historically higher returns
- ▶ More risk

Stock Market Performance 1926–2006



Past performance is no guarantee of future results. Hypothetical value of \$1 invested at the beginning of 1926. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2007 Morningstar, Inc. All rights reserved. 3/1/2007

Small Stock Annual Returns Relative to Large Stocks 1926–2006

100% Excess return

- Small stocks outperform large stocks
- Large stocks outperform small stocks

80

60

40

20

0

-20

-40

-60

1926

1936

1946

1956

1966

1976

1986

1996

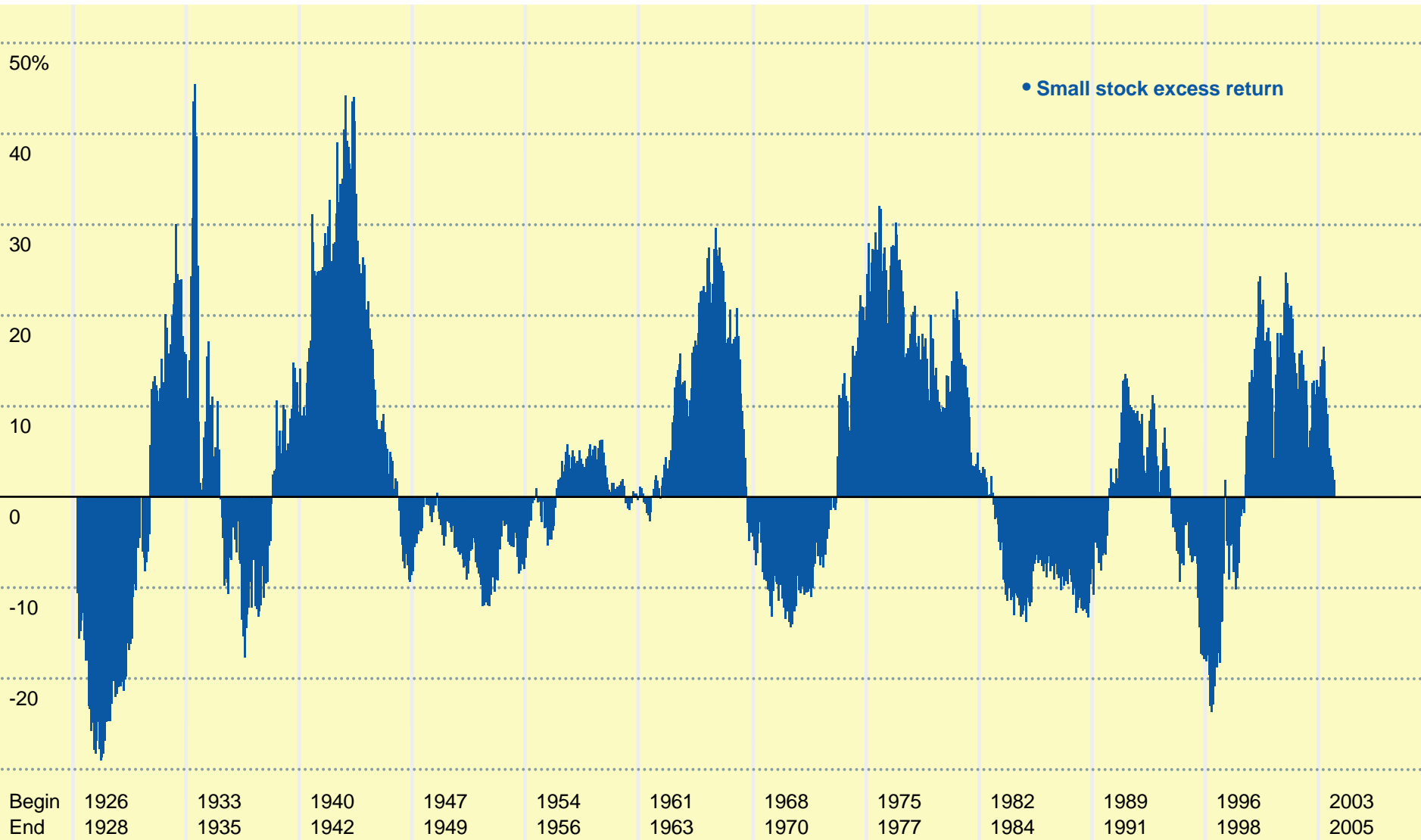
2006

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Small and Large Stock Performance Tends to Go in Cycles

36-month rolling period returns 1926–2006



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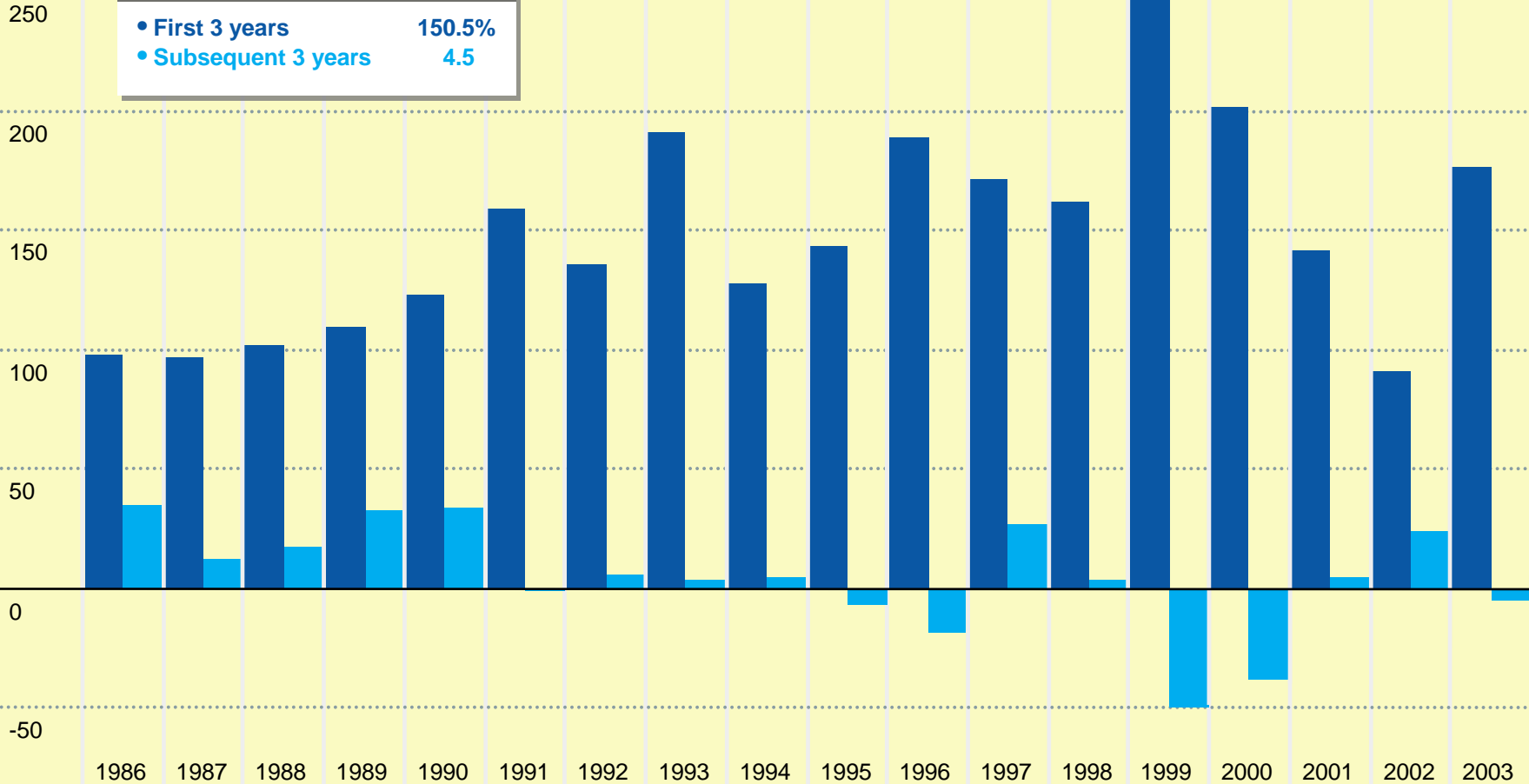
Do Stock Winners Repeat?

Top ten performing stocks 1986–2006

300% Annualized return

Average Return

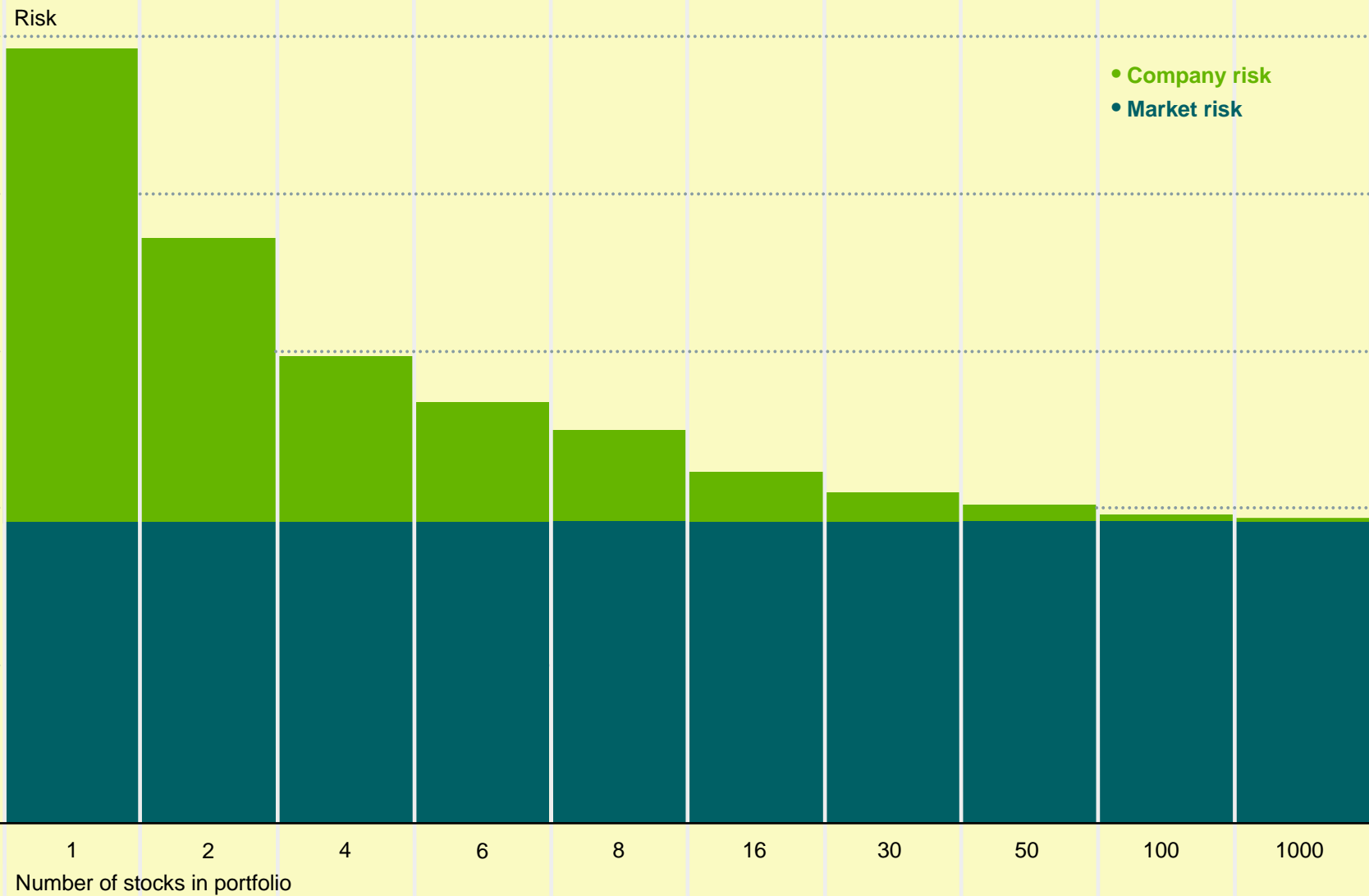
- First 3 years 150.5%
- Subsequent 3 years 4.5



Past performance is no guarantee of future results. Annualized returns of an equally weighted portfolio of top 10 stocks by three-year return and return in subsequent three-year period (excluding the smallest 20% of the market). This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2007 Morningstar, Inc. All rights reserved. 3/1/2007



Stock Diversification



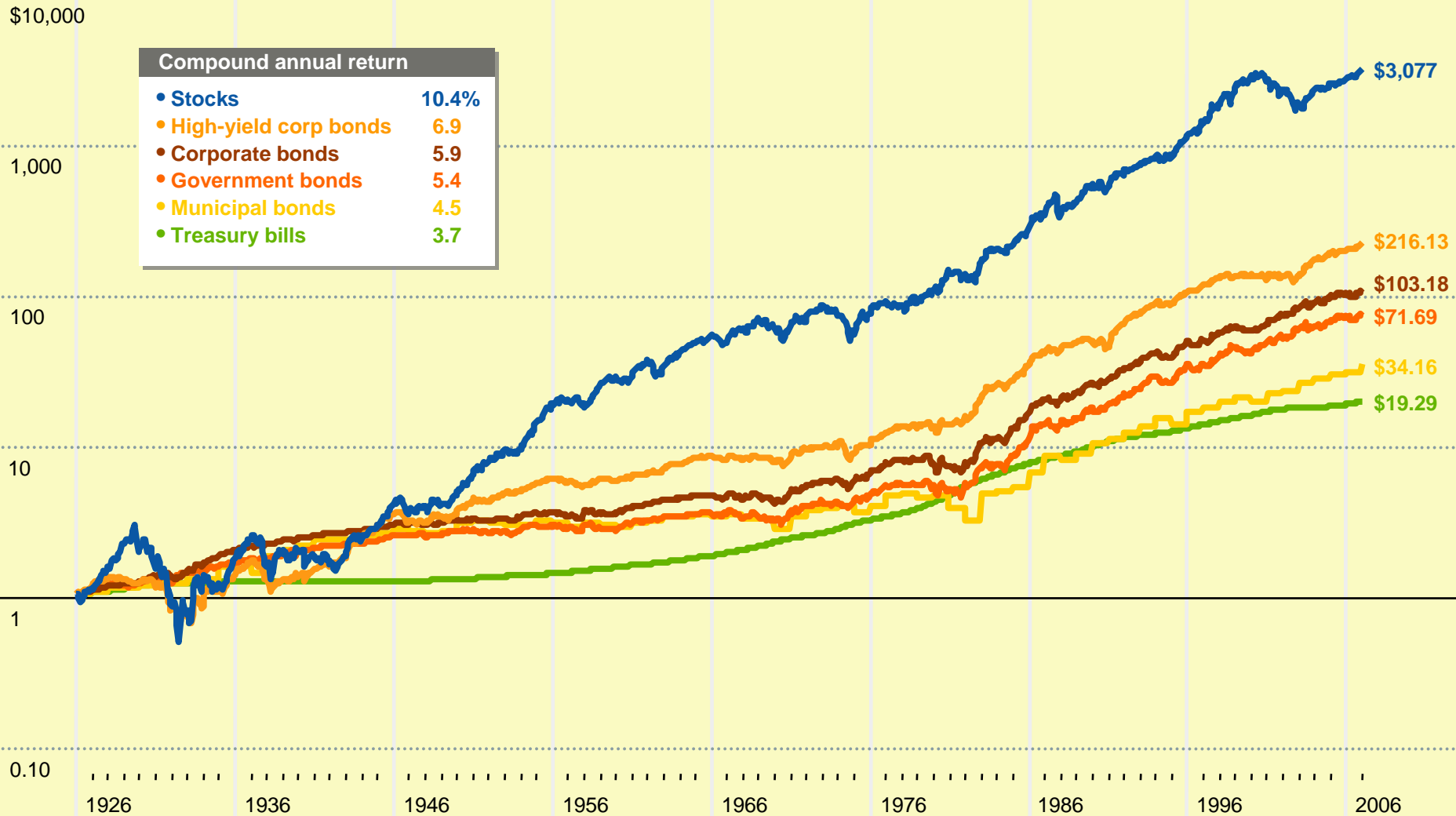
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Benefits of Bonds in a Portfolio

- ▶ Potential growth
- ▶ Historically lower risk
- ▶ Diversification benefits
- ▶ Income generation
- ▶ Expand efficient opportunities

Bond Market Performance

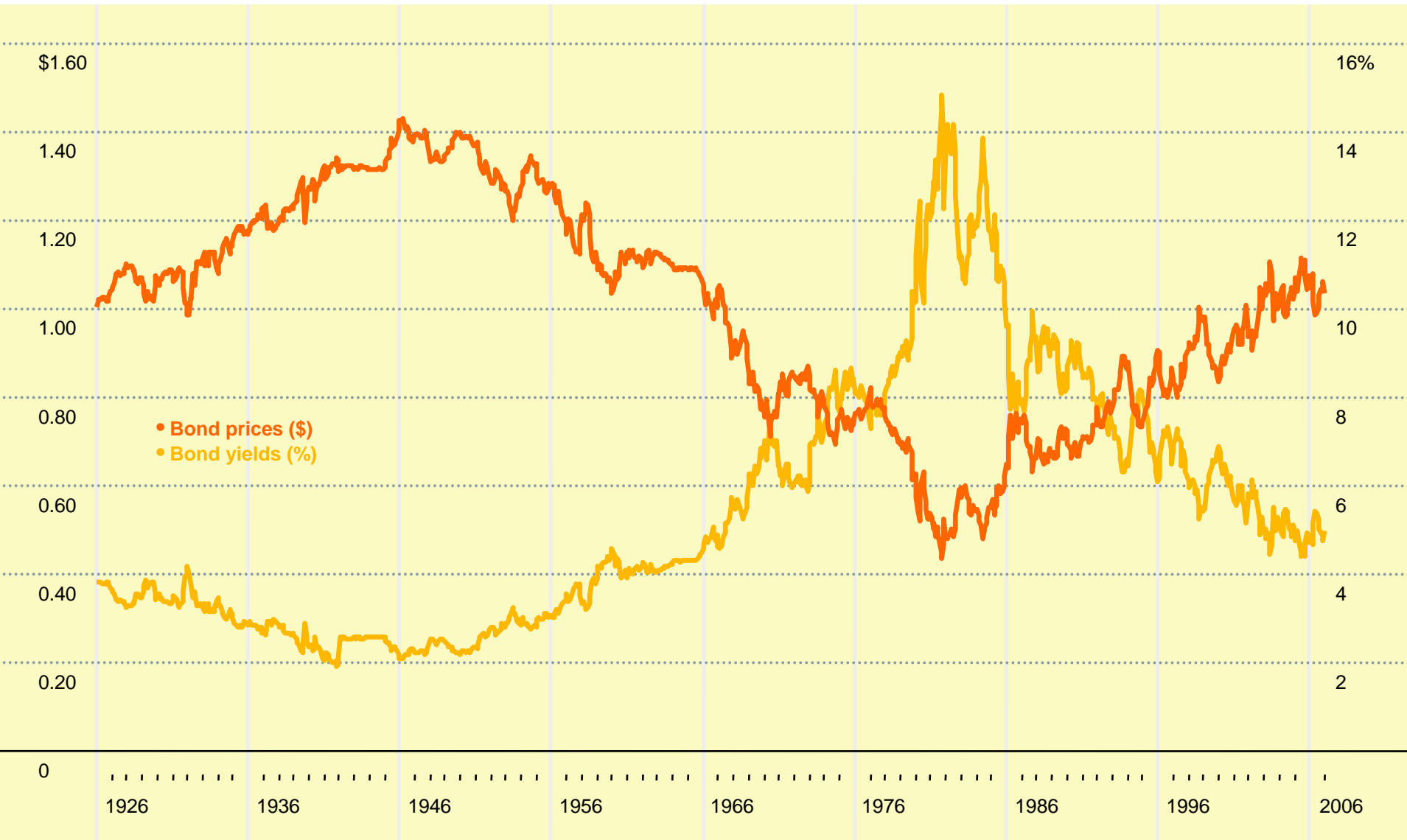
1926–2006



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Relationship Between Bond Prices and Yields

When yields increase, bond prices decrease



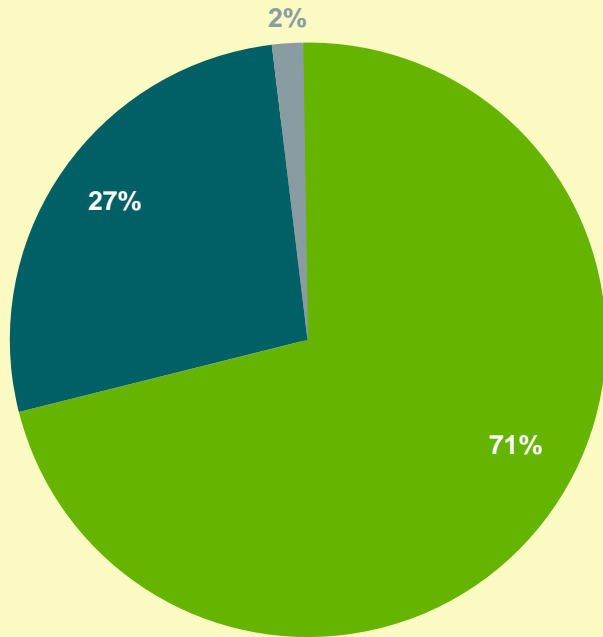
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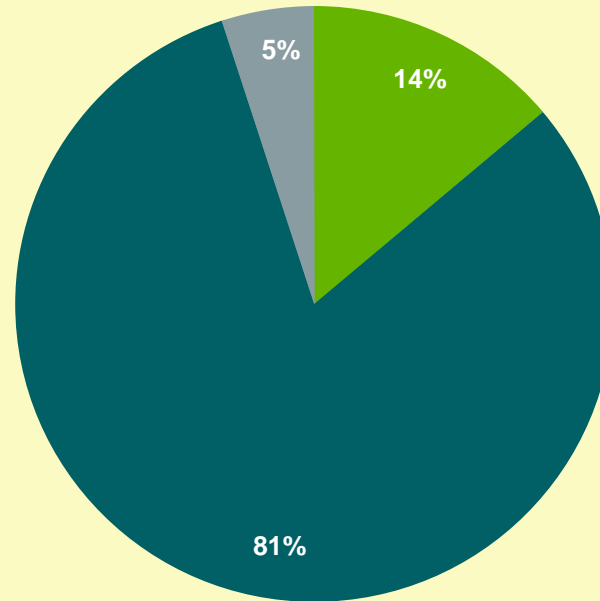
Bonds Produced Greater Income

1970–2006

Stocks



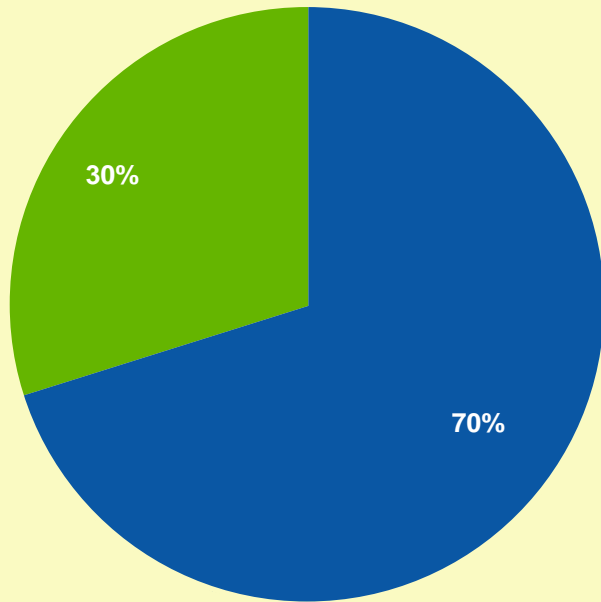
Bonds



- Capital appreciation
- Income
- Reinvestment of income

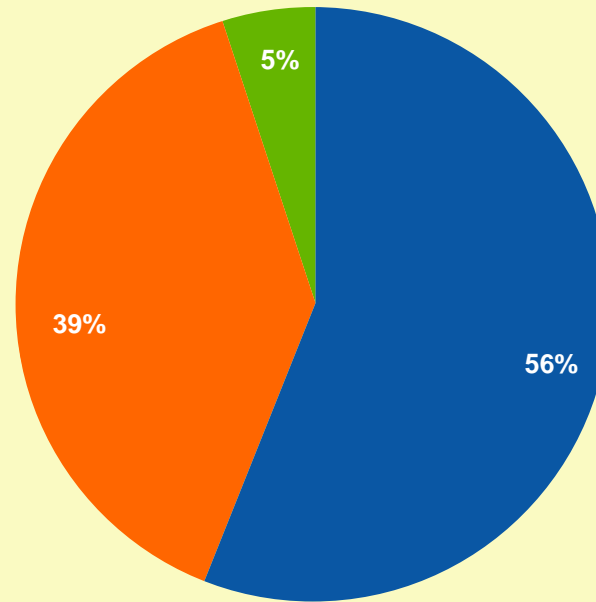
Adding a Bond Allocation to Diversify 1970–2006

Original portfolio



Return	10.6%
Risk	11.8%

Lower risk portfolio

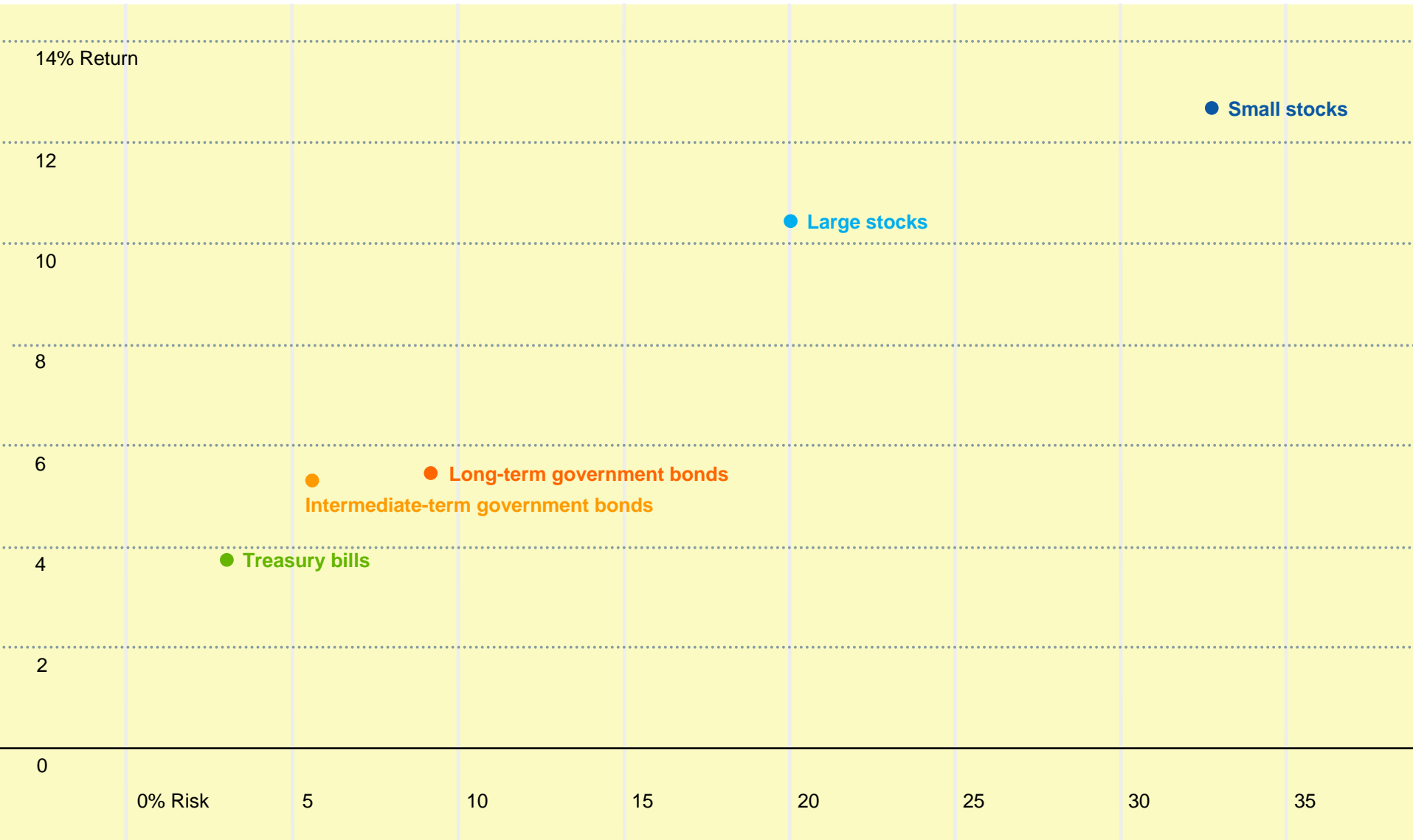


Return	10.6%
Risk	10.3%

- Stocks
- Bonds
- Cash

Risk Versus Return

Stocks, bonds, and bills 1926–2006



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Asset Class Winners and Losers

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Highest return	23.3%	32.9	8.1	37.4	23.1	33.4	28.6	29.8	21.5	22.8	17.8	60.7	20.7	14.0	26.9
	8.1	21.0	3.9	34.5	17.6	22.8	20.3	27.3	5.9	3.8	1.6	39.2	18.4	7.8	16.2
	7.7	18.2	3.1	31.7	6.4	15.9	13.1	21.0	-3.6	3.7	-13.3	28.7	10.9	5.7	15.8
	3.5	10.0	1.3	11.6	5.2	5.3	4.9	4.7	-9.1	-11.9	-15.7	1.4	8.5	4.9	4.8
Lowest return	-11.9	2.9	-7.8	5.6	-0.9	2.1	-7.3	-9.0	-14.0	-21.2	-22.1	1.0	1.2	3.0	1.2

• Small stocks

• Large stocks

• International stocks

• Long-term government bonds

• Treasury bills

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