

THE ASSET ALLOCATION ADVANTAGE

Insights From Financial Advisors and Investors



ACHIEVING THE RIGHT MIX

Asset Allocation Matters

WHEN IT COMES TO BUILDING AND PRESERVING WEALTH, INVESTORS NEED EVERY ADVANTAGE THEY CAN GET—ESPECIALLY NOW.

The rising costs of education and health care, longer life expectancies, and pressures on government- and corporate-sponsored retirement plans place a growing financial burden on the individual and require a new breed of focused, disciplined investors.

Asset allocation not only matters, it is one of the most important factors driving long-term portfolio returns.

The good news is that asset allocation offers a powerful investment advantage and, when practiced properly, can put you on the path to achieving your most critical financial goals. The even better news? With the right tools and resources, it's relatively simple to do and can save you the headache and heartache of a less-structured investment approach.

The Asset Allocation Advantage

Effective asset allocation has been integral to AllianceBernstein's investment approach for more than 35 years. Years of research and experience have shown us not only that asset allocation matters, but that it is one of the most important factors driving long-term portfolio performance. Our organization is strongly committed to helping investors understand, implement, and derive lasting value from effective asset allocation practices.

How Well Do Investors Follow Asset Allocation Principles?

Unfortunately, most investors aren't applying these principles as beneficially as they could be.

We wanted to understand why. So, in the spring and summer of 2005, AllianceBernstein Investments, Inc., undertook an ambitious research project in partnership with *Financial Planning* magazine. More than 500 financial advisors and 1,000 investors were interviewed by Mathew Greenwald & Associates, Inc., a premier polling firm, to gain insight into investors' knowledge, perceptions, and behaviors regarding asset allocation.

The Opportunity to Do Better

The findings of the research confirm that investors, ranging from beginners to seasoned experts, often stray from the principles of asset allocation and fall into the trap of making common—and costly—investing mistakes. Our research explores some of these missteps and points to solutions that can help investors take better charge of their financial futures. Read on to learn more about the findings from our research and achieving the right investment mix for you.

RESEARCH AND EXPERIENCE TELL

The Right Mix Story

AN OVERWHELMING BODY OF RESEARCH AND EVIDENCE DEMONSTRATES
THAT ASSET ALLOCATION HELPS INVESTORS DO BETTER.

Diversifying and rebalancing work together to help investors reap the rewards of effective asset allocation.

The Most Important Factor in Portfolio Performance

Nearly 20 years ago, academics Brinson, Hood, and Beebower conducted a groundbreaking study to determine how important asset allocation is to overall portfolio performance.

The study, “Determinants of Portfolio Performance,” analyzed the quarterly returns of 91 large

pension plans from 1974 to 1983 and found that a portfolio’s asset allocation was by far the most important factor in its performance—even more important than the selection of individual securities or attempts to “time” the market. In fact, the study attributes more than 90% of the variability of total portfolio returns to asset allocation.

THE BENEFIT OF DIVERSIFICATION

STOCKS AND BONDS TEND TO PERFORM DIFFERENTLY. IN PERIODS SINCE 1968, WHEN U.S. STOCKS HAVE DECLINED BY 10% OR MORE, THE BOND MARKET HAS MADE MONEY.

	U.S. STOCKS		U.S. BONDS	
Dec 68–Jun 70	(29.2)%	↓	2.2%	↑
Jan 73–Sep 74	(42.7)	↓	4.6	↑
Jan 77–Feb 78	(14.2)	↓	1.5	↑
Dec 80–Jul 82	(17.2)	↓	21.7	↑
Sep 87–Nov 87	(29.6)	↓	2.3	↑
Jun 90–Oct 90	(14.7)	↓	5.2	↑
May 98–Aug 98	(13.4)	↓	4.7	↑
Apr 00–Mar 03	(40.9)	↓	36.5	↑
Average	(25.2)%	↓	9.8%	↑

Past performance is no guarantee of future results.

U.S. stocks are represented by the S&P 500 with monthly dividends reinvested. Bonds are represented by five-year Treasuries. Treasury securities provide fixed rates of return as well as principal guarantees if held to maturity. Investment returns and principal value of a mutual fund will fluctuate, so that shares, when redeemed, may be worth more or less than their original cost. No fees or expenses are reflected in the performance of the index. An investor cannot invest directly in an index, and its results are not indicative of any specific investment, including any AllianceBernstein mutual fund. The Lehman Brothers Aggregate Bond Index is composed of the Mortgage-Backed Securities Index, the Asset-Backed Securities Index, and the Government/Corporate Bond Index. It is a broad measure of the performance of taxable bonds in the U.S. market, with maturities of at least one year. The unmanaged S&P 500 Index is composed of U.S. stocks and is a common measure of the performance of the overall U.S. stock market.

Source: Center for Research in Security Prices and Standard & Poor’s

Since then, a growing body of research has provided additional support for the value of a disciplined asset allocation approach.

Invest Across Asset Classes to Balance Risk and Return

In a diversified portfolio, investment advantage can be created by combining investments that don't perform the same way at the same time. In the most basic example, stocks and bonds tend to perform differently. Since 1968, in periods in which U.S. stocks have declined by 10% or more, the bond market has made money—and sometimes lots of it.

By combining these asset classes, you can balance the higher risk and return potential of stocks with the steady returns of bonds for smoother performance in the long run.

Diversify Within Asset Classes

Just as asset classes go in and out of favor, so do the types of investments within those asset classes. Since it is almost impossible to predict when a particular type of investment will be performing well, it is in an investor's best interest to diversify not only across asset classes, but also within them.

So, for example, it would be advantageous to diversify a portfolio's equity holdings among growth and value stocks, large-, mid-, and small-cap funds, and international and U.S. securities, because these investments tend to trade performance leadership positions over time.

Rebalance Regularly to Keep Portfolios on Track

Rebalancing also plays an important role in achieving long-term

goals. When there is more than one asset class in a portfolio, the original allocation changes over time as markets fluctuate.

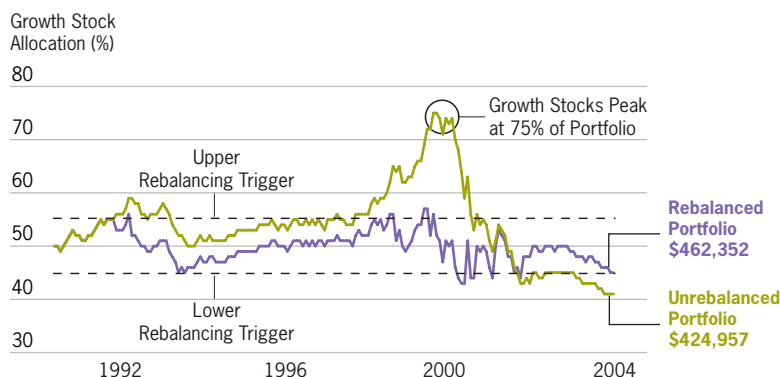
If stocks rise during the year while bonds decline, investors will wind up with more in stocks and less in bonds at the end of the year than originally planned, increasing the potential risk and volatility of their portfolios. Restoring the balance may require selling some stocks and buying more bonds—in other words, selling high and buying low.

Maintaining the right mix of investments within asset classes by rebalancing regularly is also a must. The chart on this page shows the difference between an investor who split \$100,000 equally between growth stocks and value stocks in 1990 and rebalanced to maintain that allocation, and one who made the same investment but didn't rebalance.

REBALANCING CAN INCREASE RETURNS AND REDUCE RISK

OVER TIME, RESTORING A PORTFOLIO'S BALANCE PERIODICALLY HELPS GENERATE BETTER RETURNS.

Blended Stock Portfolio: 50% Growth, 50% Value



Past performance is no guarantee of future results. The above example is a hypothetical simulation using indexes to represent the major asset classes. It is not representative of the returns of any investment, including any AllianceBernstein mutual fund. It is intended only as a demonstration of the potential benefit of portfolio rebalancing. Rebalancing methodology assumes one-way transaction costs of 50 basis points. There can be no assurance that rebalancing will achieve the intended results, and the costs of rebalancing may be significant over time.

Growth and value stocks are represented by the S&P/Citigroup PMI U.S. Growth and Value indexes.

Source: Standard & Poor's and AllianceBernstein

The unrebalanced portfolio reached its greatest growth exposure in March 2000, just in time to be hit by the worst bear market in more than a generation. When all was said and done, the unrebalanced investment would have grown to just under \$425,000. But if the investor had rebalanced, he would have made an additional \$37,395.

ASSET ALLOCATION MATTERS

Investors Talk the Talk...

THE RESULTS OF OUR RESEARCH SHOW THAT BOTH FINANCIAL ADVISORS AND INVESTORS VALUE ASSET ALLOCATION.

Investors agree that asset allocation plays an important role in successful investing.

Asset allocation is more important to investment returns than investment selection.

58% Agree

It's important to learn more about having a broadly diversified portfolio.

80% Agree

Asset allocation funds help me sleep better at night.

57% Agree

I am comfortable creating a proper asset allocation plan.

77% Agree

Financial advisors feel strongly that proper diversification and timely rebalancing have a powerful impact on an investor's bottom line.

Rebalancing is important to the overall performance of client portfolios.

94% Agree

Asset allocation is more important to investment returns than investment selection.

80% Agree

THE ISSUE FOR INVESTORS

But Do They Walk the Walk?

NO QUESTION—THE PRINCIPLES OF ASSET ALLOCATION ARE WELL ESTABLISHED. NEVERTHELESS, INVESTORS AREN'T “WALKING THE WALK.”

Results from our study indicate that investors may find it challenging to put asset allocation principles into practice.

It's harder to sell a winner than to admit being wrong to a loved one.

61% Agree

My portfolio has been hurt by not having the proper balance of investments.

59% Agree

When the markets are moving strongly up and down, it's hard to stick to an asset allocation plan.

52% Agree

And advisors recognize that investors need help.

If investors had stuck to their original asset allocation plans prior to 2000, they could have cut their losses by more than half over the following few years.

83% Agree

Very few investors rebalance their portfolios as often as they should.

93% Agree

The media's attention to top-performing investments makes it hard to get clients to focus on core financial planning issues.

88% Agree

*“Investors make wrong decisions
75% of the time during down markets.”*

DALBAR,
“Quantitative Analysis of Investor Behavior,” 2005

FROM ADVISORS AND INVESTORS

Some New Insights

WHILE DIVERSIFYING AND REBALANCING CAN BE A FAIRLY SIMPLE AND EXTREMELY BENEFICIAL PROCESS, HUMAN NATURE MAKES IT HARD FOR INVESTORS TO DO THE RIGHT THING.

By working with a financial advisor to develop a well-designed plan, you can significantly reduce the chance of being side-tracked by these pitfalls.

It's More Than What You Know; It's What You Do

All too often, investors with the best intentions act on their emotions, instincts, or misconceptions, rather than the guiding principles of a financial plan or the advice of a financial advisor. Making decisions without carefully considering how they factor into your long-term investment strategy can result in costly mistakes and impact the likelihood of realizing your financial goals.

However, avoiding investment decisions altogether isn't the solution. Investors who take no action are also at risk. A fear of making

the wrong decision can result in lost opportunities to both build and preserve wealth as market conditions change.

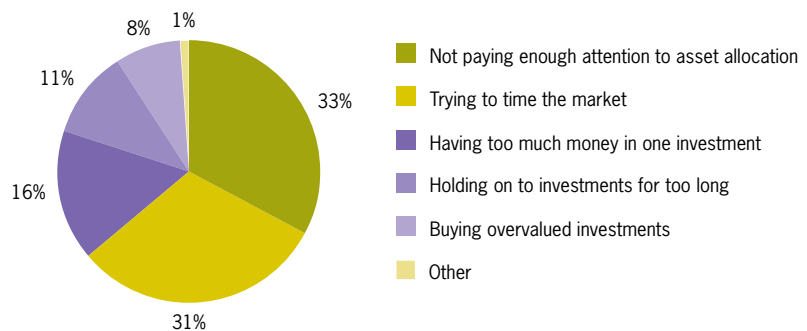
Losing Sight of the Big Picture

Time and again, investors make decisions based on a short-term view about how the market is going to move, either up or down, rather than a long-term strategy. The majority of investors (52%) we surveyed say it's hard to stick to an asset allocation plan when the market is moving strongly up or down.

This can be dangerous, because the market is unpredictable,

WE ASKED ADVISORS:

WHAT IS THE SINGLE MOST DETRIMENTAL MISTAKE INVESTORS MAKE?



and there is a good chance that investors (no matter how knowledgeable and informed they are) will predict the direction the market is heading incorrectly.

These mistakes are painful and contribute to increased levels of anxiety and reduced account balances. Correcting these behaviors starts with identifying them and understanding just how much they undermine financial security.

Flying Blind (or with Limited Vision)

For a number of investors, a lack of knowledge interferes with realizing the benefits of asset allocation. Forty-one percent of investors without an asset allocation strategy say they don't have an approach to asset allocation because they don't know how to get started. This can lead to haphazard choices that result in poor performance.

Investor Behavior Undermines Performance

Research conducted by DALBAR, an independent financial research firm, illustrates the challenge that investors face acting on their own. The reality is that individual investors generally have underperformed the major investment benchmarks.

From 1985 through 2004, in terms of annualized returns, the average stock fund investor earned 3.7% and the average bond fund investor earned 2.0%, while the Lehman Aggregate Bond Index earned 8.8% and the S&P 500 earned 13.2%. At the same time, inflation was 3.0%—

meaning that the average stock fund investor barely kept pace with inflation.

Our research also shows that while a number of investors claim to understand and observe the principles of asset allocation, when probed more deeply, an overwhelming majority expressed the desire to learn more.

To test your knowledge, visit our website, www.TheRightMix.com, and take The Right Mix Quiz on asset allocation.

Putting All the Eggs in One Basket

Even though investors seem to know that diversification is key to long-term investing success, it's still a struggle. More than half (51%) of all investors say they've had too much money in one investment.

People are irresistibly drawn to the hot hand, often getting caught up in one scenario after another—

the biotech bubble, the Internet bubble, and now maybe a housing bubble.

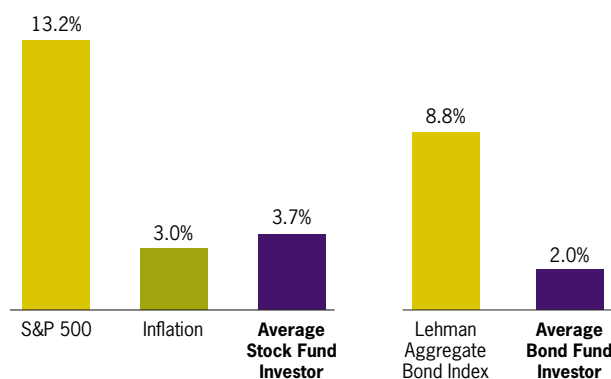
Knowing When to Let Go and When to Jump In

Another common mistake is holding on to investments—both winning and losing—too long, even though disposing of such investments is often critical to maintaining the right asset mix. The majority of investors admit to making this mistake.

The findings of our research reinforce that even though it is in an investor's best interest to sell high and buy low, investors hate to sell winners and are reluctant to buy out-of-favor investments. Historically, many investors have not only held on to winning investments too long, but have poured more money into them, resulting in an unbalanced portfolio with a higher level of risk.

INDIVIDUAL INVESTORS HAVE UNDERPERFORMED BENCHMARKS

Annualized Returns 1985–2004



Past performance is no guarantee of future results.
Source: DALBAR

GETTING AND KEEPING *The Right Mix*

WITH A LITTLE KNOWLEDGE AND DISCIPLINE, YOU CAN ESTABLISH
THE RIGHT MIX OF INVESTMENTS AND REAP ITS REWARDS.

As the evidence demonstrates, having—and maintaining—the right mix of investments is the key to successful investing over the long term. How you allocate your portfolio today will go a long way to determining if you will realize your financial goals tomorrow. It's never too late to put an allocation and rebalancing strategy in place. Here are some action-oriented suggestions to aid you in getting The Right Mix.

Your asset allocation strategy should be an integral part of your overall financial plan.

Develop a Plan

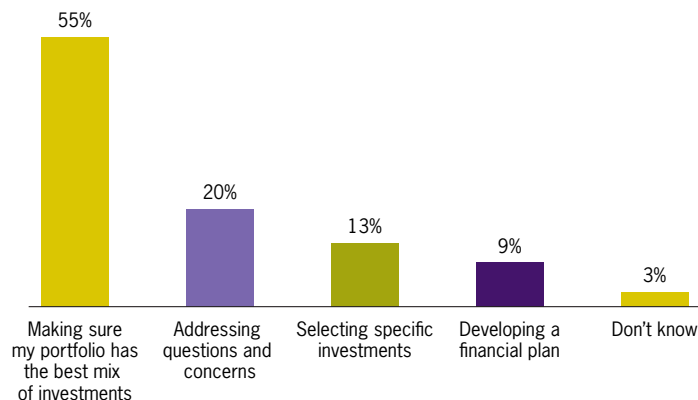
From the get-go, having the right plan—rigorously focused on your long-term objectives—is critical. In formulating your plan, it's important to identify your various financial goals, such as saving for retirement, paying for a child's college education, or buying a house, and the time horizon for each goal.

Once this framework is established, you can develop an investment strategy consistent with your risk tolerance, timeline, and financial objectives.

Having a defined approach to asset allocation can put you on track to achieving your financial goals and keep you there by establishing a framework that guides your investment decisions, significantly reducing the opportunity for making poor choices based on human error.

In fact, the majority of investors we surveyed with an asset allocation and rebalancing strategy were confident that they would meet their financial objectives. Fifty-one percent of investors with an asset allocation plan said

WE ASKED INVESTORS:
HOW DOES YOUR FINANCIAL ADVISOR HELP YOU THE MOST?



they were very confident that they would reach their long-term financial goals versus 32% of investors who didn't have an asset allocation strategy.

Seek the Help of a Professional

If you needed prescription medication, help with a tax problem, or a better backhand for your tennis game, you would most likely seek professional advice. For something as crucial as your financial future, it is even more important to turn to an experienced and knowledgeable professional.

Moreover, money is an emotional instrument. A professional advisor can bring a clear-eyed objectivity to money management that most investors, regardless of their knowledge or experience, are hard-pressed to provide for themselves.

It is not surprising, then, that investors who use advisors are much more likely to have, and abide by, an asset allocation strategy than those who do it alone.

Rebalance Regularly

It's not enough to set your allocation once and forget about it. Asset classes fluctuate—frequently moving in opposite

directions and/or at varying rates—which is why it's important to allocate in the first place. To truly take advantage of an asset allocation plan, it's critical to periodically restore the original allocation through the process of rebalancing.

So, how does a smart investor know when to rebalance? At AllianceBernstein, our research shows that it's best to follow a disciplined process driven by percentage moves in your portfolio.

The optimal rebalancing approach factors in the benefits (reduced risk and lower volatility) with the costs (primarily taxes and transaction fees). A financial advisor can help you develop and implement a rebalancing strategy that keeps you on track.

Strategies for Success

From our perspective, investing for the long term is all about reaching your goals. At AllianceBernstein, we have found the following five practices to be critical to investment success:

- Diversify across asset classes
- Blend growth and value

- Globalize the portfolio
- Rebalance
- Maximize after-tax returns

To learn more about taking advantage of these strategies, speak to your financial advisor or visit www.TheRightMix.com.

Consider Buying an Asset Allocation or Target-Date Fund

There is an easy way to realize the benefits of asset allocation and rebalancing. The best part is that doing so will greatly reduce the amount of time—and mental energy—you need to devote to your portfolio.

Many investment management companies have created products aimed at facilitating the process of asset allocation, diversification, and rebalancing. These products go by different names—asset allocation, life-cycles or target-date funds—and have various features. What they have in common is this: They are highly diversified, providing a range of investments that could be achieved only by investing in a number of different funds, and they offer varying levels of risk and growth potential.

□ Investors on | The Benefits of Working with a Financial Advisor

- 56% of investors with a primary financial advisor have a written financial plan; just 26% of investors who do it themselves have a plan
- 75% of investors with a primary financial advisor say they have an approach to allocating and rebalancing; 61% of investors without advisors say they have one
- 71% of investors with a primary financial advisor have diversified their portfolios over the last year; 54% of investors without an advisor have done so



Q&A with Marc Mayer

Executive Managing Director
AllianceBernstein Investments

Q. AllianceBernstein seems to care a great deal about asset allocation. Why is that?

A. There are three essential reasons we focus on asset allocation in our research, in our product design, and in our communications:

First, it matters a lot. We are committed to helping people make the most of their investments, and no issue has a greater impact on portfolio performance than asset allocation. It is critical to construct an investment plan whose asset allocation meets the long-term needs of the investor.

Second, it can be difficult to execute. There are many different asset categories that should be part of a well-designed plan—U.S. growth equities, both large- and small-cap; U.S. value equities, also large- and small-cap; international equities—again, both growth and value; REITs; and a series of bond services. Next, investors need to populate these diverse categories with investment services that adhere rigorously to the mandates of each. Finally, the plan needs to be rebalanced with absolute discipline to maintain its integrity over time. Doing all these well can be immensely challenging.

However—and this is the third reason for our focus on asset allocation—there are simple solutions to this complex problem, solutions that can truly help investors and their advisors make better choices that yield superior outcomes.

Q. You mentioned that you've done research into asset allocation. Tell us about this research, and what did it show?

A. Recently, we've complemented our fundamental and quantitative investment research in advanced portfolio construction and asset allocation techniques with an important research initiative into investor and advisor attitudes and behavior.

Specifically, we surveyed investors to learn more about what they know about constructing well-designed savings and retirement plans, how they're behaving, and where they're running into trouble. We also talked to financial advisors to get another perspective on the issues their clients face.

The advisors we surveyed feel strongly that asset allocation can have a dramatic effect on long-term portfolio performance. On average, they estimate that effective asset allocation could have added 68% to a typical investor's portfolio over the last 30 years. That equates to almost 2% per year.

Q. That doesn't sound like that much. Are 1% or 2% lower annual returns really a problem?

A. Well, let me put that statistic in some context, noting first that other studies, such as the data produced by DALBAR, indicate that the returns of investors can lag the market by substantially more than 1% or 2%. But even 1% lower returns can matter an enormous amount.

Our research into retirement plan management, particularly in the area of target-date funds, indicates that a person who realizes just 1% more in annual returns during his or her working life, which

can be 40 years in duration, can enjoy over a decade more of spending in retirement. This is how powerful the effects of compounding can be over long periods of time. It can literally be the difference between spending one's retirement living well or living in worry.

Q. What were some of the most significant barriers to success for investors?

A. While investors understand the benefits of diversification, they run into difficulty establishing and particularly maintaining a well-diversified asset allocation strategy. This is because, by definition and design, diversification means that some parts of a plan will be lagging at any given time.

A well-diversified asset allocation is composed of many portfolios that are all capable of doing well over time, but not necessarily at the same time. This can be uncomfortable and even counterintuitive. Let me explain.

As we know, many people have a hard time selling their winning investments and investing in other funds that have lagged in performance, even though these are core principles of effective asset allocation. The research shows that people have a true affection for their winners and have a really hard time selling them.

At the same time, people have a tough time investing in the sectors of the market that are underperforming. People just don't want to do it. It makes them feel foolish, particularly if those investments continue to go down in the near term.

Q. Are there any insights gleaned from the research that can help advisors and investors improve the way they work together?

A. The survey findings underscore the need for better communication between advisors and investors. Investors who have advisors often don't take their advice, even when it's in their best interest to do so. Only 25% of the investors we talked to say they always follow the advice of their advisor. Advisors estimate that the number is much lower (7%).

It's important for investors and advisors to discuss the reasoning behind and potential outcomes for each suggestion an advisor makes. This activity will go a long way to determining which decisions are based on emotions or instincts and which are based on discipline and a long-term financial plan.

Also, only 16% of investors using a financial advisor say that their advisor manages their entire portfolio, and less than half of advisors say they usually know how client assets they don't manage are invested.

Your advisor doesn't have to manage your entire portfolio, but he or she should know where your assets are invested. Creating an asset allocation plan without an understanding of where all the assets are is like putting a jigsaw puzzle together without all the pieces.

Q. Any final thoughts?

A. In today's complex world, meeting even basic financial goals can be a challenge. But putting a smart asset allocation plan in place and sticking to it can greatly increase your odds for success.

The benefits go beyond investment performance, though. The right asset allocation strategy and associated products may make the whole investing process a lot less stressful, and may even play a helpful role in engendering investor confidence. If we can do just a little to help reduce anxiety and promote confidence in long-term savings, that's a benefit.

OUR SIMPLE MESSAGE IS THIS

Asset Allocation Matters. A Lot.

IN INVESTING AS IN LIFE, THERE ARE NO GUARANTEES, BUT HAVING
AND STICKING TO AN ASSET ALLOCATION STRATEGY CAN GREATLY INCREASE
YOUR CHANCES OF REACHING YOUR FINANCIAL GOALS.

But it's not just the end result that's the benefit. The discipline and focus provided by the right asset allocation strategy and associated products can greatly reduce the anxiety and stress associated with making investment decisions. And that's a benefit you can enjoy for a lifetime.

If you'd like to put the right mix of investments to work for you, help is available. To learn more about asset allocation, see your financial advisor or go to our investor educational website, www.TheRightMix.com.

We've prepared a simple checklist for you to see if you're following good asset allocation practices. If you can't answer "yes" to all of these questions, you may want to talk to your financial advisor about how you can improve your investment strategy.

☐ **Asset Allocation** | Putting the Principles into Practice

- ✓ Have you defined long-term goals for your investment strategy?
- ✓ Do you have a written financial plan? If so, do you review your financial plan at least annually?
- ✓ Does your portfolio have the right mix of investments across major asset classes—stocks and bonds—and key categories including U.S. and international, and growth and value?
- ✓ Do you reexamine your allocation periodically—and adjust the mix if necessary?
- ✓ Is your asset allocation strategy coordinated across all your investment accounts?
- ✓ Are you ready to sell "winners" and buy "losers"—if that's what it takes to maintain your right asset mix?
- ✓ Are you committed to sticking with your long-term plan—regardless of the short-term market trend?

BUILDING AND PRESERVING

Investor Wealth

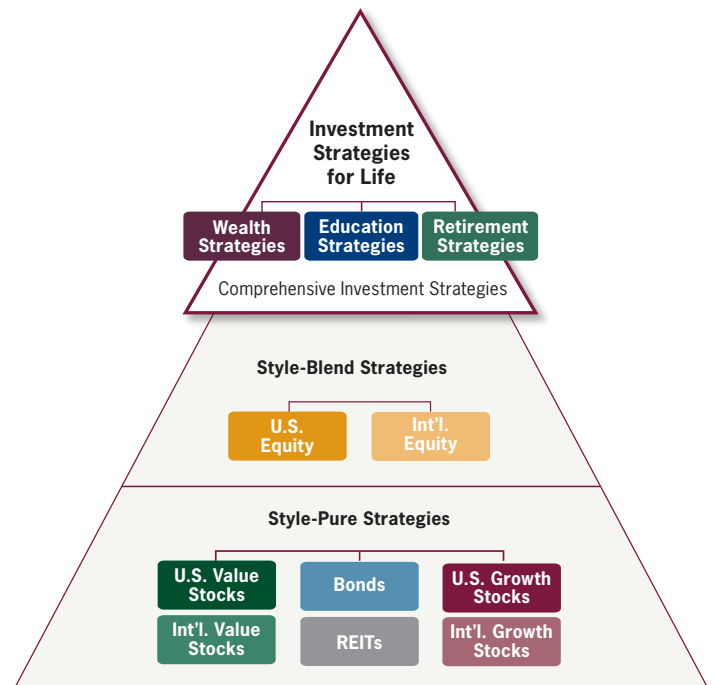
For more than 35 years, AllianceBernstein has provided investment services to a diverse group of clients, including some of the largest institutional investors in the world. Our primary business goal is to design diversified investment solutions that help our clients build and preserve wealth.

Our mutual fund portfolios include wealth, style-blend, and style-pure strategies. These investment strategies, together with our global, innovative research and our disciplined, principled investment processes, make AllianceBernstein one of the most powerful investment organizations in the industry.

Our investment services come in a variety of platforms to suit individual needs, including:

- Mutual Funds
- Education Strategies
- Retirement Services
- Separately Managed Accounts
- Subadvisory Services

Our Firm, Our Mission	
Building and preserving investor wealth through:	
<ul style="list-style-type: none">➤ A sole focus on asset management➤ Global, innovative research➤ Disciplined, principled investment processes➤ Investment strategies geared to client needs➤ Competitive performance at a good value	Delivered by our most important assets...
	Our People



Please note that diversification does not prevent investment loss, and rebalancing a mutual fund portfolio involves transaction costs to the manager of the fund.

You should consider the investment objectives, risks, charges, and expenses of any AllianceBernstein fund/portfolio carefully before investing. For free copies of our prospectuses, which contain this and other information, visit our website at www.alliancebernstein.com, or call your financial advisor. Please read the prospectus carefully before you invest.

AllianceBernstein Investments, Inc., is an affiliate of AllianceBernstein L.P., the manager of the funds, and is a member of the NASD.



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