Mix from page A5

ing shows that if $1 had been invested in S&P 500 in 1960, it would have grown to $64.60 at the end of 1997. In contrast, over the same period, $1 managed by the Dynamic One model would have grown to dramatically to more than $920.

The ability of Dynamic One to reduce the portfolio risk is equally impressive. During the period 1960-1997, Dynamic One reduced the risk (standard deviation) of the portfolio by 24 percent while simultaneously increasing the return by 61 percent. This implies that over this time period, as compared to the S&P 500 index, the model produced superior returns while reducing the overall volatility of the portfolio. In terms of flying an airplane, this meant that it reached its destination faster while enjoying a smoother ride.

At this point it is appropriate to reiterate that backtesting represents an oversimplification of the real world and that past performance does not guarantee future results.

• **Forward Testing.** Clearly, in an asset allocation model the ultimate goal of estimating the performance of stock and bond markets is to determine how the investable funds should be allocated among the three asset classes – namely, stocks, bonds, and money market instruments. In this area, the strategy used by Dynamic One is nontraditional and requires elaboration.

A critical assumption underlying the operation of Dynamic One is that it is impossible to predict how the market will perform consistently and accurately.

Consequently, Dynamic One categorically rejects market timing as an investment strategy, and refrains from completely switching out of stocks and bonds at any time, regardless of the relative outlook for these asset classes. In this model, diversification among the asset classes is assured through a minimum and a maximum investment in stocks and bonds at all times. Furthermore, the minimum allocation in these two categories are partly based on the risk profile of the investor.

Incidentally, starting with 1994, Dynamic One has been forward tested in order to determine if the model also operates effectively under real world circumstances. It would therefore be interesting to see how one real world portfolio performed for a conservative investor whose primary objective was risk reduction and a satisfactory return.

Figure 5 presents the performance of such a portfolio over a three-year period ending in December 1997. Dynamic One was used to construct and manage this conservative portfolio.

In conclusion, it should be categorically stated that the past performance of Dynamic One does not guarantee future results. Also, the performance would have been very different had the portfolio been constructed for a moderate or aggressive investor.

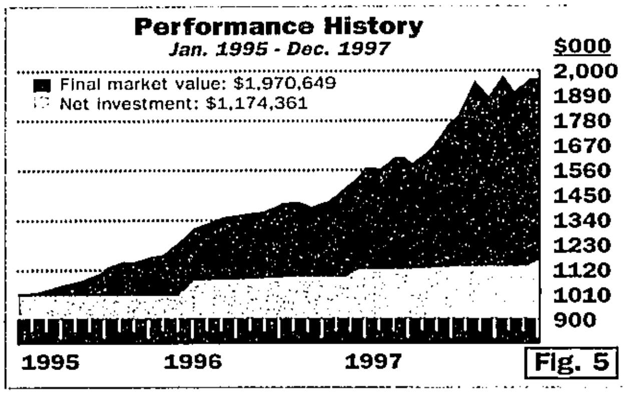

Fig. 5

Diversification among investment classes important to Dynamic One

Dynamic One is not just a stand-alone management tool.

In fact, its true power cannot be fully appreciated until it is viewed as an integral part of a four-dimensional investment management strategy. The four 'D's of this strategy are: **Dynamic One, Diversification** within each asset class, using a **Dream Team** of money managers and a **Distinct Portfolio** for each investor.

Having just presented the essentials of Dynamic One, we now turn to the second 'D' – diversification within each asset class.

Stock, Bond Diversification

• **Diversification of Stocks.** First, stocks are divided into domestic stocks and international stocks. Next, the latter stocks are further subdivided into developed market stocks and emerging market stocks. Finally, domestic stocks are subdivided into large-cap, mid-cap, and small-cap stocks.

• **Diversification of Bonds.** The bond portfolio is subdivided into domestic bonds and global bonds. The allocation for domestic bonds is further sub-grouped into: high quality corporate bonds, high-yield corporate bonds, short-term Treasury bonds, intermediate-term Treasury bonds and long-term Treasury bonds.

• **Allocation For Money Market Instruments.** For practical reasons, this asset class is not divided into sub-categories.

Details of diversification of asset classes were presented in Figure 4.