Krosnowski & Scott LLC
Investment & Retirement Planning Specialists

To:
From: Andrew J. Krosnowski & Melissa S. Paine
Re: Investment Portfolio Review

I. Investor Profile:

Investment Objective: Growth & Income
Risk Tolerance:
Time Horizon:

II. Investment Commentary:

III. Our Investment Approach

A. Modern Portfolio Theory (MPT) - MPT is an investment philosophy that seeks to maximize investor's efficiency by combining asset classes whose price movements are not directly correlated (i.e. they move in different directions part of the time). Examples of these are bonds and various types of stocks, such as value and growth, domestic and international, and large and small cap. By diversifying your assets across these investment categories within your risk tolerance and investment objectives, MPT seeks to provide investors with more consistent returns and less risk or price volatility than more concentrated, less diversified portfolios. We try to incorporate MPT into all of our client's investment portfolios.

B. Asset Allocation and Investment Efficiency- In Chapter 2 of his book "Stocks For The Long Run," Wharton Business School Professor Jeremy Siegel discusses modern portfolio theory and the "efficient frontier[1]." The theory illustrates the lowest risk point on a linear curve between differing combinations of bonds and stocks while achieving the highest possible return over 10, 20 and 30 year time periods[2]. Over a recent 200 year period the efficient frontier was approximately:

- 60% bonds / 40% stocks for 10 year periods
- 40% bonds / 60% stocks for 20 year periods
- 30% bonds / 70% stocks for 30 year periods

We make recommendations to structure investor's portfolios so that their asset allocation matches their investment needs and comfort level. We use input from the investor's profile and the "**efficient frontier**" concept to determine an appropriate asset mix for our clients.

C. Stock Market Investing- Research indicates that investor's chances of success may be enhanced in the future if the following trends are incorporated into their portfolios:

- There is not a direct correlation between price movements of:

  Stock Market Capitalization: US large cap stocks and US mid/small stocks
  Stock Asset Classes: Value stocks and growth stocks
  Geographic Markets: Domestic stocks and international stocks

  Every few years these different stock styles and asset classes move in and out of favor versus each other in the financial market place[3]. As a result, combining these investments may reduce the peaks and valleys of investing in one stock category. It also may improve investment efficiency by providing potentially more consistent returns with less risk or volatility.

- **Utilize US Large Cap Stocks as your stock foundation** (base of portfolio). Since large-cap stocks are usually less volatile, we suggest clients overweight this category. Adding mid and small-cap stocks to your portfolio in moderation may increase diversification, improve your performance potential and the consistency of your returns.
- **Invest in companies that pay healthy dividends**. Historically, dividends have provided a significant portion of stock returns. Since 1926, dividends have represented approximately 41% of the total return for large cap stocks, according to Ibbotson Associates. During the period from 1972 to 1982, the Dow Jones Industrial Average began at 1003 and ended at 1004. However, if you invested $10,000 in the Index it would have grown to $16,936 thanks to reinvested dividends [4]. We feel dividends are an important component of investor's returns. In a study conducted from 1975 to 2005, companies that grew their dividends out performed companies that either did not pay dividends or their dividend payout was flat. In a study conducted from 1985 to 2005, not only did paying stocks out-perform non-dividend paying stocks, they did it in the study with less risk.[7] These studies are for illustrative purposes only. Actual results will vary.
- **Combine value and growth stocks**. Historic data (since 1965) indicates that value stocks with lower P/E ratios have provided investors with higher returns and dividends, and less risk than growth stocks with higher P/E ratios[5]. When blending value and growth stocks, consider overweighting value stocks.
- **Globally diversify your portfolio**. Currently, stock valuations are more attractive outside the United States (ex Japan) due to higher dividend yields, greater dividend growth rates and lower P/E ratios[6]. Investing in globally diversified portfolios may provide investors with increased diversification and more consistent returns than investing exclusively in U.S. securities.

IV. <u>Investment Recommendations</u> – It is recommended to invest your IRA assets in the following manner:

INVESTMENT	AMOUNT ($)	Percentage of portfolio
TOTAL	***$***	***100%***

Balancing and globally diversifying your investment portfolio may enable you to receive consistent returns. This may enable you to generate income and grow your assets during retirement.

I look forward to reviewing this in more detail with you shortly.

Sincerely,

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Prices are as of the close of business. Prices are subject to market fluctuation
**** Values for mutual fund returns derived from Morningstar reports dated . Please read the prospectus carefully before you invest or send money. Performance figures are historical and reflect reinvested distributions and changes in net-asset value for class A shares. Past performance cannot guarantee comparable future results—actual results may differ because of market conditions, changes in technology and regulation, charges and expenses, as well as other factors.*
(1) The use of any investment strategy, including the Modern Portfolio Theory, does not assure that any investment will be profitable or successful in achieving your investment objectives.
(2) Past Performance is not a guarantee of future results.
(3) Bloomberg (data as of 12/31/04).
(4) The ICA Guide, American Funds
(5) Website of Kenneth French, Dartmouth's Tuck School of business; www.russell.com
(6) MSCI, as of 12/31/2004
(7) Source: Morgan Stanley, Ned Davis Research, Fact Set Research Systems
Investing in small or mid cap stocks may not be suitable for every investor and may involve great risk due to increase volatility. International investing involves additional risks, such as currency fluctuations, economic instability and political turmoil.
Investments in stocks are subject to market fluctuations and the value of shares when redeemed may be more or less than the original cost. Investors should always consider their own objectives, risk tolerance and time horizon and invest accordingly.
There is no certainty that any investment or strategy will be profitable or successful in achieving your investment objectives.
The Dow Jones Industrial Average is a price-weighted average of thirty blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.
There are fees and expenses associated with investing in mutual funds, including portfolio management fees and expenses and sales charges. Mutual funds are sold only by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from Andy Krosnowski and Melissa Scott Paine at (703)506-6886. Be sure to read the prospectus carefully before deciding whether to invest.