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Cornerstones of Investing

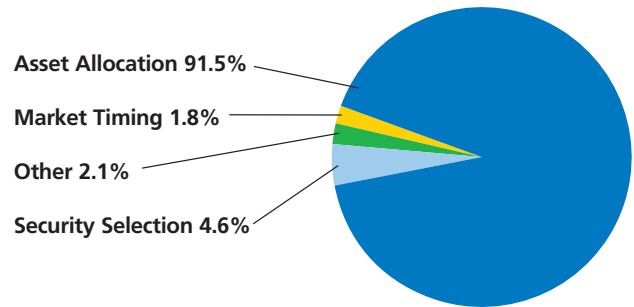
Diversify Among Investment Types

Investing in a variety of asset classes and investment styles can be a useful risk management tool. Diversifying among different types of investments, which may respond differently to various economic and market conditions, can help reduce volatility in your portfolio.

Managing Investment Risk Through Asset Allocation

Over time, various types of investments tend to perform differently. By investing in a variety of asset classes, such as stocks, bonds and cash, you can help reduce your exposure to a downturn in any one sector. In fact, a 1991 study of large pension funds showed that more than 90% of the variation in portfolio performance could be attributed to asset allocation. Security selection determined just 5% of performance and market timing just 2%.

Rebalancing alone does not ensure gains or prevent losses from occurring in a portfolio or account.



Source: Gary P. Brinson, L. Randolph Hood and Gilbert L. Beebower, *Determinants of Portfolio Performance*, The Financial Analysts Journal, July/August 1986; and Gary P. Brinson, Brian D. Singer and Gilbert L. Beebower, *Determinants of Portfolio Performance, II: An Update*, The Financial Analysts Journal, May/June 1991.

Adding Bonds for Diversification

Here's a quick example of a basic diversification strategy: holding both stocks and bonds.

As you can see in the chart to the right, for most of the last decade, there have been significant differences in annual performance.

For example, in 1999, the S&P 500 Index rose 21.04% while the Lehman Long Government and Credit Index lost 7.65%. On the other hand, in 2002, the S&P 500 declined 22.10%, and the Lehman Index was up 14.81%.

Comparison Chart Based on Year-by-Year Data

Year	S&P 500 % Change	Lehman Long Gov't/ Credit Index % Change
1994	1.32	-7.10
1995	37.58	29.95
1996	22.96	0.14
1997	33.36	14.52
1998	28.58	11.77
1999	21.04	-7.65
2000	-9.10	16.16
2001	-11.89	7.28
2002	-22.10	14.81
2003	28.68	5.87
2004	10.88	8.56
2005	4.91	5.34
2006	15.79	2.71

All results assume reinvestment of dividends on stocks or coupons on bonds and no taxes. Results do not reflect any deduction for any transaction costs, management fees or other expenses that would reduce an investor's actual returns. Past performance does not guarantee future results. The indexes referenced are unmanaged and an investor may not directly invest in such indexes. The index used is the S&P 500 Index, a standard benchmark of equity performance. Performance is based on continuous investment in the S&P 500 Index since 1/01/93.

Source: Russell/Mellon Analytical Services

The Lehman Long Gov't/Credit Index is the long component of the Lehman U.S. Government/Credit Index, a widely recognized index that features a blend of U.S. Treasury, government-sponsored (U.S. Agency and supranational), mortgage, and corporate securities limited to a maturity of more than ten years.

What Is the Ideal Asset Mix?

A portfolio that is well diversified will hold assets that do not all react the same way to economic and market cycles and world events. Stocks, bonds, cash—perhaps even commodities and real estate—can be considered, depending on your goals and risk tolerance. One thing is

clear: maintaining a diversified portfolio can potentially reduce overall volatility by balancing off ups and downs in different areas. That is even true for different sectors within the same asset class.

The chart below demonstrates how one year's top performer can be next year's laggard.

The Case for Style Diversification—Historical Review of Market Leadership (Year by Year: 1992–2007)

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	YTD 2007 (9/30/07)
Small Value 29.1%	Int'l Stocks 32.6%	Int'l Stocks 7.8%	Large Value 38.4%	Large Growth 23.1%	Large Value 35.2%	Large Growth 38.7%	Mid Growth 51.3%	Small Value 22.8%	Small Value 14.0%	U.S. Bonds 10.3%	Small Growth 48.5%	Mid Value 23.7%	Int'l 13.5%	Int'l 26.3%	Int'l 13.6%
Mid Value 21.7%	HFRI 27.9%	Large Growth 2.7%	S&P 500 37.6%	S&P 500 23.0%	Mid Value 34.4%	S&P 500 28.6%	HFRI 44.2%	Mid Value 19.2%	U.S. Bonds 8.4%	HFRI -4.7%	Small Value 46.0%	Small Value 22.3%	Mid Value 12.7%	Small Value 23.5%	Mid Growth 13.4%
HFRI 21.3%	Small Value 23.8%	HFRI 2.6%	Large Growth 37.2%	HFRI 21.8%	S&P 500 33.4%	Int'l 20.0%	Small Growth 43.1%	U.S. Bonds 11.6%	Mid Value 2.3%	Mid Value -9.7%	Mid Growth 42.7%	Int'l 20.3%	Mid Growth 12.1%	Large Value 22.3%	Large Growth 12.7%
Large Value 13.8%	Large Value 18.1%	S&P 500 1.3%	Mid Value 34.9%	Large Value 21.6%	Small Value 31.8%	Mid Growth 17.9%	Large Growth 33.2%	HFRI 9.1%	HFRI 0.4%	Small Value -11.4%	Int'l 38.6%	Large Value 16.5%	HFRI 10.6%	Mid Value 20.2%	HFRI* 9.9%
Mid Growth 8.7%	Mid Value 15.6%	Small Value -1.6%	Mid Growth 34.0%	Small Value 21.4%	Large Growth 30.5%	HFRI 16.0%	Int'l 27.0%	Large Value 7.0%	Large Value -5.6%	Large Value -15.5%	Mid Value 38.1%	Mid Growth 15.5%	Large Value 7.1%	S&P 500 15.8%	Small Growth 9.4%
Small Growth 7.8%	Small Growth 13.4%	Large Value -2.0%	Small Growth 31.0%	Mid Value 20.3%	HFRI 23.4%	Large Value 15.6%	S&P 500 21.0%	S&P 500 -9.1%	Small Growth -9.2%	Int'l -15.9%	Large Value 30.0%	Small Growth 14.3%	Large Growth 5.3%	Small Growth 13.4%	S&P 500 9.1%
S&P 500 7.6%	Mid Growth 11.2%	Mid Value -2.1%	HFRI 31.0%	Mid Growth 17.5%	Mid Growth 22.5%	U.S. Bonds 8.7%	Large Value 7.4%	Mid Growth -11.8%	S&P 500 -11.9%	S&P 500 -22.1%	Large Growth 29.8%	S&P 500 10.9%	S&P 500 4.9%	HFRI 11.7%	Large Value 6.0%
U.S. Bonds 7.4%	S&P 500 10.1%	Mid Growth -2.2%	Small Value 25.8%	Small Growth 11.3%	Small Growth 13.0%	Mid Value 5.1%	Mid Value -0.1%	Int'l -14.2%	Mid Growth -20.2%	Mid Growth -27.4%	S&P 500 28.7%	HFRI 7.7%	Small Value 4.7%	Mid Growth 10.7%	Mid Value 4.8%
Large Growth 5.0%	U.S. Bonds 9.8%	Small Growth -2.4%	U.S. Bonds 18.5%	Int'l 6.1%	U.S. Bonds 9.7%	Small Growth 1.2%	U.S. Bonds -0.8%	Large Growth -22.4%	Large Growth -20.4%	Large Growth -27.9%	HFRI 20.5%	Large Growth 6.3%	Small Growth 4.2%	Large Growth 9.1%	U.S. Bonds 3.9%
Int'l -12.2%	Large Growth 2.9%	U.S. Bonds -2.9%	Int'l 11.2%	U.S. Bonds 3.6%	Int'l 1.8%	Small Value -6.5%	Small Value -1.5%	Small Growth -22.4%	Int'l -21.4%	Small Growth -30.3%	U.S. Bonds 4.1%	U.S. Bonds 4.3%	U.S. Bonds 2.4%	U.S. Bonds 4.3%	Small Value -2.7%

*Estimated

Table source: Russell Mellon Analytical Services. Data as of 9/30/07. The indexes used are the following: Large Cap Growth – Russell 1000 Growth Index; Large Cap Value – Russell 1000 Value Index; Mid Cap Growth – Russell Mid Cap Growth Index; Mid Cap Value – Russell Mid Cap Value Index; Small Cap Growth – Russell 2000 Growth Index; Small Cap Value – Russell 2000 Value Index; International Equity – Morgan Stanley Capital International Europe, Australasia, Far East Index (EAFE) Net; U.S. Bonds – Lehman Brothers Aggregate Bond Index; S&P 500 – Standard & Poor's 500 Index; HFRI – HFRI Equity Hedge Index.

The past performance of an index is not a guarantee of how your portfolio will perform. Indexes are not available for direct investment and reflect an unmanaged universe of securities, which does not take into account advisory or transaction fees, all of which will reduce the overall return. Prepared by UBS Financial Services Inc. Manager Research Group. All rights reserved. Used with permission.

Asset allocation does not assure profits or prevent against losses in declining markets.

- **U.S. Bonds**—Composed of securities from Lehman Brothers government/corporate bond index, mortgage-backed securities index, and the asset-backed securities index. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indices are rebalanced monthly by market capitalization.
- **Int'l**—An arithmetic, market value-weighted average of the performance of over 900 securities listed on the stock exchanges of the following countries in Europe, Australia and the Far East: Australia, Hong Kong, Norway, Austria, Ireland, Singapore, Belgium, Italy, Spain, Denmark, Japan, Sweden, Finland, Malaysia, Switzerland, France, Netherlands, United Kingdom, Germany, New Zealand.
- **S&P 500**—Covers 500 industrial, utility, transportation, and financial companies of the US markets (mostly NYSE issues). The index represents about 75% of NYSE market capitalization and 30% of NYSE issues. It is a capitalization-weighted index calculated on a total return basis with dividends reinvested.
- **Small Growth**—Contains those Russell 1000 securities with a greater-than-average growth orientation. Securities in

this index tend to exhibit higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values than the value universe.

- **Small Value**—Contains those Russell 1000 securities with a less-than-average growth orientation. It represents the universe of stocks from which value managers typically select. Securities in this index tend to exhibit low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values than the growth universe.

- **Large Growth**—Contains those Russell 2000 securities with a greater-than-average growth orientation. Securities in this index tend to exhibit higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values than the value universe.

- **Large Value**—Contains those Russell 2000 securities with a less-than-average growth orientation. Securities in this index tend to exhibit lower price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values than the growth universe.

- **Mid Growth**—Contains those Russell Midcap securities with a greater-than-average growth orientation. Securities in

this index tend to exhibit higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values than the value universe. The stocks are also members of the Russell 1000 Growth Index.

- **Mid Value**—Contains those Russell Midcap securities with a less-than-average growth orientation. Securities in this index tend to exhibit low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values than the growth universe. The stocks are also members of the Russell 1000 Value Index.

- **HFRI**—represents performance of a universe of hedge funds that employ core holding strategies of long equities hedged at all times with short sales of stocks and/or stock index options. The hedge funds in this index commonly employ a variety of strategies and some employ leverage. Relatively conservative funds mitigate market risk by maintaining market exposure from zero to 100 percent. Relatively aggressive funds may magnify market risk by exceeding 100 percent exposure and, in some instances, maintain a short exposure. In addition to equities, some funds in this index may have limited assets invested in other types of securities.

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Asset allocation does not guarantee a profit, nor does it prevent losses in downturn markets.

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