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# Cornerstones of Investing

## Distinguishing Between Long- and Short-Term Goals

The markets change every day, but your investment plans don't. Retirement. College tuition. A second home. Career and lifestyle flexibility. These are all long-term goals, which require long-term planning.

### Where should your money be now?

It's easy to forget the long term amid the daily ups and downs of the markets. But for most investors, the right approach to investing depends on what your investment goals are. While many of the broad reasons people invest are similar, individual plans, timeframes and risk tolerance can be very different.

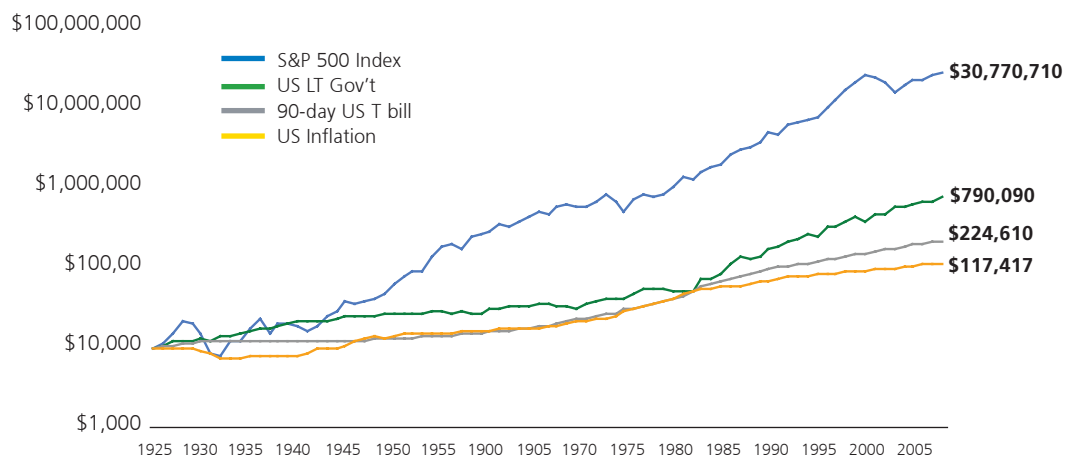
No matter what your investing needs, keeping long-term goals in mind can help you maintain your perspective on market volatility. That's important because, as the chart below shows, when you factor in the effects of inflation,

more stable cash investments may not return enough to meet your long-term goals.

For most investors, the best advice may be to focus on your goals and to construct a portfolio with an asset mix designed to help you pursue your financial plans. Maintaining some cash in a diversified portfolio can provide liquidity, flexibility and stability. However, some exposure to stocks and bonds, which have historically been more volatile, may also be an important piece of an overall investment plan.

### The long-term view: stocks outperform other asset classes

#### Growth of \$10,000 from 1925 – December 31, 2007



**Note: \$10,000 may not be representative of a typical investment in 1925.**

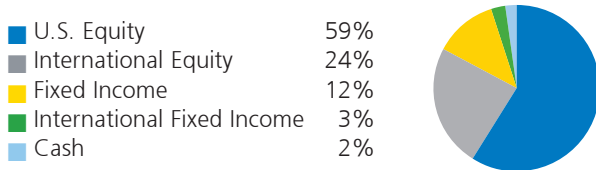
Source: Ned Davis Research; used with permission. The chart is shown for illustrative purposes only, and is not meant to show the returns of any particular UBS Global Asset Management investment. Stocks represented by Standard & Poor's (S&P) 500 Index, long-term government bonds by 20-year US Treasury bonds, cash by 90-day US Treasury bills, and inflation by the Consumer Price Index. The S&P 500 Index is an unmanaged, weighted index comprising 500 widely held common stocks varying in composition. Returns consist of income, capital appreciation (or depreciation) and currency gains (or losses). Certain markets have experienced significant year-to-year fluctuations and negative returns from time to time. Stocks are more volatile and subject to greater risks than other asset classes. Indexes are not available for direct investment. Past performance is not a guarantee of future results.

## What are you investing for?

Here are two sample portfolios of investors with different life goals and financial plans. These hypothetical portfolios are not recommendations. They may not be appropriate for some investors and do not include actual investment vehicles. Of course, your portfolio should be constructed with your specific situation and goals in mind.

### Planning ahead for long-term growth

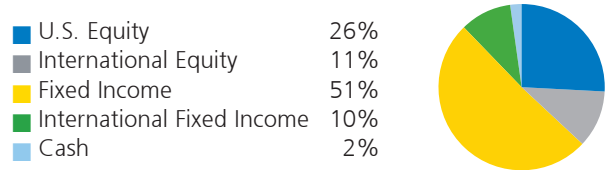
Jim and Kelly Williams are in their 40s. Both have careers and have no current need for additional income from their investments. They have two grade-school children, so building savings for tuition and other expenses is a high priority. Longer term, they would like to be able to retire or work more flexible hours by the time they are in their early 60s.



As you can see, this hypothetical portfolio is invested primarily in stocks. The Williamses have the time to ride out potential market downturns to pursue potentially higher long-term returns. And, adding exposure to international equity and fixed income may help manage risk through diversification.

### Seeking security and income over shorter horizons

William and Jody Berger are in their 60s and starting what they hope will be a long and rewarding retirement. They need to generate income to help pay living expenses, do some traveling and help out their children and grandchildren. But they also need modest growth to stay ahead of inflation and provide for potentially long life spans.



This hypothetical portfolio has mostly fixed income investments. Since the Bergers are not earning salaries and need steady income, they cannot afford too many high volatility investments. But notice there is still 30% in different types of stocks. After all, for a healthy couple aged 65 today, the chances that at least one person will live to 85 are about 80%.\* So while security is central, building in some growth also makes sense.

\*Source: Probability of survival based on Annuity 2000 Mortality Table from the Society of Actuaries.

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