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Cornerstones of Investing

Stay Invested

To realize the potential long-term returns of equity investing—and allow the risk-buffering effects of diversification to work for you—it’s important not to get caught up in short-term events.

Market ‘Shocks’ Are No Big Surprise

History shows that where there are markets, there is likely to be volatility. In fact, there have been 14 down years in the U.S. stock market from 1946 through 2005. While some of those years have been isolated, they were followed quickly by upturns. When you look at the markets with a long-term perspective, it’s clear that dramatic rises and falls have been regular events, not rare exceptions.

The High Price of Market Timing

While history suggests that market volatility is part of “business as usual,” and that dramatic declines in the markets have often been followed by dramatic rises, it also shows that these changes come with a timing no one can consistently predict.

Since there is no way of knowing when the best or worst periods will occur, jumping in and out of investments—or “market timing”—doesn’t work for most investors. Selling when the market moves down could mean missing periods when stocks recover—and that can be very costly.

Set Realistic Expectations

To avoid jumping in and out of investments, it helps to take a long-term view and not expect that every year will be a great one. For the 25 years through December 31, 2005, the average annual return for the Dow Jones Industrial Average was 11.21%. But history shows it’s probably not realistic to expect it to do that well over a longer period. After all, the Dow’s 50-year average return is just 6.65% through year-end 2005.

Source: Dow Jones, Inc.
 Past performance cannot guarantee comparable future results. Index performance figures do not include reinvestment of dividends. Based on closing index price levels. An investment cannot be made directly in an index.

How Realistic Are Your Expectations of the Stock Market?

Time Periods (years)	Start Date Through	Dow Jones Industrial Average Annualized Price Return
70	12/31/1936	6.24%
50	12/30/1956	6.65%
25	12/31/1981	11.21%
10	12/1/1996	6.81%
5	12/31/2001	4.46%
1	12/30/2005	16.29%

Keep Current Events in Perspective

It's also important to take a long-term view of events outside the markets. While news headlines can affect the markets, history has shown that bad news doesn't necessarily translate into bad results for long-term investors.

While past performance is no guarantee of future results, the Dow Jones Industrial Average has often declined steeply in response to crises, then risen again in the future.

To enable you to spend time in the market, rather than trying to time the market, it's important to choose a level of potential volatility you can live with. It can also help to remind yourself that you're investing for years, even decades from now—when headline news is likely to be very different.

Crisis Events, Dow Declines and Subsequent Performances

Event	Date	% Change for Day in Dow Jones Industrial Average	6 Months Later	1 Year Later	% Change to 12/31/2006
Pearl Harbor	12/07/1941	-3.50	-9.48	-1.37	10,974.42
J.F. Kennedy Assassination	11/22/1963	-2.89	12.04	21.58	1,651.72
President R.M. Nixon Resigns	8/09/1974	-1.59	-10.74	2.53	1,503.39
Kuwait Invasion	8/02/1990	-6.31*	-5.81	3.69	335.07
World Trade Center Destroyed	9/11/2001	-7.12	10.47	-10.66	29.75
Invasion of Iraq	3/19/2003	0.26	14.59	23.24	50.79

Source: Dow Jones, Inc., Bloomberg

The Dow Jones Industrial Average is a price-weighted average of actively traded blue-chip stocks. Index performance figures are calculated by using price returns to calculate cumulative returns for the % change in returns up to 12/31/2005. These figures do not include reinvestment of dividends. An investment cannot be made directly in an index.

When an event occurred on a non-trading day, the percentage change for the day reflects the next trading day's activity.

* The 6.31% drop is over three trading days: 1.2% on the day of the invasion, followed by a decline of 1.92% on Friday and 3.32% on Monday.

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