

Your Portfolio

Effective strategies for
managing your portfolio



It is important that you understand the ways in which we conduct business and the applicable laws and regulations that govern us. As a firm providing wealth management services to clients in the U.S., we are registered with the U.S. Securities and Exchange Commission (SEC) as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Though there are similarities among these services, the investment advisory programs and brokerage accounts we offer are separate and distinct, differ in material ways and are governed by different laws and separate contracts.

It is important that you carefully read the agreements and disclosures that we provide to you about the products or services we offer. While we strive to ensure the nature of our services is clear in the materials we publish, if at any time you seek clarification on the nature of your accounts or the services you receive, please speak with your Financial Advisor or call **201-352-9999**.

For more information, please visit our website at **www.ubs.com/workingwithus**

Portfolio development: The foundation of wealth management

Your portfolio is the cornerstone of a lasting financial foundation. It also carries many of your hopes for the future: college tuition for your children, a dream vacation home or secure retirement.

At UBS, we understand that building and managing a portfolio requires a range of resources, including insights into markets here and abroad, strategic asset allocation and a broad array of investment choices. We also realize that it requires the advice and guidance of someone who understands what your portfolio represents in terms of your stated financial goals.

You will find a wealth of resources at UBS to help you build and manage a portfolio. You may prefer to make your own investment decisions or you may want to have your Financial Advisor or a professional money manager oversee your investments for you. In any case, you can benefit from a disciplined investment process plus the global research capabilities of one of the world's largest wealth management firms.*

Advice and guidance

Above all, at UBS you'll find a Financial Advisor whose most powerful investment tool is listening. Your UBS Financial Advisor will take the time to understand what you want your wealth to achieve, knowing that your stated financial needs and goals help guide every investment decision you make.

* Two sources of UBS Research are available to UBS clients. One source is UBS Wealth Management Research. UBS Wealth Management Research is provided by UBS Global Wealth Management & Business Banking (the UBS business group that includes, among others, UBS Financial Services Inc. and UBS International Inc.), whose primary business focus is individual investors. The second source is UBS Investment Research. UBS Investment Research is provided by UBS Securities LLC, whose primary business focus is institutional investors. Because both sources of information are independent of one another and reflect the different assumptions, views and analytical methods of the analysts who prepared them, there may exist a difference of opinion between the two sources.



Key considerations for managing your portfolio

In thinking about building and managing your portfolio, there are a number of considerations you may want to discuss with your Financial Advisor, including how you think about your financial needs, risk profile and diversification.

Defining performance

What is your definition of performance? Beating benchmarks, delivering more yield, or achieving top quartile status are all measures of performance used by professional investors and may or may not be meaningful to you as an individual with particular goals in mind.

If you cannot send your child to the school you would like to, or you have to postpone your retirement, have your investments performed? Even if you have beaten all the market indices, the answer is probably no.

Measuring performance relative to your needs

You may want to consider measuring performance relative to your needs and goals. Tailoring a portfolio for your individual situation requires an understanding of how your financial needs change over time and how those changes may affect your investment decisions.

Short-term needs are met with cash and make up the day-to-day demands placed on your money: groceries, mortgage payments, tuition, insurance premiums, etc. While you are working and accumulating wealth, these expenses are typically funded from earned income.

Your financial needs within the next five years or so can be defined as intermediate-term needs. These can be funded through your investments.



However, intermediate-term needs can be very specific as to amount and timing (such as future tuition expenses) and intermediate-term investments targeted for these needs may, therefore, carry a higher market risk.

With long-term needs, you can typically assume more risk. Once you have provided for your short-term and intermediate needs, the risk of being forced to sell a long-term investment at an inopportune time is reduced.



Your risk profile

How do you view risk? Do you see it as the loss of capital? If so, you may be willing to forego the potential for greater returns to minimize the chance of a decline in the value of your investments. Perhaps you view risk as the loss of the purchasing power of your assets due to inflation. In this case, you may be willing to accept a higher degree of risk in an effort to achieve greater returns.

We offer a profiling process to help you understand where you fall on the risk/return spectrum. This process helps formulate your investor profile, which in turn helps guide your investment strategy. Your Financial Advisor can help you develop an investment strategy that reflects:

- **Your goals and timeframes**
Taking on more risk may be appropriate with some financial goals, depending on your time horizon.
- **Your income and asset base**
The larger your income and asset base, the more comfortable you may be with additional risk. However, you may choose a conservative approach, not feeling it necessary to take on more risk to pursue your goals.

The importance of diversification

Portfolio diversification helps reduce risk and diminish volatility levels within a portfolio. Portfolio diversification is a widely embraced investment strategy that helps counteract the unpredictability of the markets. Spreading risk across several types of investments can help smooth out the ups and downs in a portfolio's value. Should one investment be out of favor, another investment might likely be in favor, helping to offset price declines.

Over 50 years ago, Nobel Laureate Harry Markowitz pioneered what is now widely known as Modern Portfolio Theory. This theory suggests that there is a mix of uncorrelated asset classes that can result in lower volatility and risk-adjusted returns.

Too much of a good thing



Simply adding more investments, such as mutual funds, to your portfolio does not necessarily make your portfolio more efficient. It is possible to be overdiversified, carrying additional overhead and taking on more aggravation without the benefit of reduced volatility or increased returns.

The role of asset allocation

An asset allocation strategy is designed to help you find the right mix of investments for your situation. As various asset classes tend to perform differently during the various stages of a market cycle (i.e., they are noncorrelated), underperformance in one class may be offset by higher performance in another, resulting in less expected risk and the same or higher expected return than holding a low-risk security alone.

One way to diversify is to invest in a mix of different asset classes: stocks,

bonds and cash, as well as among the sectors within each asset class such as U.S. large-, mid- and small-cap stocks; international stocks; and so on. The same diversification strategy is true for fixed income investments, which vary by domestic and international and by issuer (corporate, government, municipal) and maturity. The composition of the mix should be guided by your stated financial goals and risk tolerance. (It should be noted, however, that asset allocation does not assure profits or prevent losses in a declining market.)

The importance of asset allocation

Year-by-year performance of major market sectors

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	YTD 2006 [6/30/06]
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%	Small Value 10.4%
S&P 500 22.9%	Mid Value 34.4%	S&P 500 28.8%	HFRI 44.2%	Mid Value 19.2%	U.S. Bonds 8.4%	HFRI -4.7%	Small Value 46.0%	Small Value 22.6%	Mid Value 12.7%	Int'l 10.2%
HFRI 21.7%	S&P 500 33.4%	Int'l 20.3%	Small Growth 43.1%	U.S. Bonds 11.6%	Mid Value 2.3%	Mid Value -9.7%	Mid Growth 42.7%	Int'l 20.7%	Mid Growth 12.1%	Mid Value 7.0%
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 39.2%	Large Value 16.5%	HFRI 10.7%	Large Value 6.6%
Small Value 21.4%	Large Growth 30.5%	HFRI 16.0%	Int'l 27.3%	Large Value 7.0%	Large Value -5.6%	Large Value -15.5%	Mid Value 38.1%	Mid Growth 15.5%	Large Value 7.1%	Small Growth 6.1%
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 -15.7%	Large Value 30.0%	Small Growth 14.3%	Large Growth 5.3%	HFRI 5.5%
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%	S&P 500 2.7%
Small Growth 11.3%	Small Growth 13.0%	Mid Value 5.1%	Mid Value -0.1%	Int'l -14.0%	Mid Growth -20.2%	Mid Growth -27.4%	S&P 500 28.7%	Large Growth 6.3%	Small Value 4.7%	Mid Growth 2.6%
Int'l 6.4%	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 20.9%	U.S. Bonds 4.3%	Small Growth 4.2%	U.S. Bonds -0.7%
U.S. Bonds 3.6%	Int'l 2.1%	Small Value -6.5%	Small Value -1.5%	Small Growth -22.4%	Int'l -21.2%	Small Growth -30.4%	U.S. Bonds 4.1%	HFRI 2.2%	U.S. Bonds 2.4%	Large Growth -0.9%

Source: Russell Mellon Analytical Services. Data as of 6/30/06.

The indices 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; US Bonds–Lehman Brothers Aggregate Bond Index; S&P 500–Standard & Poor's 500 Index; HFRI–HFRI Equity Hedge Index. All rights reserved. Used with permission. The past performance of an index is not a guarantee of how your portfolio will perform. Indices 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. Asset allocation does not assure profits or prevent against losses in declining markets.

Deciding who will manage your portfolio

In today's complex investment world, the need for professional advice and guidance is more important than ever. Whether you decide to maintain decision-making authority over your investments or to give your Financial Advisor or other professional money manager the discretion to act on your behalf, you'll find a range of resources and solutions to suit your needs.

Important basics

Regardless of how you choose to manage your portfolio, your Financial Advisor can work closely with you to develop an asset allocation for your stated goals, risk tolerance and time horizon. This asset allocation process combines the power of highly sophisticated portfolio optimization technology with the global research resources at UBS. Asset allocation recommendations reflect our Firm's assumptions regarding capital markets and the economy, and continually incorporate new developments in asset allocation research and technology.

Because investment returns and opportunities vary over time, it is necessary to review and rebalance your portfolio periodically. You may also need to adjust your portfolio's investment mix due to changing life circumstances, such as marriage, a growing family or retirement. Periodic review and rebalancing help ensure that your holdings stay consistent with your objectives and can make a difference in the long-term performance of your portfolio.

Managing your own portfolio

If you prefer to manage your own portfolio, your UBS Financial Advisor can draw on our extensive research capabilities to customize an asset allocation to suit your specific needs, risk tolerance and timeframe.

When selecting individual investments, you have access to a comprehensive range of solutions that includes:

- Individual stocks
- Equity-linked products
- CDs
- Government bonds
- Mortgage-backed securities
- Corporate bonds
- Municipal bonds
- Mutual funds
- Money market funds (taxable or tax-free)
- Alternative investments

This list is not exhaustive and should not be considered as a recommendation. You can review your investment choices with your Financial Advisor, who can also offer guidelines for international and alternative investments, if appropriate. Many non-U.S. equities and fixed income, as well as alternative investments, can offer attractive diversification qualities for qualified investors with a portfolio of traditional assets, such as stocks, bonds and cash.¹

World-class research to support your portfolio

Research is at the heart of our Firm's efforts to identify investments that are consistent with each client's wealth management strategy. Our Wealth Management Research organization comprises a global team of strategists and analysts dedicated to delivering premier research targeted to the needs of individual investors.

They offer the following types of research:

- Closed-end fund research
- Commodity research
- Credit research
- Economic research
- Equity research
- Fixed income research
- Foreign exchange research
- Technical research
- Thematic research

You can expect:

- Comprehensive research covering major global markets
- Reports in formats preferred by individual investors
- Research addressing thematic topics of real concern to individual investors (e.g., retirement, healthcare, education funding, etc.)*

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Professional portfolio management

Faced with an unprecedented array of investment choices and philosophies, you may decide to give your Financial Advisor the discretion to manage your portfolio or you may want to hire an investment manager.

Working with your Financial Advisor

Having your Financial Advisor manage your portfolio means you can benefit from the experience and knowledge of someone who knows you and your overall financial situation. He or she can work with you to develop an investment plan for your financial needs and develop an asset allocation strategy suited to your individual needs, risk tolerance and timeframe. You continue to have access to our world-class research capabilities and benefit from periodic reviews as your stated financial needs, objectives and life circumstances change.

Model portfolios

You may want to consider implementing one of our model portfolios, which are available through certain accounts, as part of your overall investment strategy. We offer a range of research-based portfolios diversified across different sectors and asset classes. These portfolios leverage the specialized investment knowledge, experience and global perspective of strategists and analyst teams throughout UBS, and may be adapted for your specific goals and risk profile as they evolve over time.

Your Financial Advisor can help you evaluate whether a model portfolio would be suitable for your particular situation. The following is a sample of the model portfolios available:

Equity

- Large Cap Value
- Large Cap Core
- All Cap Growth

Exchange traded funds

- Current Income
- Income and Growth
- Moderate Growth
- Growth

Choosing a professional money manager

If you decide to use a professional money manager, your Financial Advisor can help develop a customized asset allocation plan and identify a manager or group of managers with complementary investment styles.

Through our Manager Research Group, we provide access to some of the most prestigious investment management firms in the industry. Many of these firms serve large public and private institutions as well as individual investors, and offer lower minimum investment amounts to UBS clients than may be generally available.

Style diversified strategy

Professionally managed accounts offer professional money management typically reserved for institutional clients. You may want to consider a professionally managed multiple style account as an alternative way to achieve portfolio diversification with periodic portfolio rebalancing, the convenience and simplicity of a single managed account and lower total investment minimums.²

When selecting professional money managers, our due diligence process includes evaluating:

- Soundness of the organization
- Experience, capabilities and continuity of the investment team
- Soundness of the investment philosophy and process
- Regulatory, investment and business risk controls
- Operations and trading processes
- Long-term performance both in absolute terms, relative to peers and adjusted for the risks taken
- Compliance record

Ongoing review of professional money managers

The foundation of the ongoing review process is the comprehensive portfolio and performance review of each professional money manager, conducted every quarter, by the Manager Research Group.

Representative portfolios are analyzed in detail to determine the sources of each manager's performance results and to confirm that the manager is properly adhering to its investment disciplines.

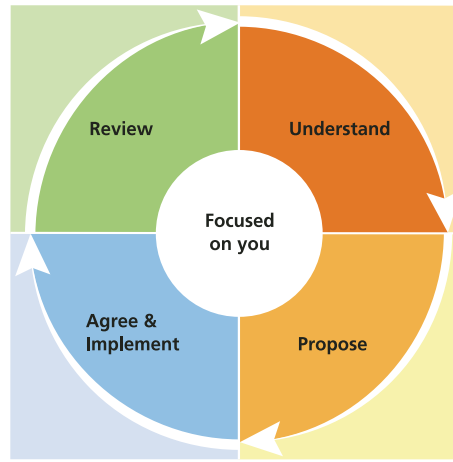
¹ The risks associated with investing on a worldwide basis include differences in regulation of financial data and reporting, currency exchange differences, as well as economic and political systems that may be different from those in the United States. Emerging markets involve additional risks, including increased political, social and economic instability. Investing in emerging markets can be riskier than investing in well-established foreign markets. Alternative investments are sold to qualified investors only by a Confidential Memorandum or prospectus. Alternative investments provide limited liquidity and include, among other things, the risks inherent in investing in securities and derivatives, using leverage and engaging in short sales. An investment in an alternative investment fund is speculative and should not constitute a complete investment program. This summary is for informational purposes only and does not constitute an offer to sell or a solicitation of an offer to buy interests in any fund.

² Separately managed account programs offered by UBS Financial Services Inc. are subject to minimum account requirements. Minimum account size is \$100,000. (Higher minimums may apply to certain strategies and multiple style accounts.)

You & Us

At UBS we offer a customized approach to portfolio development and wealth management—an approach built upon a personal relationship shaped by your needs and aspirations. For more information and to arrange for a consultation, call your Financial Advisor or visit us online at www.ubs.com.

The UBS Client Experience



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