

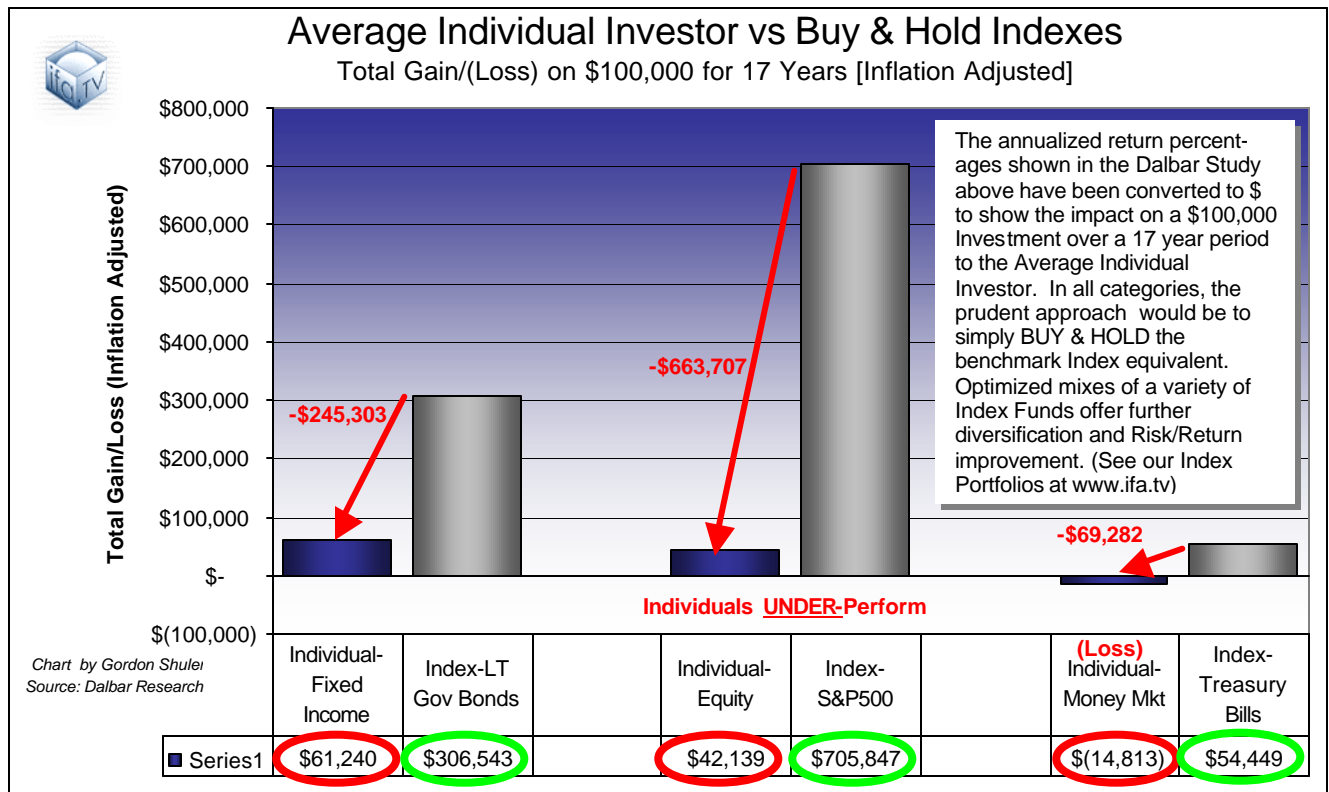
“WHEN to Invest?”

Recent tragic events and market weakness have rekindled one of the key questions most investors attempt to answer: “WHEN should I invest?” Once that question has been resolved, the next question normally is: “WHAT should I invest IN?” The answer to both questions is remarkably simple. Institutional investors have known the answer for years. They continue to consistently achieve market rate of returns and significantly outperform individual investors. Unfortunately, most individual investors repeatedly make the same mistakes.

The destructive influence of the well-known “fear and greed” emotional cycle causes persistent underperformance by the average individual investor. This trend has been well documented by the nation’s leading financial-services research firm, Dalbar Research. Studies that began in 1994 and updated in June 21, 2001 show that investors suffer huge shortfalls in investment performance.

“...The following annualized returns for investors, whose average fund retention was 2.6 years in 2000 (down from 2.8 in 1999, but up from 1.7 after the stock-market crash in 1987), compared to corresponding indexes, clearly illustrate the benefit of buy-and-hold strategies:

- The average fixed-income investor realized an annualized return of 6.08%, compared to 11.83% for the long-term Government Bond Index;
- The average equity-fund investor realized an annualized return of 5.32%, compared to 16.29% for the S&P 500 Index; and,
- The average money-market fund investor realized an annualized return of 2.29%, compared to 5.82% for Treasury Bills and 3.23% for inflation. Money-market fund investors lose money after inflation....”



"The only way to 'beat an index' is to invest in something other than the index. Why would you, when the only source of long-term risk and return data is the index?"

Mark Hebner, Index Funds Advisors, Inc.

"...Dalbar has reaffirmed that the long-term advantage of a buy-and-hold investment strategy is extraordinary. Dalbar's 2001 update to its "Quantitative Analysis of Investor Behavior" (QAIB) study shows that, despite the short-term advantage of having been un-invested in 2000 due to the decline in the equity markets, investors would still reap greater long-term returns by holding their mutual-fund investments.

QAIB examines real investor returns from equity, fixed income and money market mutual funds from January 1984 through December 2000. The study was originally conducted by DALBAR, Inc. in 1994 and was the first to investigate how mutual fund investors' behavior affects the returns they actually earn..."

The study shows the difficulty that investors have avoiding the temptations of market timing and staying focused on long-term investment strategies. Clearly, investor behavior can have far more of an impact on investment performance than markets themselves. This is why investors should concentrate on changing their own behavior by investing for the long run, instead of moving their money around in the search for the "right" mutual funds that will beat a market. Below are examples of why "Buy & Hold" is the Institutional approach utilizing **Index Funds**.

| Market Turmoil and the Dow Jones Industrial Average | | | | | | | | | |
|--|----------|------------------------------------|---|------------|-------------|---------------|----------------------------|-------------------|-----------------|
| To calm the nerves of investors, we have assembled a list of significant events and how they have affected the markets. As you can see, one year later the markets had returned to positive returns, except for 1981-1982. | | | | | | | | | |
| | Date | Event | First Trading Session Response to Event | | | | Subsequent Market Behavior | | |
| | | | DJIA Close Previous Day | DJIA Close | DJIA Change | DJIA % Change | One Month Change | Six Months Change | One Year Change |
| 1. | 1/17/91 | US launches bombing attack on Iraq | 2,509 | 2,624 | 114.6 | 4.6% | 11.8% | 15.0% | 24.5% |
| 2. | 8/2/90 | Iraq invades Kuwait | 2,899 | 2,865 | -34.7 | -1.2% | -8.8% | -3.2% | 5.0% |
| 3. | 3/30/81 | President Reagan shot | 995 | 992 | -2.6 | -0.3% | 0.6% | -14.3% | -16.9% |
| 4. | 8/9/74 | President Nixon resigns | 785 | 777 | -7.6 | -0.97% | -14.7% | -8.9% | 6.0% |
| 5. | 11/22/63 | President Kennedy assassinated | 733 | 711 | -21.2 | -2.9% | 6.6% | 15.4% | 25.0% |
| 6. | 10/22/62 | Cuban Missile Crisis | 569 | 558 | -10.5 | -1.9% | 15.6% | 27.4% | 34.0% |
| 7. | 9/26/55 | President Eisenhower heart attack | 487 | 456 | -31.9 | -6.5% | 0.04% | 12.5% | 5.7% |
| 8. | 6/25/50 | North Korea invades South Korea | 224 | 214 | -10.4 | -4.7% | -4.5% | 7.4% | 15.1% |
| 9. | 12/7/41 | Japan attacks Pear Harbor, Hawaii | 117 | 113 | -4.1 | -3.5% | -0.9% | -6.2% | 2.9% |

Source: dowjones.com Past performance is not a guarantee of future performance.

