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FINANCIAL PLAYBOOK

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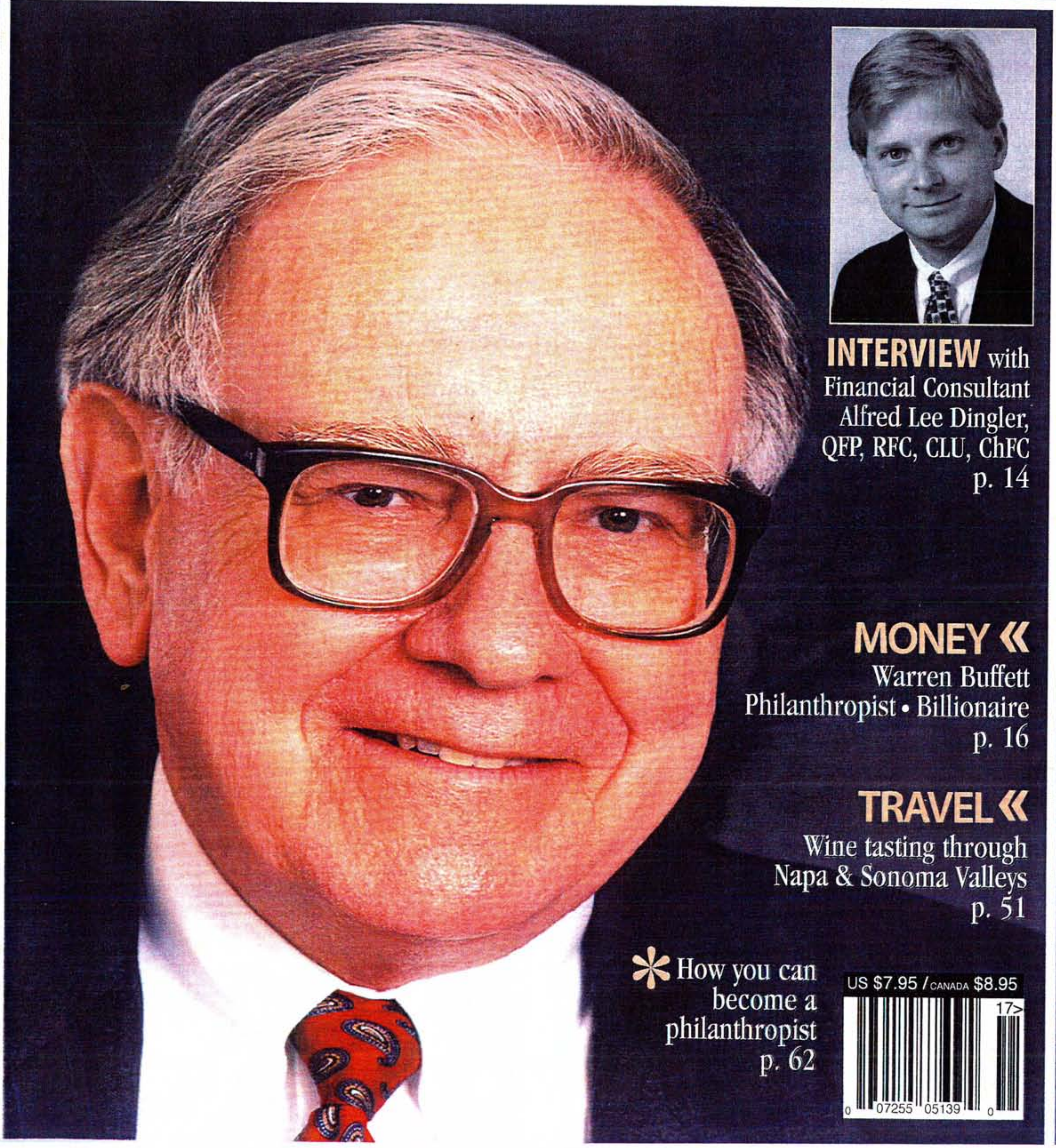

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Our Asset Allocation & Diversification Q&A

with Alfred Lee Dingler, QFP, RFC, CLU, ChFC

Financial Playbook: The last few years have shown how important it is to have a diversified investment portfolio. What are the major components of your asset allocation model?

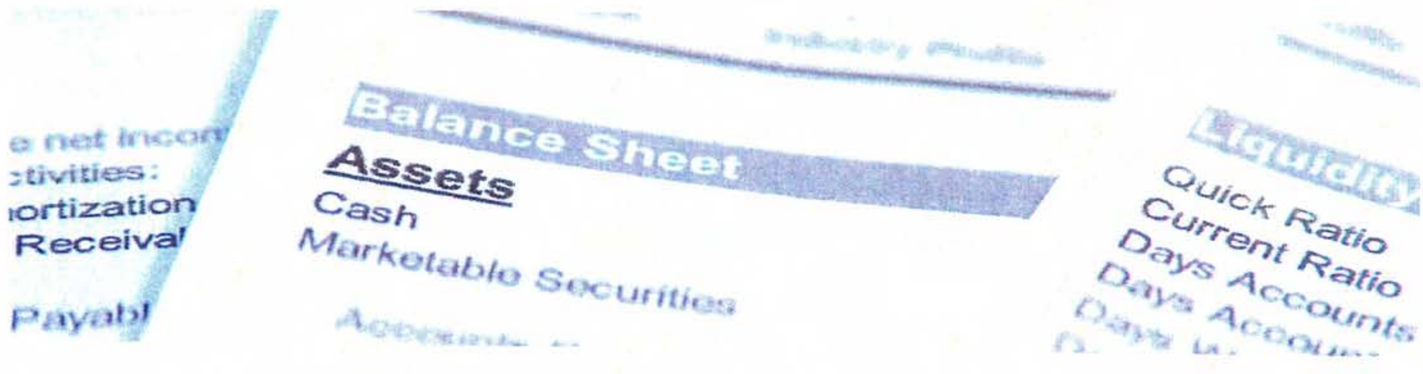
Alfred: The first division in any portfolio is between equity securities and fixed income securities, often just described as stocks and bonds. Therefore, a 60-40 portfolio means 60% of one's assets are invested in equity stocks and 40% is invested in bonds or fixed income securities.

FP: Within the equity side, what does your asset allocation model look like?

Alfred: There are four major categories: U.S. large cap, U.S. mid-cap, U.S. small cap, and international.

FP: Please give our readers your definition of the word "cap."

Alfred: "Cap" refers to capitalization or the size of a company. Everyone has his own definition, but generally speaking, large cap stocks have a worth of over $15 billion. Mid cap refers to companies between $2.5 billion and $15 billion, and small cap stocks are from companies below $2.5 billion in size. One gets this number by multiplying the number of outstanding shares by the share price. Please remember that small cap stocks generally involve greater risks.



FP: You mentioned "international" as a class in your model. How does the fall of the dollar affect international stocks?

Alfred: As the dollar falls in value against the euro and the yen, these foreign stocks tend to go up in value when denominated in US dollars. Conversely, when the dollar rises in value against the euro and the yen, these foreign stocks may go down in value when denominated in U.S. dollars. Therefore, one's foreign investment is influenced by the value of foreign stocks as well as by the currency fluctuation. The international category can be an important part of a portfolio, especially if the dollar is declining in value. Also, additional risks are associated with international investing, such as currency fluctuation, political and economic instability, and differences in accounting standards.

FP: Are there any other diversifying elements to consider on the equity side?

Alfred: Yes, the next thing to consider is "growth" versus "value." Each of the four categories mentioned above can be further divided into growth stocks and value stocks.

FP: Are there any other equity categories?

Alfred: Small allocations are sometimes given to REITs (Real Estate Investment Trusts) and to hard assets (precious metals and energy).

FP: What are some of the fixed-income investments available?

Alfred: Fixed-income investments would include: U.S. government treasury bills, notes and bonds, government agency bonds, corporate bonds, CDs, and fixed annuities. Remember, there are risks related to investing in bonds. Corporate bonds have credit risk; Enron bonds are worthless today. U.S. government bonds can only guarantee 100% of the principal return if they are held to maturity. If sold before the maturity date, one would get the market price, which may be more or less than what was paid. It's important that the investor work closely with his or her financial professional, because the "model" or investment mix is very personal and hinges on the investor's goals and objectives. There is not a "one size fits all" model.

FP: What is your primary objective in working with your clients to determine how to implement an asset allocation model?

Alfred: The two most important things I can do for my clients are: needs and risk analysis, and investment selection. We try to discuss how much clients need to earn from their investments in order to meet their goals, and how much risk is appropriate for them. This thorough analysis provides the necessary information for an asset allocation decision to be made. After that decision is made, selecting investments in each equity category becomes very important. As Warren Buffett said, "When the tide goes out, you can see who's swimming without a bathing suit."

FP: Thank you for sharing your thoughts on portfolio diversification. I look forward to our next meeting in about six months. FP

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Asset allocation, which is driven by complex mathematical models, should not be confused with diversification, a much simpler concept.

Neither asset allocation strategies nor diversification strategies can assure a profit or protect against a loss.