AllianceBernstein Investments

Understanding Investor Behavior

A Brief Look at the Investment Decision-Making Process

- The Importance of Having The Right Mix[SM]
- Common Investing Behaviors
- Overcoming the Pitfalls That Undermine Success

UNDERSTANDING INVESTOR BEHAVIOR

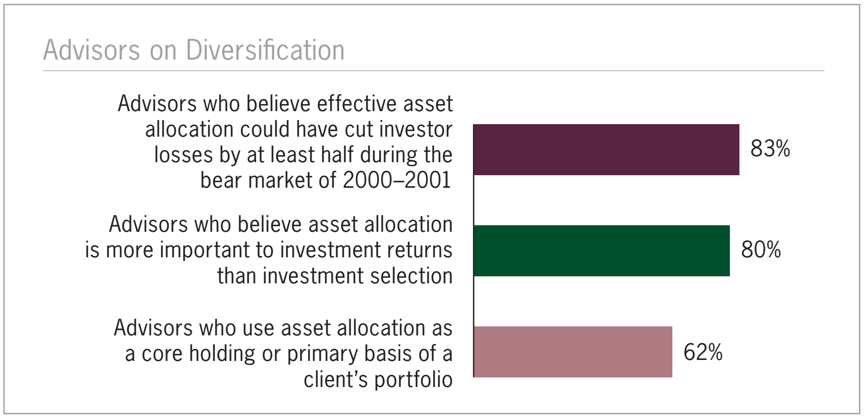
The Importance of Having The Right Mix℠

Asset allocation not only matters, it is one of the most important factors driving long-term performance. Yet, many investors aren't applying the principles of asset allocation and diversification as beneficially as they could. To understand why, AllianceBernstein surveyed over 500 financial advisors and 1,000 investors on their knowledge, perceptions and behaviors regarding asset allocation.*

Asset Allocation Matters

A majority of financial advisors believe that effective asset allocation:

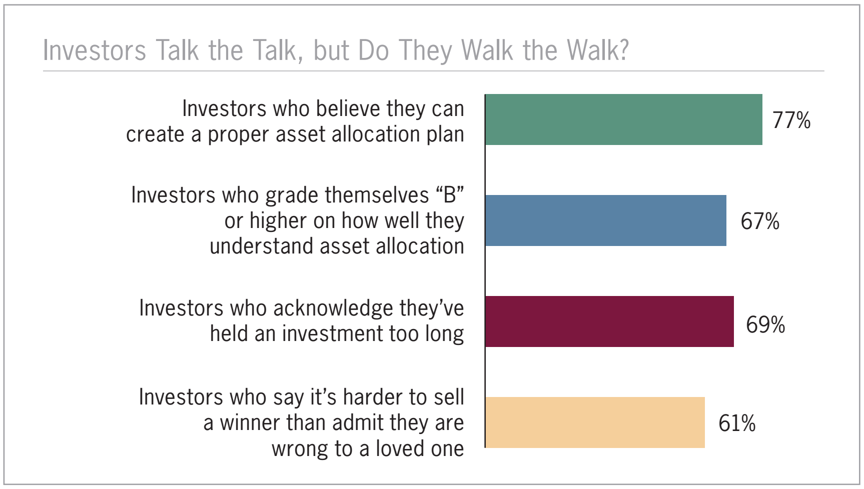
- Could cut investor losses in a bear market;
- Is more important to investment returns than individual stock selection; and
- Should be the primary basis of a client's portfolio.



Investors on Diversification

A majority of investors believe that they:

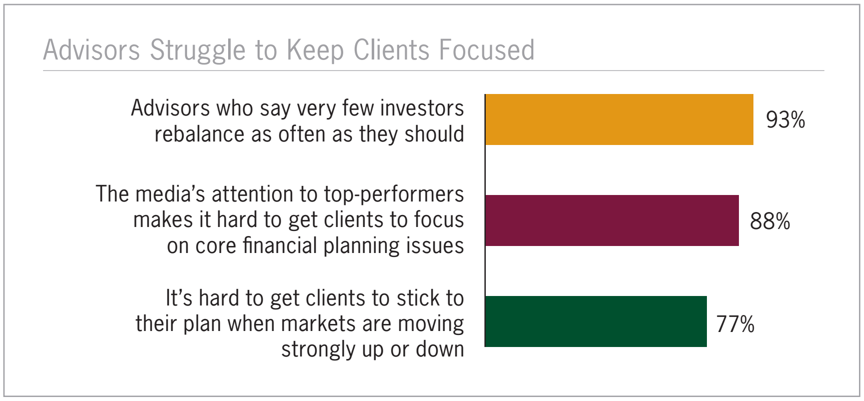
- Can create a proper asset allocation plan;
- But have held on to an investment too long; and
- Believe it's harder to sell a winner than admit they're wrong to a loved one.



The Challenge of Diversification

A majority of financial advisors believe that:

- Very few investors rebalance as often as they should;
- Attention to top performers causes clients to lose focus; and
- Volatile markets can affect clients' adherence to a financial plan.



* Source: The data presented here were gathered through a telephone survey conducted by Mathew Greenwald & Associates, Inc., on behalf of AllianceBernstein Investments and *Financial Planning* magazine. We conducted telephone interviews with 500 financial advisors and 1,000 investors. All advisors surveyed had been practicing for at least five years and were responsible for a minimum of $25 million in assets under management. All investors surveyed were solely or jointly responsible for making financial and investment decisions for their households, had a household income of $75,000 or more and had household investable assets of $75,000 or more.

Common Investing Behaviors

All too often decision making about investing is influenced by emotions and unconscious biases that cause people to make sub-optimal choices. Among the most damaging are those biases that drive individuals to chase strong investment returns, which make investors reluctant to rebalance portfolios and cause them to overreact to short-term volatility. Following are some sample behaviors that undermine success.*

Investor Certainty Bias

In the example shown, an investor can choose option A, wherein there is an 80% chance of receiving $4,000 and a 20% chance of receiving nothing (expected value: $3,200). Or, the investor can choose option B and receive $3,000 with certainty. The results were that 80% chose option B even though option A had a greater expected value and in 4 out of 5 cases, investors would receive $1,000 more money.

The Certainty Effect

	Choice A		Choice B	
	Amount	**Probability**	**Amount**	**Probability**
	$4,000	80%	$3,000	100%
Expected Value	$3,200		$3,000	
Popularity	**20%**		**80%**	

Investor Loss-Averse Bias

In this example, an investor can choose option A, wherein there is an 80% chance of losing $4,000, but a 20% chance of experiencing no loss (expected loss: $3,200). Or, the investor can choose option B, wherein the investor will incur a $3,000 loss. The results were that 92% chose option A over the certain loss even though the expected value of the gamble is actually a larger loss.

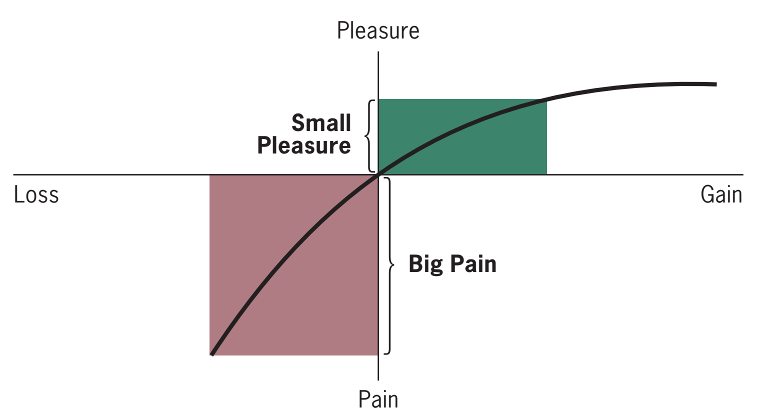
People Gamble to Avoid Loss

	Choice A		Choice B	
	Amount	**Probability**	**Amount**	**Probability**
	$(4,000)	80%	$(3,000)	100%
Expected Value	$(3,200)		$(3,000)	
Popularity	**92%**		**8%**	

A Disproportionate Trade-Off

It is evident from this and other tests that losses loom larger than gains. For most investors, the pain of a given loss significantly exceeds the pleasure of an equivalent gain. In fact, research on the subject shows that we equate losses and gains in a ratio of about 2:1.

Loss Aversion



* Source: National Bureau of Economic Research, *A Survey of Behavioral Finance*—Working Paper 9222. © 2002, Nicholas Barberis and Richard Thaler

The Importance of Feeling Secure

Here's another example. Two groups were asked to form a portfolio of two investments, weighting each as they saw fit. The first group received returns based on monthly outcomes and the second group received returns based on yearly results, in both cases covering the same time frame. Even though the track record was identical over the period, because the frequency of negative reports was 39% with the monthly returns and only 14% with the yearly returns, the amount allocated to stocks by each group differed significantly.

Loss Aversion Distorts Asset Allocation

	Investors Receiving:	
	Monthly Returns	Annual Returns
Frequency of Negative Reports	39%	14%
Stock Allocation	**41%**	**70%**

The Impact of Negative Returns

In this same example, when the two groups, monthly returns and yearly returns, received data that never included a negative report, this resulted in identical stock allocations for each group. It's clear that excessive emphasis on near-term returns will almost surely lead clients to make sub-optimal choices when it comes to volatile assets.

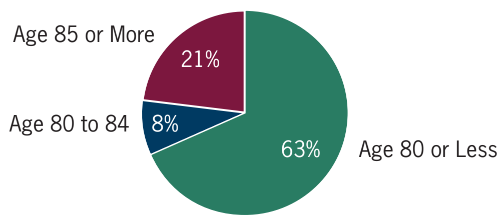
Eliminate Loss Aversion and Rational Choice Predominates

	Monthly Returns	Annual Returns
Frequency of Negative Reports	0%	0%
Stock Allocation	**72%**	**72%**

Misjudging Longevity

Another less than optimal decision is made by investors when they are asked to estimate their life expectancy. The majority of retiring males think they will live to age 80 or less.

Retiring Males Estimate Their Life Expectancy

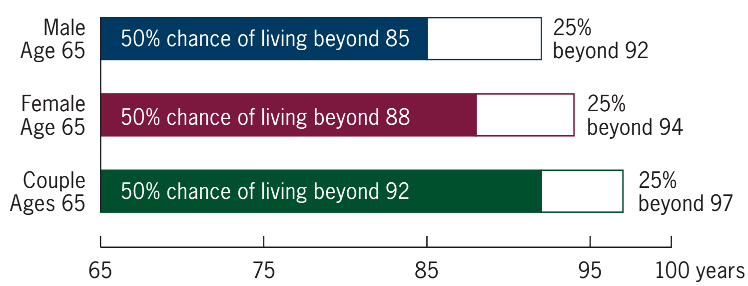


Source: Society of Actuaries 2003 Retirement Survey

The Reality of Retirement

In actuality, a male age 65 has a 50% chance of living past 85 and a 25% chance of living beyond age 92. In addition, when it comes to females, their life expectancy is even longer. And when considering a couple at age 65, there is a 50% chance that at least one spouse will live beyond 92 and a 25% chance that one spouse will live beyond age 97. This is the reality of retirement.

A Lifetime Is Longer Than You Think!



Source: Society of Actuaries Annuity 2000 Mortality Table

How to Overcome the Pitfalls of Investing

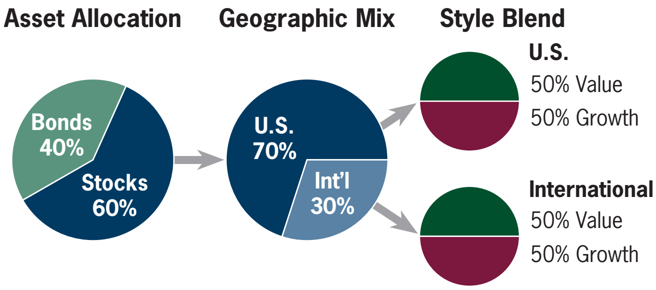
One way to take the emotion out of investing is to invest in diversified portfolios with low-correlation assets. At AllianceBernstein we follow five basic steps to maximize investor returns over the long run.

Essentials of a Well-Balanced Portfolio

The Strategy

Step 1: Diversify Across Asset Classes
Step 2: Blend Growth and Value Styles
Step 3: Globalize the Portfolio
Step 4: Rebalance
Step 5: Maximize After-Tax Returns

A Disciplined Approach to Help Meet Investor Goals



This is a hypothetical illustration only and is not intended to represent any particular investment, including any AllianceBernstein portfolio. The asset allocation that is right for each individual will vary.

The Benefit of Combining Asset Allocation with Rebalancing

The chart below shows the blended historical index returns for a low-correlation portfolio from 1970 to 2005. We used market benchmark indices and allocated them into a hypothetical portfolio that matched the target allocations shown above. The green in the chart indicates positive returns, and red reflects a loss for each calendar year. All indices were rebalanced on a monthly basis. This simulated portfolio achieved positive annual returns 98% of the time—even though 40% of the investment was in bonds. And of course, the compounded annual return of 10.7% over this period would likely have satisfied many investors' long-term goals.

Simulated Historical Index Returns: A "Low-Correlation" Approach

From the beginning of ...

To the end of ...	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
2005	10.7	10.9	10.7	10.6	11.3	12.2	11.8	11.6	11.9	12.0	11.9	11.6	12.0	11.7	11.4	11.4	10.5	9.8	10.0	9.7	9.2	10.2	9.2	9.4	8.9	9.6	8.3	7.7	6.4	5.5	4.5	5.7	8.7	15.0	10.3	7.1
2004	10.8	11.0	10.9	10.7	11.4	12.4	12.0	11.7	12.1	12.1	12.1	11.8	12.3	11.9	11.6	11.7	10.7	10.0	10.2	9.8	9.3	10.4	9.3	9.6	9.1	9.9	8.5	7.7	6.3	5.2	4.0	5.3	9.2	19.2	13.6	
2003	10.8	10.9	10.8	10.6	11.3	12.4	11.9	11.7	12.0	12.1	12.0	11.7	12.2	11.8	11.5	11.6	10.6	9.8	10.0	9.6	9.0	10.2	9.0	9.2	8.6	9.5	7.8	6.9	5.2	3.6	1.7	2.7	7.1	25.1		
2002	10.4	10.5	10.3	10.2	10.9	11.9	11.5	11.2	11.5	11.6	11.5	11.1	11.6	11.2	10.8	10.9	9.8	8.9	9.0	8.6	7.9	9.1	7.6	7.8	6.9	7.7	5.6	4.2	1.6	-1.1	-5.1	-7.0	-8.2			
2001	11.0	11.2	11.0	10.9	11.6	12.8	12.3	12.0	12.4	12.5	12.5	12.1	12.7	12.3	12.0	12.1	11.0	10.1	10.4	10.0	9.3	10.8	9.3	9.7	9.0	10.2	8.1	6.8	4.2	1.3	-3.4	-5.7				
2000	11.6	11.8	11.6	11.5	12.3	13.5	13.1	12.8	13.3	13.4	13.4	13.1	13.8	13.4	13.1	13.3	12.2	11.4	11.7	11.4	10.8	12.6	11.1	11.8	11.3	13.1	11.1	10.2	7.7	5.0	-1.2					
1999	12.0	12.2	12.1	12.0	12.9	14.2	13.7	13.5	14.0	14.2	14.2	13.9	14.7	14.3	14.1	14.3	13.2	12.4	12.9	12.6	12.1	14.2	12.8	13.8	13.5	16.2	14.3	14.3	12.5	11.6						
1998	12.0	12.3	12.2	12.0	13.0	14.3	13.8	13.6	14.1	14.3	14.3	14.0	14.9	14.5	14.2	14.5	13.3	12.4	13.0	12.7	12.1	14.5	13.0	14.1	13.8	17.3	15.3	15.6	13.4							
1997	12.0	12.2	12.1	12.0	12.9	14.3	13.8	13.6	14.1	14.4	14.4	14.1	15.0	14.6	14.3	14.6	13.3	12.4	13.0	12.6	12.0	14.7	12.9	14.3	14.0	18.7	16.2	17.9								
1996	11.8	12.0	11.9	11.8	12.7	14.2	13.6	13.4	13.9	14.2	14.2	13.8	14.8	14.3	14.0	14.4	12.9	11.8	12.4	12.0	11.1	14.2	11.9	13.4	12.7	19.1	14.5									
1995	11.7	11.9	11.8	11.6	12.6	14.1	13.6	13.3	13.9	14.2	14.2	13.8	14.8	14.3	14.0	14.3	12.8	11.5	12.2	11.6	10.6	14.1	11.3	13.0	11.8	23.8										
1994	11.2	11.4	11.3	11.1	12.1	13.7	13.1	12.7	13.3	13.6	13.6	13.1	14.1	13.5	13.1	13.4	11.6	10.1	10.6	9.7	8.1	11.8	7.4	8.0	0.9											
1993	11.7	11.9	11.8	11.6	12.7	14.4	13.8	13.5	14.2	14.5	14.5	14.1	15.3	14.8	14.4	14.9	13.0	11.5	12.3	11.6	10.0	15.7	10.8	15.5												
1992	11.5	11.8	11.6	11.4	12.6	14.3	13.7	13.4	14.1	14.4	14.4	14.0	15.3	14.7	14.3	14.9	12.7	10.8	11.7	10.6	8.2	15.8	6.2													
1991	11.8	12.0	11.9	11.7	13.0	14.8	14.2	13.8	14.7	15.1	15.2	14.7	16.2	15.7	15.3	16.2	13.8	11.7	13.1	12.1	9.3	26.3														
1990	11.1	11.4	11.2	11.0	12.2	14.1	13.4	13.0	13.8	14.2	14.2	13.6	15.2	14.4	13.8	14.5	11.4	8.4	9.0	5.6	-5.5															
1989	12.0	12.3	12.2	12.0	13.4	15.6	14.9	14.6	15.6	16.1	16.4	16.0	18.0	17.6	17.4	19.0	16.1	13.4	17.0	18.0																
1988	11.7	12.0	11.8	11.6	13.1	15.4	14.7	14.3	15.4	16.0	16.2	15.7	18.0	17.5	17.3	19.3	15.5	11.2	16.0																	
1987	11.5	11.8	11.6	11.4	12.9	15.4	14.6	14.1	15.3	16.0	16.2	15.7	18.4	17.8	17.6	20.4	15.3	6.5																		
1986	11.8	12.1	11.9	11.7	13.4	16.1	15.3	14.9	16.3	17.2	17.7	17.3	20.9	20.8	21.6	28.0	24.7																			
1985	11.0	11.3	11.1	10.8	12.5	15.4	14.4	13.9	15.3	16.2	16.5	15.9	20.0	19.6	20.1	31.3																				
1984	9.8	10.0	9.6	9.2	11.0	13.9	12.7	11.9	13.2	13.8	13.8	12.3	16.4	14.1	9.8																					
1983	9.8	10.0	9.6	9.2	11.1	14.4	13.1	12.2	13.8	14.6	14.8	13.2	19.9	18.5																						
1982	9.1	9.4	8.8	8.3	10.3	13.9	12.3	11.1	12.8	13.7	13.6	10.6	21.2																							
1981	8.2	8.4	7.7	6.9	9.0	12.9	10.9	9.2	10.8	11.3	9.9	0.9																								
1980	8.9	9.1	8.5	7.7	10.2	15.0	13.0	11.4	14.4	16.9	19.8																									
1979	7.8	8.0	7.1	6.1	8.7	14.1	11.4	8.8	11.7	13.9																										
1978	7.2	7.3	6.2	4.8	7.7	14.1	10.6	6.3	9.5																											
1977	6.9	7.0	5.6	3.9	7.2	15.7	11.1	3.2																												
1976	7.4	7.6	6.1	4.1	8.6	22.5	19.6																													
1975	5.5	5.4	3.0	-0.7	3.5	25.4																														
1974	1.9	0.9	-3.5	-11.6	-14.6																															
1973	6.5	6.6	2.6	-8.4																																
1972	12.0	15.1	14.9																																	
1971	10.6	15.3																																		
1970	6.2																																			

Average Annual Return: **10.7%**
Periods with Positive Returns: **98%**
Periods with Negative Returns: **2%**

Past performance is no guarantee of future results. This chart consists of a hypothetical portfolio of investments that match a balanced approach target asset allocation (as highlighted above), using asset-class index returns from 1970–2005. This is a hypothetical index illustration. These returns are for illustrative purposes only and do not reflect actual portfolio performance. Asset class indices used in this composite are represented by the following: U.S. Stocks: Russell 3000 Index (1979–2005), S&P 500 (1970–1978); REITS: FTSE EPRA/NAREIT Global REIT Index (2000–2005), U.S. NAREIT Index (1972–1999), S&P 500 (1970–1971); International Stocks: MSCI EAFE Index (1970–2005); Intermediate Bonds: Lehman Aggregate Bond Index (1976–2005), Lehman Gov't/Corporate Index (1973–1975), CRSP/TPA 5-Year Treasury Index (1970–1972); High Yield: Lehman High Yield Constrained Index (1993–2005), Lehman High Yield Index (1983–1992), Intermediate Bonds prior to 1983.

Investment Strategies from an Industry Leader

AllianceBernstein L.P. Overview*

- Total assets under management of approximately $635 billion worldwide for institutions, high-net-worth and retail investors
- Over 35 years of investment management experience in growth, value, fixed income and style-blend investing
- An industry leader in research with over 350† analysts located around the world, including 109 sell-side analysts

Our Firm, Our Mission

Building and preserving investor wealth through:

- A sole focus on asset management
- Global, innovative research
- Disciplined, principled investment processes
- Investment strategies geared to client needs
- Competitive performance at a good value

Delivered by our most important assets...

Our People

*As of April 30, 2006

†Data represents total analysts for AllianceBernstein L.P., including the sell-side analysts of Sanford C. Bernstein & Co., LLC ("Bernstein"), whose research reports and analyses are distributed to its institutional brokerage clients, including its affiliate AllianceBernstein Investments. The investment recommendations made in the research reports distributed by Bernstein may differ from those indicated by the investment management processes at AllianceBernstein Investments.

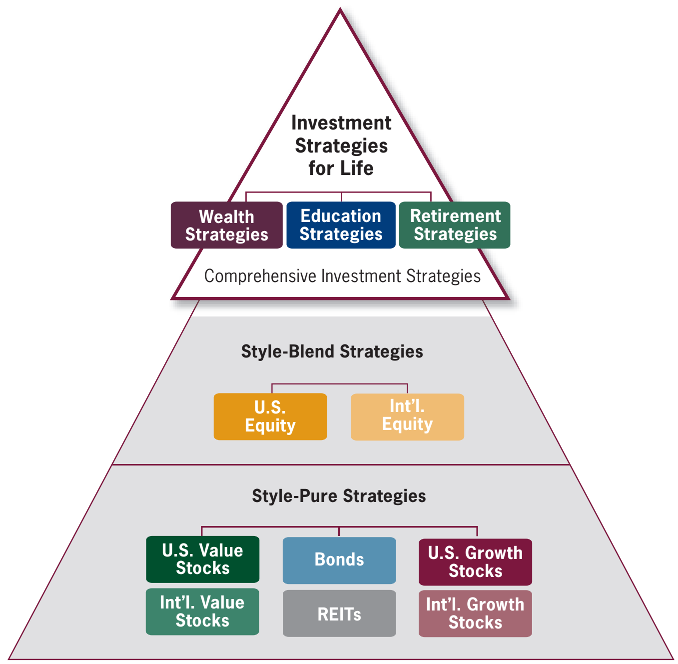
Investment Strategies for Every Investor

For nearly four decades, AllianceBernstein has provided investment services to a diverse group of clients, including some of the largest institutional investors in the world. Our primary business goal is to design diversified investment strategies that help our clients build and preserve wealth during their lifetimes.

Our portfolios include wealth, style-blend and style-pure strategies. These investment strategies, together with our global, innovative research, and our disciplined, principled investment processes, make AllianceBernstein one of the most powerful investment organizations in the industry.

Our investment services come in a variety of platforms to suit individual needs, including:

- Mutual Funds
- Education Strategies
- Retirement Services
- Separately Managed Accounts
- Subadvisory Services



A Word About Risk—For the chart on the previous page, this type of approach allocates its investments among multiple asset classes which will include U.S. and foreign securities. Within each of these, this approach will also allocate its investments in different types of securities, such as growth and value stocks and real estate investment trusts. The risks associated with each of these classes are described in the prospectus. This approach invests in securities of non-U.S. issuers. International investing involves risks not associated with U.S. investments, including currency fluctuations and political and economic changes. This approach may at times use certain types of investment derivatives, such as options, futures, forwards and swaps. The use of leverage and other derivatives involves their own specific risks and is not suitable for all investors. Investments in bonds are subject to certain risks. Their prices may fluctuate based on changes in the general level of interest rates or credit-quality ratings. Changes in interest rates have a greater negative effect on bonds with longer maturities than on those with shorter maturities. This approach systematically rebalances its allocations in these asset classes to maintain their target weightings. There can be no assurance that rebalancing will achieve its intended result, and the costs of rebalancing may be significant over time.

You should consider the investment objectives, risk, and charge and expenses of the Fund carefully before investing. For a free copy of the Fund's prospectus, which contains this and other information, visit our website at www.alliancebernstein.com or call AllianceBernstein Investments at 800.227.4618. Please read the prospectus carefully before investing.

AllianceBernstein Investments, Inc., is an affiliate of AllianceBernstein, L.P., the manager of the Funds, and is a member of the NASD.

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