BERNSTEIN
Global Wealth Management

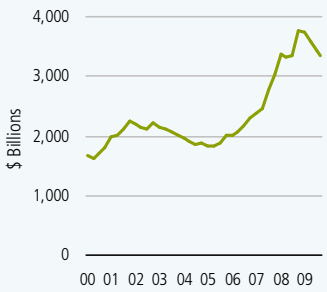
Ease the Anxiety of Entering the Market

Quantifying the Cost and Benefit of Dollar Cost Averaging

1. Investors Seek Safety in Cash

In a tumultuous decade for the stock market, many investors have fled the market for the perceived safety of cash. Money market fund assets have doubled.

Money Market Mutual Fund Assets (2000–2010)



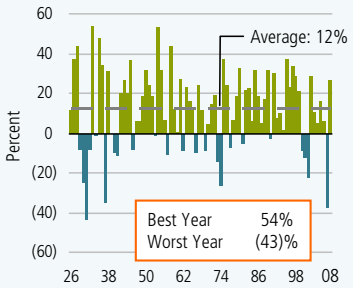
Source: Haver, Flow of Funds, ICI

2. Stock Returns Are Higher but Volatile

Stock market returns are highly volatile, but over the long term have yielded average annual returns of 12%.

Past performance does not guarantee future results. Source: Compustat, Roger G. Ibbotson and Rex A. Sinquefield, "Stocks, Bonds, Bills, and Inflation: Year-by-Year Historical Returns," University of Chicago Press Journal of Business (January 1976), Standard & Poor's and AllianceBernstein

S&P 500: Annual Returns (1926–2009)

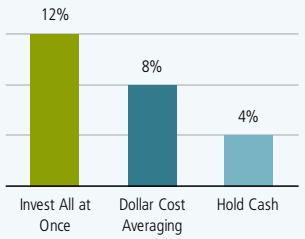


3. Three Ways of Approaching the Market

A lump sum invested in stocks yields the market's full return. Historically, dollar-cost-averaging (small amounts invested over time) has yielded less, but still beat holding cash.

Past performance is no guarantee of future results. Dollar Cost Averaging assumes level investments for 12 months.
Source: Roger C. Ibbotson and Rex A. Sinquefeld, "Stocks, Bonds, Bills, and Inflation: Year-By-Year Historical Returns," University of Chicago Press Journal of Business (January 1976); Standard & Poor's; and AllianceBernstein

Average One-Year Returns, US Stock Market (1926–2008)



Based on rolling 12-month US stock market returns from 1926 through Nov. 2008, represented by Ibbotson through 1974 and the S&P 500 thereafter.

4. Prior Market Behavior Makes Little Difference

Whether the market rose or dropped during the past 12 months, historically the pattern has remained the same: being invested produced better returns than staying in cash.

Past performance is no guarantee of future results. Dollar Cost Averaging assumes level investments for 12 months.
Source: Roger C. Ibbotson and Rex A. Sinquefeld, "Stocks, Bonds, Bills, and Inflation: Year-By-Year Hisotrical Returns," University of Chicago Press Journal of Business (January 1976); Standard & Poor's; and AllianceBernstein

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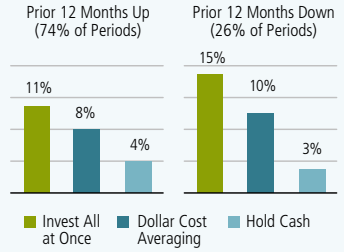


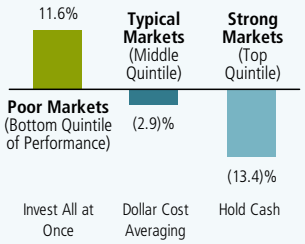
Based on rolling 12-month US stock market returns from 1926 through Nov. 2008, represented by Ibbotson through 1974 and the S&P 500 thereafter.

5. The Trade-Offs of Entry Strategy

Dollar cost averaging can protect wealth if the market falls while you invest. But if market performance is average or strong, you will have accumulated less wealth.

Past performance is no guarantee of future results. Dollar Cost Averaging assumes level investments for 12 months.
Source: Roger C. Ibbotson and Rex A. Sinquefeld, "Stocks, Bonds, Bills, and Inflation: Year-By-Year Hisotrical Returns," University of Chicago Press Journal of Business (January 1976); Standard & Poor's; and AllianceBernstein

Wealth Gained or Lost by Dollar Cost Averaging (1926–2008)



Based on rolling 12-month US stock market returns from 1926 through Nov. 2008, represented by Ibbotson through 1974 and the S&P 500 thereafter.

6. Evaluating Your Choices

If you have assets sitting in cash because stock market volatility makes you nervous, but you need higher returns, you should consider a strategy for entering the market.

Strategies for Entering the Market

- Entering the market all at once has generally proved to be a more profitable strategy than dollar cost averaging.
- Dollar cost averaging is a reasonable "insurance policy" against the risk of investing into a falling market. But it comes with a cost.
- A Bernstein Advisor can help you weigh the trade-offs based on your personal circumstances.

As of March 2010

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