ING SPECIAL REPORT

asset allocation

This information is provided for your education only by ING Financial Advisers, LLC (member SIPC).

Building the investment portfolio that's right for you

Key Asset Allocation Concepts:

Total Return – the average of various measures of performance, including income, reinvestment of income and capital appreciation.

Risk – measured by standard deviation, which shows how past returns vary from the average rate of return for the time period considered. The higher the standard deviation, the higher the price volatility and fluctuation. The lower the standard deviation, the lower the level of investment risk.

Correlation – the technical term for comparing how different assets perform, relative to each other, during varying market cycles. Analysts measure this on a scale ranging from 1.0 (meaning the two assets move precisely in tandem with each other) to -1.0 (meaning they move in opposite directions). Ideally, you'd want to build a portfolio of assets that are not closely correlated to each other.

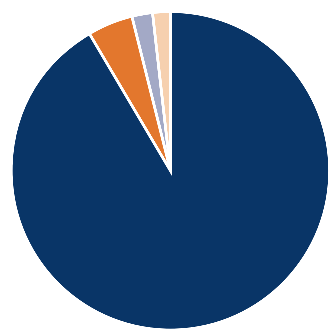
Investment professionals will tell you: One of the single most important investment decisions you'll ever make is how you divide your dollars among different asset types. Why is this process, called asset allocation, so critical? How does it work? And, most important, how can you take advantage of it to help meet your own life and investment goals?

Asset allocation is the process of creating a portfolio by selecting effective combinations of investments to meet the specific needs and goals of an individual investor. It's a scientific process, driven by complex mathematical models, and should not be confused with the much simpler concept of "diversification." [See ING's Special Report, "Diversification: Variety is the spice of (investment) life," for more information about diversification.] A landmark study, "Determinants of Portfolio Performance," by Brinson, Hood and Beebower, presented in *Financial Analysts Journal* (May – June, 1992) and its update in 1996, showed that asset allocation decisions, far more than any other factor, affected the long-term performance of an investment portfolio.

Asset allocation decisions account for 91.5% of a portfolio's performance. Individual investment selection accounts for only 4.6%, while other factors – market timing included – accounted for a mere 3.9% of portfolio performance.

How does this work? The principles of asset allocation hinge on balancing risk and reward within a portfolio. (See the sidebar for technical definitions of these terms and how they are measured.)

Portfolio performance is determined by:*



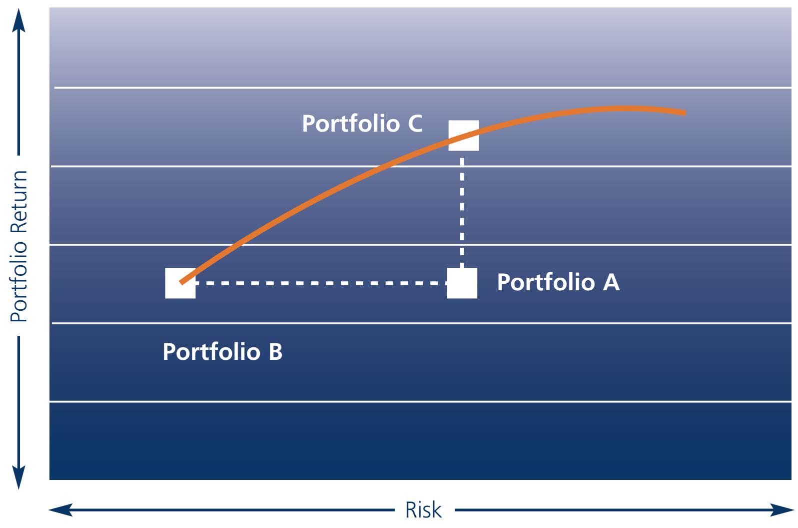
- Asset Allocation – 91.5%
- Individual Investment Selection – 4.6%
- Other – 2.1%
- Market Timing – 1.8%

* "Determinants of Portfolio Performance II: An Update." Brinson, Singer and Beebower, 1996.

ING

The right balance between risk and reward will, of course, vary by investor. The key is to find a portfolio that lies along the **Efficient Frontier**. The Efficient Frontier is a series of points that models the range of possible portfolios, each representing the highest returning combination of investments for a specified level of risk. Each point along the Frontier represents a combination of asset classes that can, in theory, provide the highest level of return for an individual investor's specific risk tolerance. Or, the reverse: a point that targets the lowest level of risk to help achieve a desired return target.

How to use these theories to your own investment advantage? The basic concept of diversification teaches that by spreading your dollars among a variety of investments, you're less likely to be hurt by downturns in any one particular asset class or investment. Using computer modeling techniques, professional asset allocation strategists analyze the risk and return characteristics of asset classes *and their relationship to each other*. These models then construct model portfolios with optimal distribution of assets among these investment categories for targeted levels of risk. Asset allocation strategies take advantage of the *correlation* of these relationships by combining asset classes in a portfolio to help reduce risk and help maximize return. Of course, while asset allocation can help reduce volatility in a portfolio, it doesn't guarantee future performance.



Portfolio A – your current portfolio
Portfolio B – a portfolio along the Efficient Frontier, matching your anticipated level of return – at a reduced level of risk
Portfolio C – a portfolio along the Efficient Frontier, offering a higher anticipated return at the same level of investment risk

The estimates, projections, assumptions and illustrations used in preparing this material are based upon mathematical computations and information from sources believed to be reliable. They should not be considered a guarantee of the future performance of any particular asset or a guarantee of achieving overall financial objectives.

Our best advice for investors seeking to make the best use of asset allocation strategies is to *seek help from a professional*. ING's "Model Portfolios" Special Report can help you build a portfolio based on these principles by guiding you through a series of questions and offering sample asset allocation mixes appropriate for investors who've provided similar responses to these questions. (Model Investment Portfolios are also available via our Web site, **www.ing.com/us**.) ING's financial planners can also help you by using more sophisticated computer models and questionnaires based on your total financial situation, risk tolerance and goals.

Using asset allocation as part of your investment strategy neither assures nor guarantees better performance and cannot protect against loss in declining markets.

Understanding the basics of asset allocation – whether or not you're able to construct an Efficient Frontier portfolio on your own – can only make you a more informed investor. Additional information abounds, if you're interested, in print and on the Internet. Visit us at **www.ing.com/us** as a starting point, and please feel free to call or e-mail us with questions about your own investment situation.