Your Personal Investment Planner

The world of investments: risk and reward.

Today, the world of investments is extremely varied and complex with many more opportunities than ever before.

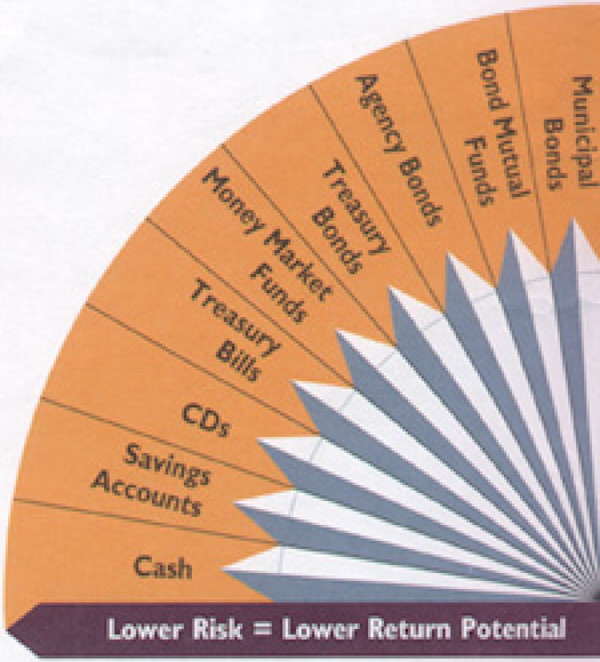
A simplified way to envision the wide variety of investments available and where they fall on a spectrum of risk and potential reward is shown in Figure 1. Generally, the higher the risk the higher the expected reward. You can see how different investments compare with each other in terms of risk and potential reward.

Within this spectrum of investments are thousands of individual investment products. With all these choices, how do you go about selecting the best ones for you?

The first step is learning why diversification is such an important part of any investment plan. With diversification, you don't "put all your eggs in one basket." Instead, you divide your money among the three main asset classes—stocks, bonds and cash equivalents.

Dividing your investments this way can protect you from market fluctuations yet still give you potential for a good reward. Here's how: The asset classes can react in different ways to the prevailing market conditions. So in a well-diversified portfolio, if investments in one asset class are affected adversely, investments in another class could be performing well. That's how diversification can protect you from undue risk while maintaining your potential reward.

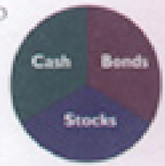
But diversification is more than just spreading your money around—it's also about finding the best asset allocation strategy to meet your goals and time frame.



The Risk/Reward

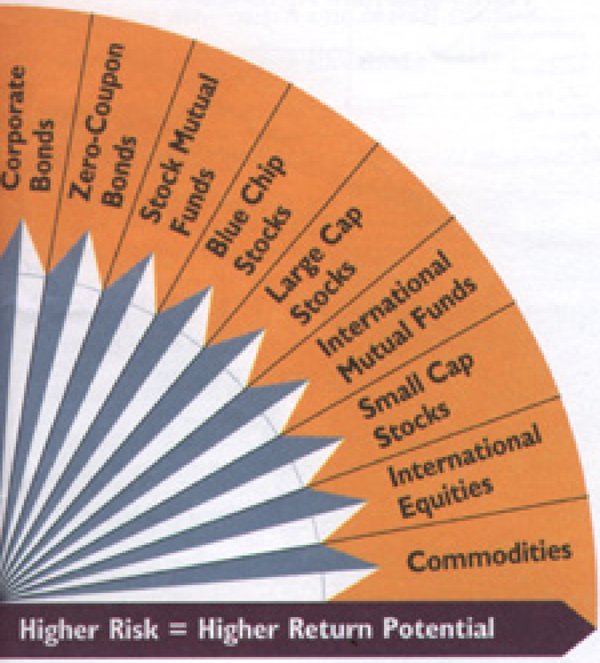
Asset allocation. The foundation of your investment plan.

Asset allocation is the systemized approach Citicorp Investment Services uses to determine how best to divide your investable assets into the three main asset classes. In fact, studies have proven that asset allocation is up to nine times more important for investing success than any other factor.[1]



Each asset class can provide different benefits:

- ***Stocks (equities)*** *Provide the best potential for growth but carry the greatest risk.*
- ***Bonds (income products)*** *Provide income and a moderate degree of risk.*



Spectrum-Figure 1

- ***Cash Equivalents (treasury bills, savings accounts, money market accounts and short-term CDs)*** *Provide liquidity and the most safety, but with limited return potential.*

Asset allocation works by balancing each asset class against your needs. Stocks in your portfolio will give you opportunities for higher rewards. On the other hand, they usually carry more risk. But with asset allocation, your portfolio may also include more conservative investments, such as treasury bills and bonds, which can reduce your overall risk and give you income. As you might imagine, there is a different mix of investments, or asset allocation strategy, for different goals, time frames and types of people.

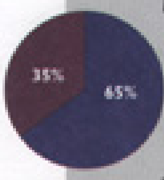
*Based on a study by Brinson, Hood, and Beebower entitled "Determinants of Portfolio Performance," published in July/August 1986 *Financial Analysts Journal*. See an Investment Consultant for details.

CLASSES OF 2005 AND 2007

Savvy parents getting ready for high college bills.

Ed, 34, and Jane Hanfield, 33, are hoping to send their kids to a private college. Whichever college their kids wind up going to, it'll cost a good deal of money by the time they're ready. With college expenses rising faster than inflation, the Hanfields should count on paying at least $100,000 over four years for each of their children's education. The Hanfields have college savings of $30,000, so far, and will need another $170,000. On a combined income of $110,000, they can put away $500 a month for college. Since they still have 10 years before their first child reaches college age, they are willing to invest aggressively.

Citicorp Investment Services Recommends Portfolio Allocation #8*



In order to reach their goal, the Hanfields will need to achieve significant investment growth. Portfolio Allocation #8 recommends 65% in stocks and 35% in bonds to provide adequate growth potential to help them reach their target. Their Investment Consultant from Citicorp Investment Services will help them pick actual investments for each asset class.

Are you prepared for college expenses? Check the College Planning Worksheet in the back of the planner to help you calculate how much you need to invest to meet your college expenses.

*First-quarter 1995 recommendation; speak to an Investment Consultant for our current quarterly recommendations.

The individuals depicted in this planner are fictitious and for illustrative purposes only.

SAVING FOR THEIR DREAM HOME

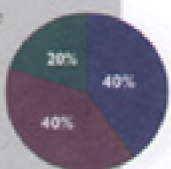
City dwellers look forward to their own backyard.

Tom, 32, and Sue Jackson, 29, were planning to trade up from their condo in the city for a home in the suburbs, until they saw the house their friends were building. Now the Jacksons have decided to build their own dream house and are hoping to move in five years.

They estimate that the house will wind up costing them about $400,000. They feel that in addition to the equity in the condo, they will need another $100,000 in today's dollars for a down payment and initial expenses. With their current annual income of $130,000, they feel they can save about $600 per month toward their dream home. They also have a $50,000 lump sum to allocate toward this goal.

Citicorp Investment Services Recommends Portfolio Allocation #4*

The Jacksons recognize that at their age they should be somewhat aggressive with their investments for a higher potential return, however they feel somewhat uncomfortable taking large risks. Portfolio Allocation #4 offers some growth potential with some degree of safety by allocating 40% in stocks, 20% in cash equivalents and 40% in bonds.



Will you be able to reach your goal? Check the Capital Accumulation Worksheet in the back of the planner to see how much you need to save to reach your goal.

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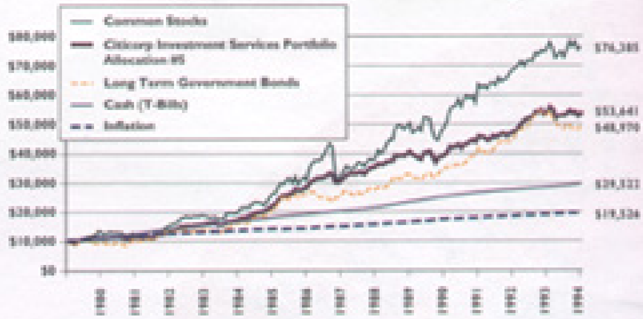
How the Asset Classes Have Performed Historically**



The advantage of using asset allocation is illustrated in the above chart. It compares the performance from 1980 to 1994 of a portfolio with an asset allocation strategy designed for a moderate risk level (Citicorp Investment Services Portfolio Allocation #5) versus investing purely in all stocks, or all bonds, or all cash equivalents.

If you had put all your money in stocks, your total return would have been an impressive 664%. But you would have endured a number of fairly steep downturns. Investing purely in bonds would have been less risky, but your return would have been lower—390%. By investing in all cash equivalents you would have enjoyed the least risk of all, but with the lowest total return—only 195%.

But if your money had been invested in Citicorp Investment Services Portfolio Allocation #5, based on past performance, you would have enjoyed a better balance of risk and expected reward. Your total reward would have been between the performance of stocks and bonds and a good deal better than cash equivalents. In short, asset allocation helps you maximize your potential reward while managing your risk.

Nine asset allocation portfolios. Find out now which one is best for you.

Since proper asset allocation is so crucial to investing success, Citicorp Investment Services has devoted a great deal of its considerable resources to this important process. We have developed nine asset allocation models, based on the research of a Nobel Prize–winning economist. Each portfolio model has a different mix of stocks, bonds and cash equivalents. All nine portfolio recommendations, shown in the back of this planner, are arranged on a scale of conservative to aggressive with Portfolio Allocation #1 being the most conservative and Portfolio Allocation #9 being the most aggressive.

How do you know which one is best for you? It depends on various factors, including your:

- *Goals*
- *Time frame*
- *Current resources*
- *Risk tolerance*

By filling out the worksheet and matching your score with one of the nine portfolio recommendations on the back page, you can find your recommended asset allocation portfolio. From this, an investment plan can be built that is best suited to your goals and time frame.

Take a moment now to fill out the worksheet so you can find out which asset allocation portfolio is right for you. And congratulations for taking this important step in building a more financially secure future for you and your family.

**The total return data for the indices includes reinvestment of dividends and capital gains. The performance of the asset classes is based on the following indices which are not investable securities; indices are indicated in parenthesis: Common Stocks (S&P 500), Small Cap Stocks (U.S. Small Stock), International Stocks (Morgan Stanley Europe Australia Far East [E.A.F.E.]), Long Term Government Bonds (U.S. Long Term Government Bond), Intermediate Term Government Bonds (U.S. Intermediate Term Government Bond), and Cash (U.S. 30 Day T-Bill). All previous data provided by Ibbotson Associates, Inc. Data for International Bonds (Citicorp Investment Services International Bond) provided by Citicorp Investment Services. Data for Municipal Bonds (Lehman Brothers Municipal Bond) provided by Micropal, Inc. Hypothetical performance for Citicorp Investment Services Portfolio Allocation #5 is based on first-quarter 1995 portfolio recommendation. Past performance does not guarantee future results.

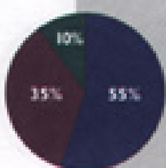
FOLLOW THE SUN

A couple plans to go from 30º to 80º in 10 years.

On their yearly vacations to Florida, Sam, 53, and Emily Ashford, 52, have fallen in love with the area and the lifestyle. They are looking forward to retiring in 10 years to a beachfront condo in their favorite place—Ft. Lauderdale.

Since they want to leave their home in New Jersey to their kids, they'll have to buy the condo with their savings. Taking inflation into consideration, they estimate they'll need about $300,000 to retire comfortably. So far, they've saved $100,000. On a combined income of $90,000, Sam figures they can put away, on average, about $12,000 a year.

Citicorp Investment Services Recommends Portfolio Allocation #6*



Since the Ashfords recognize that they should take on some investment risk to help their retirement nest egg grow, Citicorp Investment Services recommends Portfolio Allocation #6. This portfolio consists of 55% stocks, 35% bonds and 10% in cash equivalents. Given the fact that they have very little in income tax deductions left (no dependents and low mortgage interest payments), they should consider tax-free and tax-deferred investments to help them maximize their after-tax return.

Will you meet your retirement goals? Check out the Retirement Planning Worksheet in the back of the planner to determine how much you'll need to retire.

*First-quarter 1995 recommendation; speak to an Investment Consultant for our current quarterly recommendations.