

Don't put ALL your eggs into ONE basket

- It is hard to predict which asset class will outperform each year because asset classes— and styles— shift so often.
- Asset Allocation helps investors to take advantage of the asset classes that are performing well but also diminishes the effects of those that are not performing well. It has the potential to increase overall returns, while reducing volatility.

Historic Cycles of Asset Class Performance

P E R F O R M A N C E

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Large Cap Growth	38.7%	Emerging Markets 66.4%	Small Cap Value 22.8%	Small Cap Value 14.0%	Non-U.S. Bonds 22.0%	Emerging Markets 56.3%	Emerging Markets 26.0%	Emerging Markets 34.5%	Emerging Markets 32.6%	Emerging Markets 39.8%	Non-U.S. Bonds 10.1%
Large Cap Core	28.6%	Mid Cap Growth 51.3%	Mid Cap Value 19.2%	Investment Grade Bonds 8.4%	Investment Grade Bonds 10.3%	Small Cap Growth 48.5%	Mid Cap Value 23.7%	International Equity 13.5%	International Equity 26.3%	Large Cap Growth 11.8%	Investment Grade Bonds 5.2%
International Equity	20.0%	Small Cap Growth 43.1%	Investment Grade Bonds 11.6%	High Yield 5.3%	Treasury Bills 1.6%	Small Cap Value 46.0%	Small Cap Value 22.3%	Mid Cap Value 12.6%	Small Cap Value 23.5%	Mid Cap Growth 11.4%	Treasury Bills 1.3%
Mid Cap Growth	17.9%	Large Cap Growth 33.1%	Large Cap Value 7.0%	Treasury Bills 3.3%	High Yield -1.4%	Mid Cap Growth 42.7%	International Equity 20.3%	Mid Cap Growth 12.1%	Large Cap Value 22.3%	International Equity 11.2%	High Yield -26.2%
Non-U.S. Bonds	17.8%	International Equity 27.0%	Treasury Bills 6.0%	Mid Cap Value 2.3%	Emerging Markets -6.0%	International Equity 38.6%	Large Cap Value 16.5%	Large Cap Value 7.0%	Mid Cap Value 20.2%	Small Cap Growth 7.0%	Small Cap Value -28.9%
Large Cap Value	15.6%	Large Cap Core 21.0%	Non-U.S. Bonds -2.6%	Emerging Markets -2.4%	Mid Cap Value -9.7%	Mid Cap Value 38.1%	Mid Cap Growth 15.5%	Large Cap Growth 5.3%	Large Cap Core 15.8%	Investment Grade Bonds 7.0%	Large Cap Value -36.9%
Investment Grade Bonds	8.7%	Large Cap Value 7.3%	High Yield -5.9%	Non-U.S. Bonds -3.5%	Small Cap Value -11.4%	Large Cap Value 30.0%	Small Cap Growth 14.3%	Large Cap Core 4.9%	Small Cap Growth 13.4%	Large Cap Core 5.5%	Large Cap Core -37.0%
Mid Cap Value	5.1%	Treasury Bills 4.8%	Large Cap Core -9.1%	Large Cap Value -5.6%	Large Cap Value -15.5%	Large Cap Growth 29.8%	Non-U.S. Bonds 12.1%	Small Cap Value 4.7%	High Yield 11.9%	Non-U.S. Bonds 4.9%	Large Cap Growth -38.4%
Treasury Bills	4.9%	High Yield 2.8%	Mid Cap Growth -11.8%	Small Cap Growth -9.2%	International Equity -15.9%	High Yield 29.0%	High Yield 11.1%	Small Cap Growth 4.1%	Mid Cap Growth 10.7%	Treasury Bills 4.4%	Mid Cap Value -38.4%
High Yield	1.9%	Mid Cap Value -0.1%	International Equity -14.2%	Large Cap Core -11.9%	Large Cap Core -22.1%	Large Cap Core 28.7%	Large Cap Core 10.9%	Treasury Bills 3.3%	Large Cap Growth 9.1%	High Yield 3.1%	Small Cap Growth -38.5%
Small Cap Growth	1.2%	Investment Grade Bonds -0.8%	Large Cap Growth -22.4%	Mid Cap Growth -20.2%	Mid Cap Growth -27.4%	Non-U.S. Bonds 18.5%	Large Cap Growth 6.3%	High Yield 2.7%	Treasury Bills 4.7%	Large Cap Value -0.2%	International Equity -43.4%
Small Cap Value	-6.4%	Small Cap Value -1.5%	Small Cap Growth -22.4%	Large Cap Growth -20.4%	Large Cap Growth -27.9%	Investment Grade Bonds 4.1%	Investment Grade Bonds 4.3%	Investment Grade Bonds 2.4%	Investment Grade Bonds 4.3%	Mid Cap Value -1.4%	Mid Cap Growth -44.3%
Emerging Markets	-25.3%	Non-U.S. Bonds -5.1%	Emerging Markets -30.6%	International Equity -21.5%	Small Cap Growth -30.3%	Treasury Bills 1.0%	Treasury Bills 1.4%	Non-U.S. Bonds -9.2%	Non-U.S. Bonds 3.1%	Small Cap Value -9.8%	Emerging Markets -53.2%



Source: Morgan Stanley Smith Barney



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Definitions of Major Indices

90-DAY T-BILLS: Equal dollar amounts of three-month Treasury bills are purchased at the beginning of each of three consecutive months. As each bill matures, all proceeds are rolled over or reinvested in a new three-month bill. The income used to calculate the monthly return is derived by subtracting the original amount invested from the maturity value. The yield curve average is the basis for calculating the return on the index. The index is rebalanced monthly by market capitalization.

BC AGGREGATE INDEX: The U.S. Aggregate Index covers the dollar-denominated investment-grade fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS passthrough securities, asset-backed securities, and commercial mortgage-based securities. These major sectors are subdivided into more specific subindices that are calculated and published on an ongoing basis. *Formerly named the Lehman Brothers Aggregate Index.

BC CREDIT INDEX: All public, fixed rate, non-convertible investment grade domestic corporate debt. (collateralized mortgage obligations are not included). Only bonds rated at least baa by Moody's, BBB by Standard & Poor's, or BBB by Fitch Investor Service for non-rated bonds are included. *Formerly named the Lehman Brothers Credit Index.

CITIGROUP NON-US WORLD GOVT BOND H: This index includes all the components of the World Government Bond Index (listed below) except the United States. The index includes all fixed-rate bonds with a remaining maturity of one year or longer and with amounts outstanding of at least the equivalent of \$25 million US Dollars. Those government securities that are excluded from the indices typically fall into three categories: floating- or variable-rate bonds (including index-linked bonds); securities aimed principally at non-institutional investors such as savings bonds in the United States and Canada; and private placement-type securities, where liquidity may be poor and where accurate information on outstandings, market coupon, and maturity structure may be difficult or impossible to obtain. This index is designed to directly address the growing interest in and implementation of currency-hedged bond investments by global investors as a means of achieving low-risk interest rate diversification in their portfolios. Currency-hedged returns are also reported for the overall non-base on a monthly basis.

MSCI EAFE (NET): The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada.

MSCI EM (GROSS): The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of December 2003 the MSCI Emerging Markets Index consisted of the following 26 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, Turkey and Venezuela.

RUSSELL 1000: Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 89% of the total market capitalization of the Russell 3000 Index. As of the latest reconstitution, the average market capitalization was approximately \$9.9 billion; the median market capitalization was approximately \$3.7 billion. The smallest company in the index had an approximate market capitalization of \$1,404.7 million.

RUSSELL 1000 GROWTH: Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

RUSSELL 1000 VALUE: Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

RUSSELL 2000: Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 11% of the total market capitalization of the Russell 3000 Index. As of the latest reconstitution, the average market capitalization was approximately \$592.0 million; the median market capitalization was approximately \$500.0 million. The largest company in the index had an approximate market capitalization of \$1,402.7 million.

RUSSELL 2000 GROWTH: Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

RUSSELL 2000 VALUE: Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

RUSSELL 3000: Russell 3000 Index measures the performance of the 3,000 largest US companies based on total market capitalization, which represents approximately 98% of the investable US equity market. As of the latest reconstitution, the average market capitalization was approximately \$3.7 billion; the median market capitalization was approximately \$793.3 million. The index had a total market capitalization range of approximately \$271.6 billion to \$221.9 billion.

RUSSELL MID-CAP: Russell Mid-cap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 35% of the total market capitalization of the Russell 1000 Index. As of the latest reconstitution, the average market capitalization was approximately \$3.7 billion; the median market capitalization was approximately \$2.9 billion. The largest company in the index had an approximate market capitalization of \$10.3 billion.

RUSSELL MID-CAP GROWTH: Russell Mid-cap Growth Index measures the performance of those Russell Mid-cap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth index.

RUSSELL MID-CAP VALUE: Russell Mid-cap Value Index measures the performance of those Russell Mid-cap companies with lower price-to-book ratios and lower forecasted growth values. The stocks are also members of the Russell 1000 Value index.

S&P 500 INDEX: Covers 400 industrial, 40 utility, 20 transportation, and 40 financial companies of the US Markets (mostly NYSE issues). The index represents about 75% of NYSE market cap and 30% of NYSE issues. It is a capitalization-weighted index calculated on a total return basis with dividends reinvested.

Data in this report is for illustrative purposes only and does not represent performance of any client account or recommendation. Performance data shown is for specific unmanaged indices representing broad sectors of the securities markets and does not include the effects of fees or expenses. An investment may not be made in an index.

There may be additional risks associated with international investing involving foreign economic, political, monetary and/or legal factors. International investing may not be for everyone. The securities of small-capitalization companies may be subject to higher volatility than larger, more established companies.

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