ING SPECIAL REPORT

bumpy rides and troubled times...

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

New World for Investors

We can only provide perspective. We can't predict or promise... even the most savvy investment professionals can't predict the future. Socially, politically and economically, we're living in new and challenging times. This Special Report will provide some perspective for you. We discuss some of the factors contributing to current market volatility – and stress the importance of good, old-fashioned common (investment) sense when it comes to making financial decisions these days.

People invest to create wealth and achieve their life's goals – whether it's education, retirement, home purchase, vacations, etc. No one invests with the intention of losing money – and for today's investors, the new millennium has been a rude awakening. The stock market – fueled by Wall Street and the media – came just short of promising to make us all millionaires. At least, they seemed to promise, it will make us richer. And, for a while, it was true. Mutual fund accounts, retirement plans and equity investments grew at astonishing rates, and company stock made millionaires out of many. During the 1990s, investors enjoyed a false security that only comes with unrealistic expectations fueled by unsustainable growth. It wasn't until 2000 that the U.S. economy ended an unprecedented 107 month expansion.[1]

During the past few years, a new reality has set in. Within a few months in 2001, the Dow Jones Industrial Average (Dow) both topped 11,000 points and fell to nearly 8,000 points. In 2003, we saw the Dow drop substantially below that 8,000 mark. In the past couple of years, America was attacked – and attacked back. Enron collapsed spectacularly and publicly. A few other companies followed suit, and the headlines screamed the collapse of their retirement plans. We went to war. Attorney General Eliot Spitzer has made his stance on "excessive trading." Market volatility – the tendency for wide price swings – seemed, after a while, to go in only one direction: DOWN.

History lessons

While history is not a guarantee of future activity, it does teach us some lessons. It makes sense to examine the remarkable decade of the 1990s, especially in light of similar historical periods.

Economists call the incredible growth of equity markets during this period a "market bubble." In this case, the bubble was inflated by technology growth and Internet explosion. Both literally changed the way we lived our lives during the 1990s. The PC became as popular a home appliance as a television. By the end of the decade, we got our news, ordered groceries, paid bills, chatted, gamed, developed photos, shopped and more on-line, or from our cell phones, or PCs now small enough to be called pocket. We organized and tallied our lives and commitments on hand-held devices. The companies that invented the technologies, made the hardware, created the infrastructures and built the applications flourished, pumping ever more air into the bubble.

It was an extraordinary period of growth; the changes that the new technology brought into our lives were also reflected in stock growth.

[1] Smartmoney.com, 2/1/00 "Market Storms Back After Shaky Morning."

ING

A quick investment lesson – price-to-earnings (P/E) ratios.

The P/E ratio measures the difference between a stock's earnings per share and its price per share. The P/E equation tells the story – divide the stock's price per share by its earnings per share. Let's say Acme Future Technology trades at $20 per share, and returns earnings per share of $1. Its P/E is 20, or 20/1 = 20. Investors pay $20 for every $1 in earnings per share. If the P/E drops to, for example, 15, it means that investors are willing to pay only $15 for each $1 in earnings – the stock's price drops to $15 per share.

(You can find the trailing P/E ratio for stocks listed in the paper and on-line. The trailing P/E represents price/earnings for the previous 12 months. This price is based on audited earnings reported to the Securities and Exchange Commission.)

What happened during the 1990s was that price-to-earnings (P/E) ratios skyrocketed far ahead of actual earnings growth per share. Stock prices grew far faster than actual earnings. By 2000, the average P/E ratio peaked at almost 45. In 1996, the P/E ratio on the Dow (which stood at 6,700 points) was 25, and Federal Reserve Chairman Alan Greenspan cautioned against "irrational market exuberance." In 2001 (and remember, the bear market started in 2000), the P/E ratio on the Dow was 30. Throughout its history, the P/E on the Dow has averaged 15.[2]

Experts now say (and, again, in hindsight), that the Great Depression was caused not by the crash itself, but by the tight monetary policy that followed.

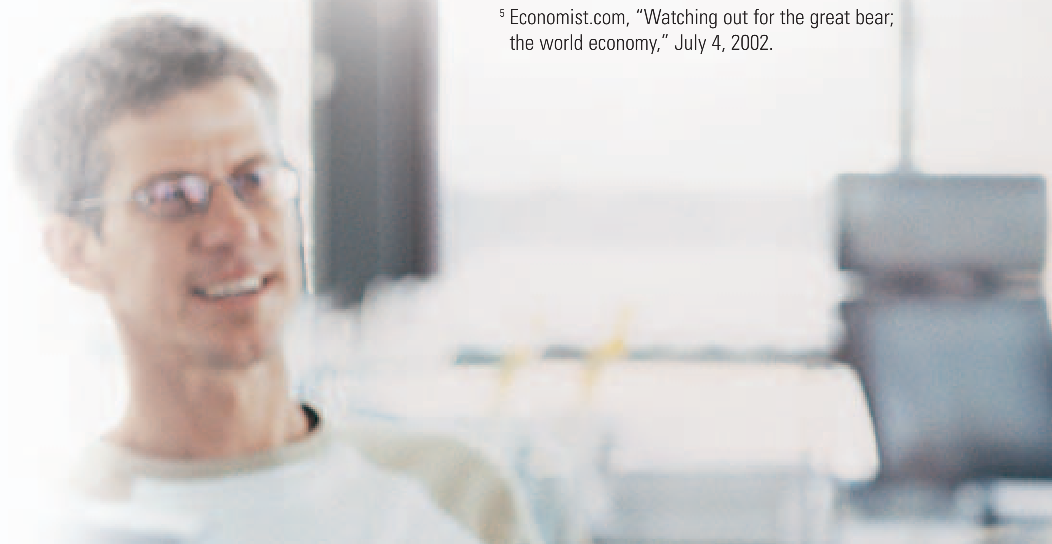
In plain English, the bubble meant that people were paying far more for stocks than the earnings on those stocks would seem to warrant. It was a bubble that many experts expected to burst. "For some economists, this represents a necessary and long-delayed correction in the share values: By historical standards, many stock prices seem over-valued when looked at in relation to corporate earnings (and downward revisions in their earnings would make them seem even more overvalued)"[3].

Remember the bit about "downward revisions" in a little while, when we address corporate accounting scandals.

Bubbles have happened before, and are frequently fueled by amazing technological advances – the 1920s, for example. The technology bubble then was inflated by the mass production of the car and the invention of the small motor that made the household appliances we use today possible: mixers, washers, fans, dryers, vacuum cleaners, refrigerators and the like. Just as information technology has revolutionized our lives, so these conveniences revolutionized life for our not-so-distant ancestors. And, in the 1920s, P/E ratios skyrocketed – from about 5 in 1920 to about 33 in 1929. Other bubbles, not so dramatic, occurred in 1901 and 1966. Some of us will remember the "Great Bear Market of 1973 - 1974"[4] and the energy crisis. It's hard to predict a bubble – and certainly to predict when it will burst – except in hindsight.

The comparisons with the crash of 1929 are especially hard for us to bear, but they may not be entirely accurate. Experts now say (and, again, in hindsight), that the Great Depression was caused not by the crash itself, but by the tight monetary policy that followed.[5] The Federal Reserve, which determines monetary policy by setting Federal interest rates, is far more empowered – and engaged – in establishing monetary policy now than it was more than 70 years ago.

[2] www.firstcap.com, 8/4/01, "Stock Market Commentary."
[3] Economist.com, "Watching out for the great bear; the world economy," July 4, 2002.
[4] www.forbes.com, 12/14/01 "Media Stock Forecasting Muddle."
[5] Economist.com, "Watching out for the great bear; the world economy," July 4, 2002.



"Accounting matters"

Accounting scandals have made matters worse. Enron. Lucent. WorldCom. Tyco. While corporate accounting is very complicated, a basic truth applies here. Companies (with questionable accounting practices) adjusted, inflated or otherwise futzed with profit reporting, ultimately requiring the "downward revisions" we discussed earlier, in an environment where P/E ratios were already out of historical whack, and a bear market/ recession was already settling in.

Basic psychology – and certainly investment psychology – makes investor panic a near certainty with the headlines generated by these spectacular scandals.

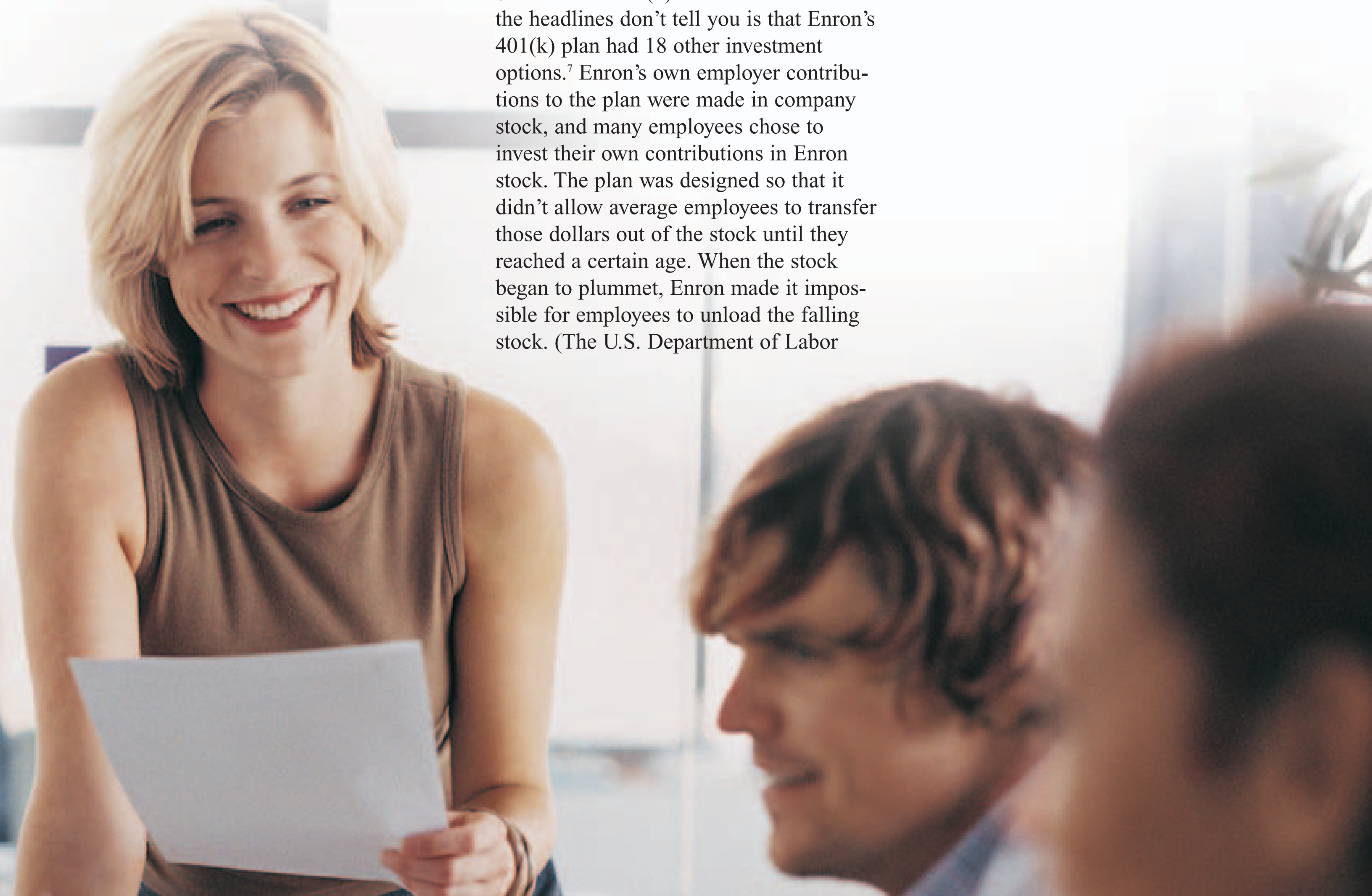
Perhaps some perspective is in order. A few companies misreported profits, or otherwise misrepresented financial health to investors. If you'd invested significant dollars in the specific stocks of these specific companies, then you'd have cause for worry. These days, most investors invest through mutual funds, either on their own or through IRAs, annuity contracts or employer retirement plans. The performance of these funds would be impacted by the scandals if they invested in the stocks of these companies, but *it wouldn't have been tied only to the single investment. These funds invest in a wide variety of securities, not just one stock.* They are *diversified.* (Ask your representative or visit us at **www.ing.com/us** for ING's Special Report, "Diversification: Variety is the spice of (investment) life.")

In short, while not an absolute guarantee, *diversification* has been a hedge against investment loss – it's the practice of spreading dollars over a variety of securities or investments so that losses in one could be offset by potential gains in another.

Which brings us to another factor not frequently mentioned in headlines. Employees of these companies had the option to invest in company stock via their 401(k) plans. Here, the Enron example is among the most dramatic – nearly $1 billion in 401(k) assets lost.[6] But what the headlines don't tell you is that Enron's 401(k) plan had 18 other investment options.[7] Enron's own employer contributions to the plan were made in company stock, and many employees chose to invest their own contributions in Enron stock. The plan was designed so that it didn't allow average employees to transfer those dollars out of the stock until they reached a certain age. When the stock began to plummet, Enron made it impossible for employees to unload the falling stock. (The U.S. Department of Labor investigated Enron for these actions.)

But the (less publicized) reality here is that while Enron and its stock failed, its 401(k) didn't. Certainly, the company will have a difficult time defending the plan's restrictions against the sale of company stock… but that's a plan design issue, not a fundamental problem with the 401(k) concept! Ditto for WorldCom and Lucent. It's a small comfort, to be sure, for the employees who chose to invest their entire retirement accounts in employer stock, but a valuable lesson for the rest of us. *Diversify. Diversify. Diversify*. A single stock or security, no matter what it is, is the riskiest investment you can make, especially if you work for the same company.

[6] CNNMoney, 12/10/01, "Company Stock Slams 401(k)s"
[7] Ibid



Asset allocation gives you an investment strategy that tracks with your own goals, risk tolerance and investment timeline.

If, for example, you work for a company that makes a 401(k) match in company stock, you may have restrictions on transferring funds out of that fund. So, think very carefully before you tie any more of your investment dollars – in addition to your employment security – into the fate of the company.

The rest of us were likely affected by investor panics. Richard Geist, clinical instructor of psychology at Harvard Medical School and President of Newton, Massachusetts-based Institute of Psychology and Investing, offered this perspective, "Interest rates are low, inflation is non-existent. Investor confidence is one of the only things that's bearish, and that's because the focus today is on the very small percentage of companies that are not honest. That's not the whole picture."[8]

Geist's key words here are *the very small percentage of companies that are not honest.* In fact, when the Coca-Cola Company (Coke) announced on July 15, 2002 that it would change its accounting so that its earnings would reflect the value of stock options granted to employees, its stock closed the day up 1.86 percent. "I think you will see other companies doing this," said Berkshire Hathaway chairman Warren E. Buffett, speaking from a Sun Valley Idaho conference of corporate leaders later in the year. "There has been a lot of discussion here about this."[9]

Recent history and timeless lessons

July 15, 2002, the day Coke made its announcement, seems a perfect day to illustrate market volatility. The Dow, a leading indicator of "blue chip" (generally large and credit-worthy companies) stocks, was on its way to its fifth triple-digit point loss in six trading days. (It bears mentioning here that a point loss or gain in the Dow does not directly translate into a percentage point. Rather, it's an indicator of the number and value of shares traded.)

At one time on that Monday (July 15, 2002), the Dow was down 439 points, near the low it reached after the September 11th terrorist attacks (a 1,369.7 point drop at the NYSE's opening day of September 21, 2001).[10] But, during the course of the afternoon – in a couple hours – it rebounded, closing down only 45.34 points (-0.5 percent). On the same day, the NASDAQ, a leading indicator of technology stocks, ultimately rose 9.12 points (0.7 percent).

In Dow summary, that day opened at 8,681.28, wobbled between 8,244.87 and 8,681.90 and ultimately closed at 8,639.18 (-0.5 percent). The NASDAQ opened at 1,365.79, skipped between 1,315.30 and 1,382.70 and ultimately closed at 1,382.62 (+0.66 percent).

For investors watching indices during the course of the day – especially those tied heavily to blue-chip stocks – it was an excruciating ride, an excruciating week, an excruciating year. But it was a day that ended far, far less badly than the watching investor might have feared.

[8] The Boston Globe, "WorldCom on the Brink; Economists see 'negative' bubble," page C1, June 27, 2002, by D.C. Denison.

[9] The New York Times, "Coke to Report Stock Options as an Expense," July 15, 2002, by Floyd Norris and Sherri Day.

[10] Rumormillnews.com, 6/15/02, "Dow Down 45 After 439-Point Drop."

Our message here is that watching the indices too closely, and making hour-by-hour, or day-by-day investment allocation decisions is not a proper response, even in today's markets. A longer-term perspective on missing even a few market gains helps tell the story:

Missing the Market[11]

Missing even a few days of the market's best performance would have dramatically reduced the performance of a S&P 500 Portfolio, demonstrating how Market Timing may be one of the riskiest investment strategies of all.

S&P 500 Index: December 31, 1992 – December 31, 2002

Period of Investment	Average Annual Total Return	Growth of $10,000
Fully invested	9.34%	$24,425
Missed the 10 best days	4.29	15,216
Missed the 20 best days	0.47	10,478
Missed the 30 best days	-2.70	7,606
Missed the 40 best days	-5.34	5,774
Missed the 60 best days	-9.83	3,555

Source: FactSet Research Systems

The S&P 500 Index is an unmanaged index considered representative of the U.S. stock market. Performance reflects reinvestment dividends. An investment cannot be made directly in an index.

[11] Sources: Standard & Poor's, Calculations by Manarin Investment Council, Ltd. "Trying to time the Market: Why Smart Investors Stay Fully Invested," 2003.

For an apples-to-apples comparison, the S&P 500 opened July 15, 2002 at 918.09 points, ranged between 876.64 and 918.09 during the course of trading, and ultimately closed down 3.46 points (-0.38 percent).

We're using July 15 as an example. The above exhibit, too, is merely an example. Market timing, or jumping in and out of markets, is an investment technique that clearly doesn't pay for the average investor. (See ING's Special Report, "Market Timing, the investment technique that doesn't pay.")

Asset allocation, however, is a technique you'll want to consider.

Why asset allocation?

Asset allocation is more than diversification, more than market timing and far more than guessing and emotion. It's a scientific approach to investing that considers a number of factors, including:

- Your risk tolerance
- Your investment time horizon
- Your range of investments
- Investment history

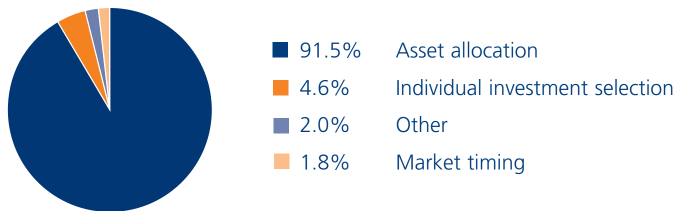
Simply put, asset allocation considers all the relevant factors, and helps you make investment decisions based upon them. It neither assures nor guarantees better performance and cannot protect against loss in declining markets. We can't predict the future, and to successfully time the markets, you'd have to be able to anticipate the trends and factors that contribute to investment performance. Not react to, because by the time Asian stock markets crash, or the Dow dives, or a new technology is introduced, it's too late and the economic effects of the event are already in motion.

For investors watching indices during the course of the day – especially those tied heavily to blue-chip stocks – it was an excruciating ride, an excruciating week, an excruciating year. But that day ended far, far less badly than the watching investor might have feared.

In fact, according to a landmark study published in the Financial Analyst's Journal in 1992 (Brinson, Hood and Beebower, "Determinants of Portfolio Performance"), market timing is simply one of those "other factors" that contribute to only three percent of portfolio performance. Individual investment selection doesn't account for much more – only five percent of portfolio performance. Asset allocation (the strategy of distributing dollars among certain types of investments), on the other hand, was responsible for 92 percent of portfolio performance in a 1996 follow up study.

Asset allocation helps you smooth the bumpy rides… think of it as *diversification, adjusted for your own personal situation*.

Portfolio Performance



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

Asset allocation helps you determine what kind of securities – asset classes – you should invest in.

For example, if you're investing to send your 16-year-old to college, you likely don't have time to ride out dramatic market highs and lows. You'll want to help protect your investment dollars, perhaps seeking a modest return from income (bond) investments. You have a two- or three-year time horizon, and that's probably not long enough to ride out a prolonged down-cycle.

If, on the other hand, you're investing for a retirement 20 years away, you've got more time. You may want to consider riding out the current equity markets, hoping that they will track with historical patterns and rise again. In this scenario, you've got time to make substantial periodic adjustments.

Or, you'll likely want to have different asset allocation scenarios for different life goals – such as education, home purchase, vacations and retirement. Each has a different time horizon, and you'll want to invest differently for each goal. For example, a very short-term investment – a savings account, for example – is likely appropriate for the dollars you save toward a vacation; the cookie jar for grocery funds; Mutual funds (appropriately allocated) for longer- and shorter-term goals; Section 529 plans for education expenses; IRAs and employer retirement plans for retirement goals. Other investments factor in, too – real estate, collectibles, jewelry, CDs, trust funds, inheritances. If you're in possession of a vetted Monet original, for example, you might not need to worry so much about sending your three-year-old to college! Most of us, however, need to consider our asset allocation strategies and life's goals carefully, especially these days.

An asset allocation strategy, or even different strategies for different goals, can help you keep your finances in line with your goals. (Visit us on-line at **www.ing.com/us** for calculators that will help you start planning.)

Professional money management

Even with a specific asset allocation strategy, most folks won't want (and probably lack the time, resources, research and training) to make specific investment decisions for themselves – which specific stocks, bonds and money market instruments to purchase. Buying and selling securities as an individual investor is expensive – there are fees attached to buy and sell transactions – and inefficient. Very, very few of us have the financial resources to build the kind of scale that makes investing in individual securities practical.

For most of us who choose to invest, mutual funds (and similar vehicles) could be the answer. These funds pool resources of many investors with similar investment

objectives. They come in an enormous array of shapes and flavors – from very aggressive funds that invest internationally in all sorts of vehicles and economies, to conservative money market funds that invest only in stable government securities. (*You should always consider the investment objectives, risks, and charges and expenses of the investment company carefully before investing. The prospectus contains this and other information and can be obtained from a registered representative.*)

These funds are managed by investment professionals who have access to analysis, research and investment tools. When you purchase shares in these funds, you also purchase the expertise of the funds' managers.

(Brave?) new world

We can only provide perspective. We can't predict or promise… even the most savvy investment professionals can't predict the future. Socially, politically and economically, we're living in new and challenging times.

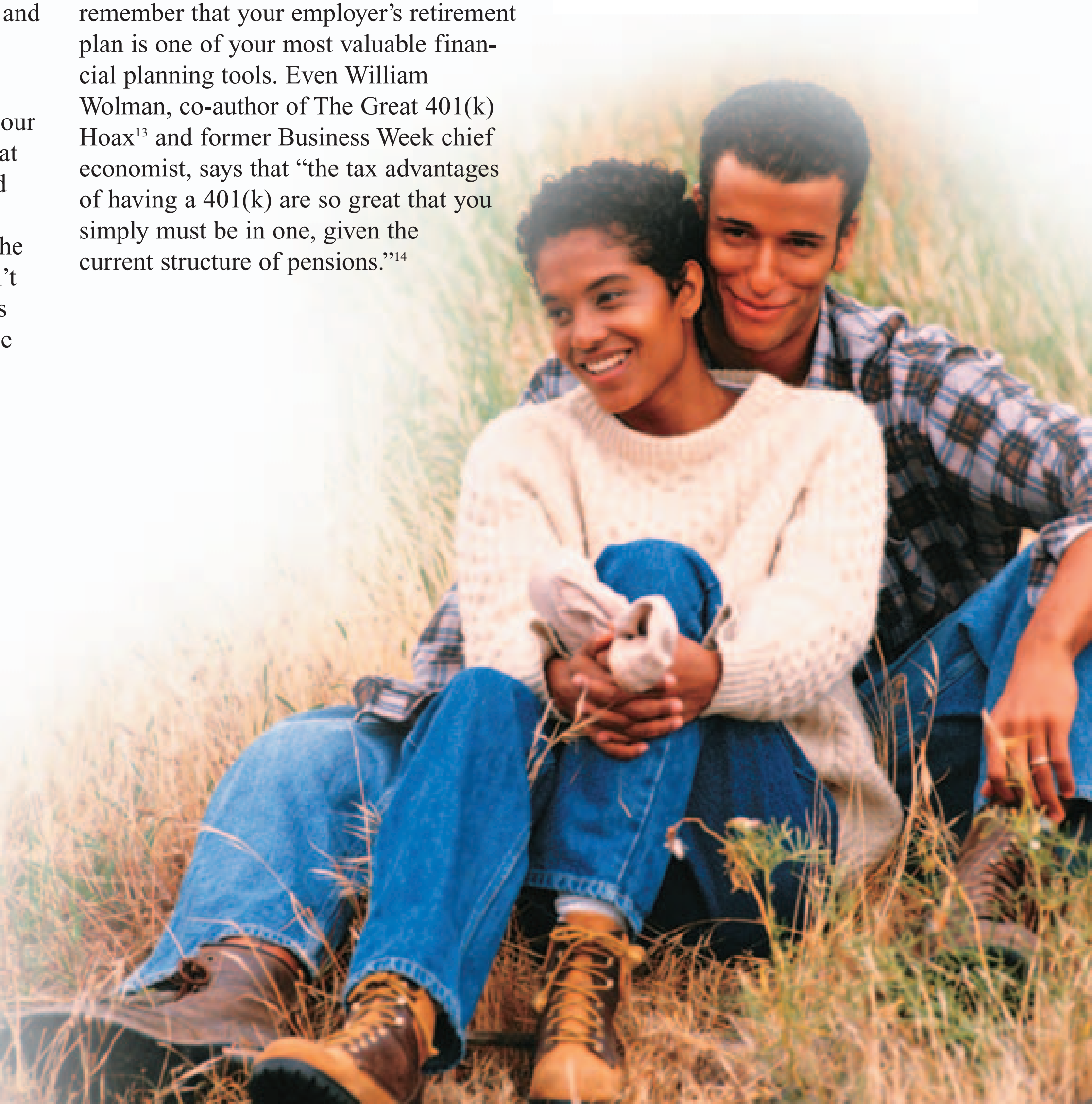
Would another terrorist attack disrupt our markets? Yes, and we can't predict what it may be, when or if it may come, and what its effects could be. What affect will the war have on our economy in the short- and long-terms? We simply don't know, but one thing we can consider is America's remarkable ability to bounce back.

Are we saying that you should invest your savings in equities in a show of consumer confidence and patriotism? Of course not! You'll want to think hard about what your own goals are, in light of current markets, and make the appropriate asset allocation decisions… and get help making those decisions if you feel you need it. (Again, visit us at **www.ing.com/us**, or contact your ING representative, for help and information.) Look at bonds, look at equities, look at guaranteed-return and stable value options, and make the right decisions for your own life and your own goals. Mutual funds, savings accounts, CDs, IRAs and employer plans are vehicles for you to use, but you'll need to make sure you use them in the most appropriate way for your own goals.

Finally, because retirement is one of your most important life's goals – and because retirement is the goal most folks overlook for more immediate financial concerns[12] – remember that your employer's retirement plan is one of your most valuable financial planning tools. Even William Wolman, co-author of The Great 401(k) Hoax[13] and former Business Week chief economist, says that "the tax advantages of having a 401(k) are so great that you simply must be in one, given the current structure of pensions."[14]

At ING, we don't urge you to invest in equities. We urge you, instead, to invest appropriately for your own life's goals. We urge you to seek help when and if you need it, especially in these difficult economic times. We offer you tools, information and guidance. We thank you for reading this Special Report, and hope that it's helped you. And we invite you to call our representatives or visit us on-line (**www.ing.com/us**) any time you feel you need help or additional information.

[12] ING IMPACT Spring 2002, Plan Sponsor Survey.
[13] The Great 401(k) Hoax, by William Wolman and Anne Colamosca, Perseus Publishing, © 2002.
[14] BusinessWeek Online, June 18, 2002 "Don't Get out of Your 401(k)."



For more information please contact:

ING Financial Advisers, LLC
151 Farmington Avenue
Hartford, Connecticut 06156

www.ing.com/us
www.ingretirementplans.com

The ING Organization

Products that span the financial spectrum. Distribution through customers' channel of choice. Services to help manage financial, benefits, and retirement programs.

The ING family of companies in the United States provides financial solutions for individuals, organizations and companies. Through a network of wholly owned, indirect subsidiaries, we help people prepare for a financial future. Your goals are our business.

Insurance products, annuities and retirement plan funding that are issued by (third party administrative services may also be provided by) ING Life Insurance and Annuity Company and ING Insurance Company of America (not admitted in New York) are distributed by ING Financial Advisers, LLC (member SIPC), 151 Farmington Avenue, Hartford, Connecticut 06156.

These companies are wholly owned, indirect subsidiaries of ING Groep N.V. Securities may also be distributed through other broker-dealers with which ING Financial Advisers, LLC has selling agreements.

Insurance obligations are the responsibility of each individual company. Products and services may not be available in all states.

C04-0507-004 (8/04)

M.P.SR.31-5 (6/05)

Products and services offered through the ING family of companies. © 2004 ING North America Insurance Corporation
ing.com/us