

The Time May Be Right for Growth

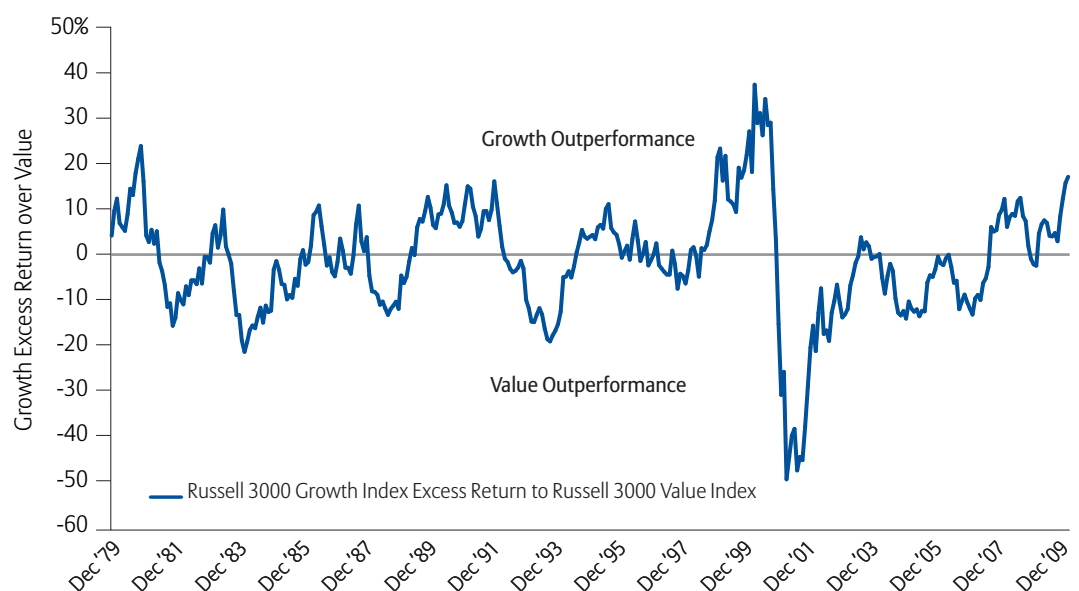
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Executive Summary: The “growth style” of investing looks for companies believed to be growing at a faster-than-average rate as measured by their earnings and other metrics. It has historically been one of the best ways to build assets over time. That is why investors who need capital appreciation to help fund long-term financial goals—everything from education to retirement to a lasting legacy—have traditionally turned to growth. In the wake of the turmoil that shook the global economy in the second half of 2008, growth stocks are undervalued on a historical basis, and as a result **now may be a good time to consider adding growth stocks back into your portfolio.**

Growth Could Be Poised to Outperform

- Growth has a style counterpart, “value” investing, that looks for bargain-priced investments. As you can see from the chart below, growth and value companies—as represented by the Russell 3000 Growth and Russell 3000 Value Indexes—have historically taken turns outperforming each other.
- The chart suggests that, based on historical cycles of outperformance and underperformance, growth has rebounded relative to value and has been outperforming value coming out of the past recession.
- In an economic environment like the current one, which has been gradually moving out of a recession, investors may be willing to pay a premium for stocks of companies that can potentially generate earnings growth. This may prove to be a positive trend for growth stocks.
- Of course, since nobody knows when each style will fall into or out of favor with the market, investors should consider maintaining some exposure to both growth and value investments.

Growth and value have traditionally taken turns outperforming



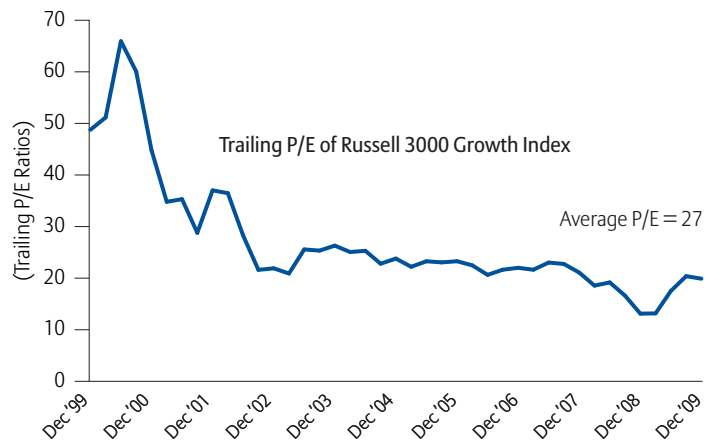
Source: Zephyr Associates. Data as of 12/31/09.

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Growth Stocks Present Attractive Historical Valuations

- As the chart shows, the average price-to-earnings ratio (P/E) of growth stocks, as represented by the Russell 3000 Growth Index, between December 1999–December 2009 was 27. The recent recession has gradually brought the P/E of large cap growth stocks down to more attractive levels.
- As of December 31, 2009, the trailing P/E ratio for growth stocks was 19.81. Even though the market staged a rally beginning in March 2009, the index is still significantly below its 10-year average, making growth stocks a potentially compelling buy.

The recession has brought growth stock P/Es down to attractive levels

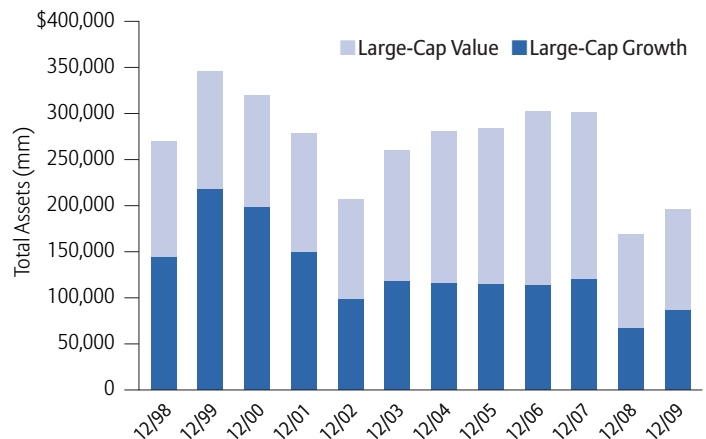


Source: Bloomberg. Data as of 12/31/09.

Investors Remain Underallocated to Growth Stocks

- Investors favored value over growth for the last several years, even during most of the 1990s, the last sustained period of growth outperformance.
- As a result of the recent recession, a lot of cash that might normally have been invested in growth stocks remains on the sidelines in money market funds.
- Investors tend to be under allocated to growth stocks. As of December 31, 2009, there was \$109 billion in mutual fund assets in value funds while there was only \$87 billion in growth mutual funds.¹

Investors have tended to favor value over growth



Source: Sim Funds. Data as of 12/31/09.

1. Source: SIMFUNDS.

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Past performance is no guarantee of future results.

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Growth securities typically trade at higher multiples of current earnings than other securities. Therefore, the value of growth securities may be more sensitive to changes in current or expected earnings than the value of other securities. Price-to-earnings ratio (P/E) is a ratio of security price to earnings per share. Typically, an undervalued security is characterized by a low P/E ratio, while an overvalued security is characterized by a high P/E ratio.

The Russell 3000 Growth Index is an unmanaged index composed of those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000 Value Index measures the performance of those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values. It is not possible to invest directly in an index.

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