

U.S. Market Recovery After Financial Crises

During financial crises, stock prices suffer. However, they typically recover over time.

These images illustrate the cumulative returns of an all-stock portfolio and a balanced (60% stock/40% bond) portfolio after five historical U.S. financial crises. In the short term, uncertainty from such external shocks can create sudden drops in value. For example, each portfolio posted negative returns one month after the October 1987 stock-market crash. Over a longer period of time, however, returns were much more attractive, and investors who stayed the course reaped considerable rewards.

Fear and uncertainty might lead investors to sell their investments during tough times, putting downward pressure on prices. Trading because of these emotions can be detrimental to a portfolio's value. By selling during downward price pressures, investors might realize short-term losses. This is compounded as investors wait and hesitate to get back into the market, possibly missing some or all of the potential recovery. The lesson here is that patience can pay dividends.

Diversification can also limit losses during turbulent market conditions. The dot-com crash in 2000 resulted in rather large losses for those invested entirely in stocks. In fact, every period analyzed actually produced a loss. On the other hand, the balanced portfolio's losses were less severe, and after five years it actually generated a gain. One of the main advantages of diversification is reducing risk, not necessarily increasing return, over the long run. While stocks offer the potential for higher returns, the downside risk can also be extreme. A diversified portfolio can help mitigate such extreme swings in value.

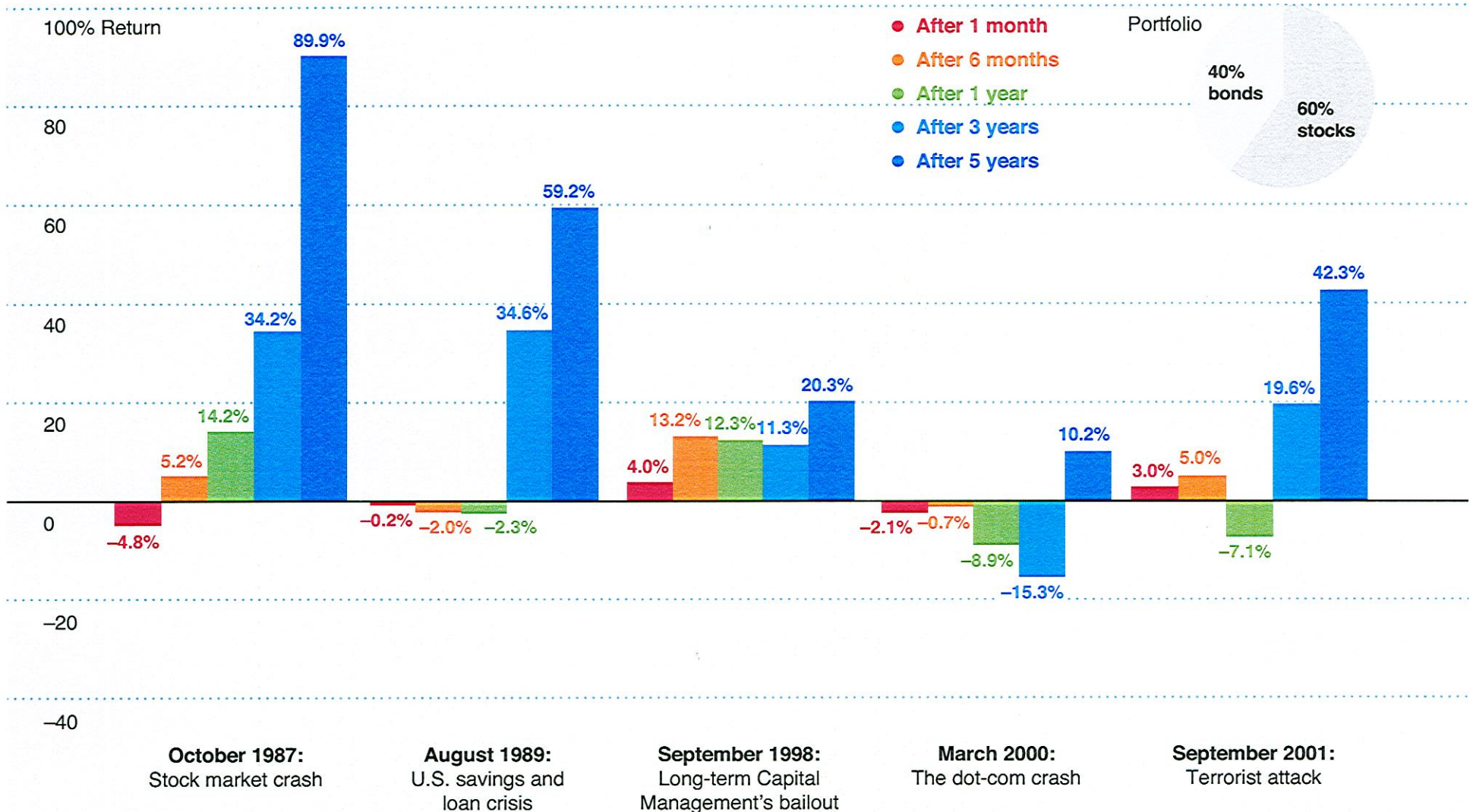
Government bonds are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, while returns and principal invested in stocks are not guaranteed. Stocks have been more volatile than bonds. Diversification does not eliminate the risk of experiencing investment losses.

About the data

Stocks in this example are represented by the Standard & Poor's 500[®], which is an unmanaged group of securities and considered to be representative of the stock market in general. Bonds are represented by the 20-year U.S. government bond. Calculations assume monthly data. The data assumes reinvestment of all income and does not account for taxes or transaction costs. For the U.S. savings and loan crisis, August 1998 was chosen because that was the month the Financial Institutions Reform, Recovery and Enforcement Act of 1989 was signed into law. For Long-term Capital Management, September 1998 was chosen because that was the month the hedge fund was bailed out by various financial institutions.

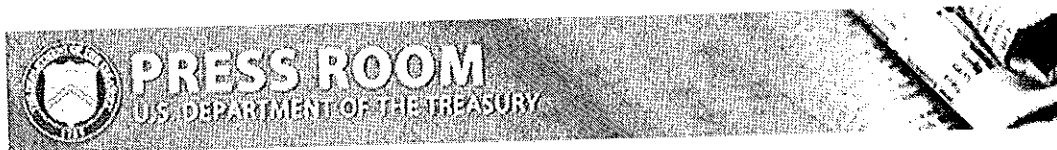
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Cumulative return of balanced portfolio after various events



Past performance is no guarantee of future results. Returns reflect the percentage change in the index level from the end of the month in which the event occurred to one month, six months, one year, three years and five years after. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2008 Morningstar, Inc. All rights reserved. 9/13/08





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Treasury Announces Guaranty Program for Money Market Funds

Washington- The U.S. Treasury Department today announced the establishment of a temporary guaranty program for the U.S. money market mutual fund industry. For the next year, the U.S. Treasury will insure the holdings of any publicly offered eligible money market mutual fund – both retail and institutional – that pays a fee to participate in the program.

President George W. Bush approved the use of existing authorities by Secretary Henry M. Paulson, Jr. to make available as necessary the assets of the Exchange Stabilization Fund for up to \$50 billion to guarantee the payment in the circumstances described below.

Money market funds play an important role as a savings and investment vehicle for many Americans; they are also a fundamental source of financing for our capital markets and financial institutions. Maintaining confidence in the money market fund industry is critical to protecting the integrity and stability of the global financial system.

Concerns about the net asset value of money market funds falling below \$1 have exacerbated global financial market turmoil and caused severe liquidity strains in world markets. In turn, these pressures have caused a spike in some short term interest and funding rates, and significantly heightened volatility in exchange markets. Absent the provision of such financing, there is a substantial risk of further heightened global instability.

Maintenance of the standard \$1 net asset value for money market mutual funds is important to investors. If the net asset value for a fund falls below \$1, this undermines investor confidence. The program provides support to investors in funds that participate in the program and those funds will not "break the buck".

This action should enhance market confidence and alleviate investors' concerns about the ability for money market mutual funds to absorb a loss. Investors in money market mutual funds with a net asset value that falls below \$1 would be notified that their fund triggered the insurance program.

The Exchange Stabilization Fund was established by the Gold Reserve Act of 1934. This Act authorizes the Secretary of the Treasury, with the approval of the President, "to deal in gold, foreign exchange, and other instruments of credit and securities" consistent with the obligations of the U.S. government in the International Monetary Fund to promote international financial stability. More information on the Exchange Stabilization Fund can be found at <http://www.treas.gov/offices/international-affairs/esf/>.

