

# Financial Horizons



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**Investing with a Long-Term Focus**  
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The market will always be unpredictable, which may affect your portfolio's performance throughout its life span. However, it is important not to let market fluctuations, positive or negative, influence you to exit the market or make dramatic changes — you could miss the opportunity

to let your money work for you in future years. The following articles are designed to provide insight and guidance on staying the course, while also diversifying your assets across different sectors, and even countries.



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## Investing with a Long-Term Focus

What should you do if you are a long-term investor sitting in the midst of a bear market? If you are holding a well-diversified portfolio, the answer is simple: stay the course.

downturns have lasted for shorter periods of time.

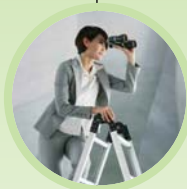


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Volatile markets can cause investors to abandon their long-term goals for risky short-term investment strategies. Volatility can range from a single-day market crash to extended periods of jagged performance. The market has undergone cycles with high and low annual returns from 37% to –26% over the past four decades, and it can be tough to stay the course in the face of such fluctuations. The graph illustrates the annual stock market performance since 1960. The bull market from 1991 to 1999 lasted the longest, with an average annual return of 20.9%. In contrast, a majority of the

A disciplined investment approach is still the best strategy for handling market downturns. This includes maintaining a well-diversified portfolio and using dollar-cost averaging, instead of lump-sum purchases, to ease into new investments. Dollar-cost averaging involves the purchase of securities, usually mutual funds, in fixed-dollar amounts at regular intervals. This strategy is maintained no matter what direction the market is moving. Dollar-cost averaging does not assure a profit, nor does it protect against loss in declining markets. Finally, staying focused on a long-term investment plan may enable you to participate in recoveries.

*(Continued on page 2)*



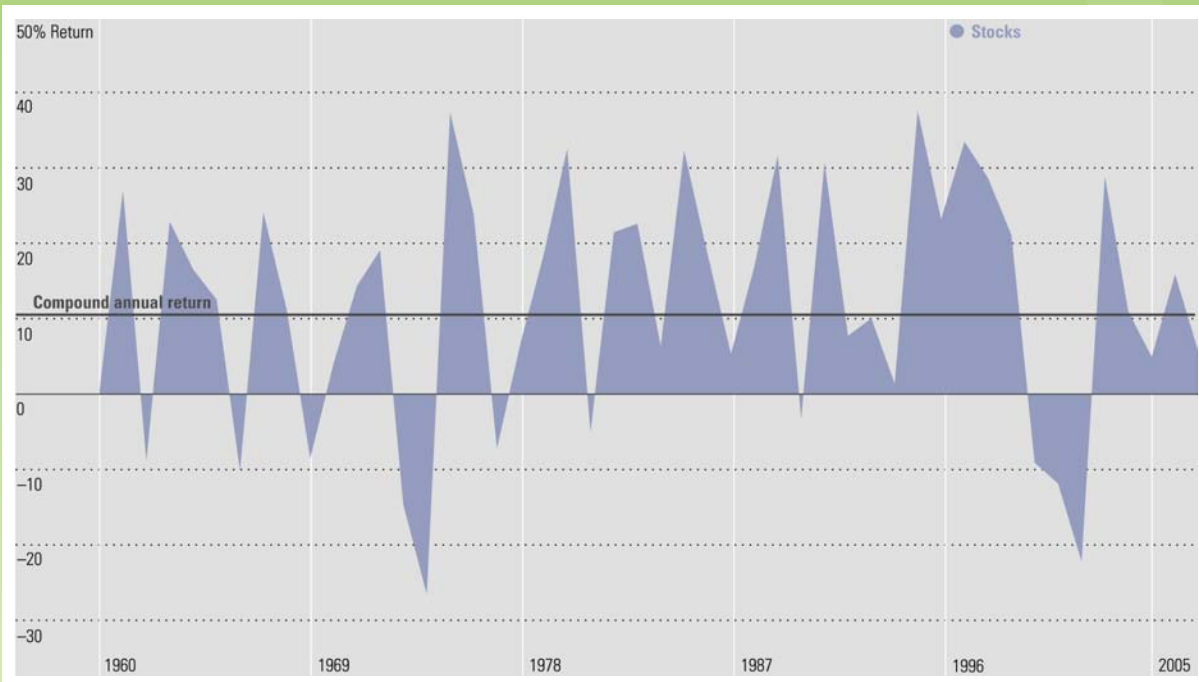
**The Big Picture**  
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## Investing with a Long-Term Focus *(Continued from page 1)*

Overall, the stock market has exhibited positive performance in the past, but be prepared for periods of underperformance. It's important to evaluate the merits of long-term investing while not being sidelined by market expansions and contractions.

### Annual Stock Market Performance: 1960–2007



This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Past performance is no guarantee of future results. Returns and principal invested in stocks are not guaranteed.

Source: Stocks — Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general.



## Dangers of Market Timing

Two of the most dangerous words that can be uttered in the investing world are “market timing.” Market timing occurs when investors try to predict which direction the stock market will head. While some investors, through the use of complex trading indicators, have been known to make money timing the market, it is highly inadvisable for long-term investors to try this extremely risky strategy.

### Opponents of Market Timing

Most investors and academics believe it is impossible to forecast market movements. Such a technique amounts to gambling when compared to a sound investment approach. The technique fails far more than it works, and market timers often end up buying high and selling low — the opposite of good investing. Furthermore, if you attempt to time the market, you run the risk of missing periods of exceptional returns.

For example, from 1988 to 2007, a \$1 investment in stocks, as represented by the Standard & Poor’s 500®, would have grown to \$9.33. If that same \$1 investment happened to miss the best 18 months of stock returns over the past 20 years, the ending value would have equaled only \$2.36. This would have been less than the value for an investor in a 30-day Treasury bill, a.k.a. cash, \$2.41. It is fairly clear that only those investors who remained invested in stocks through the entire 20-year period were sure to get market exposure during the crucial hot months. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results.

### Advocates of Market Timing

On the contrary, a number of websites, newsletters and other trading services

boast they can time the market. While their returns may have in fact beaten the market by a considerable margin, it’s safe to assume that these systems can’t consistently hold up over the long term. On some occasions and during some stretches of time, market timing can help you generate impressive profits. However, you must be familiar with the dangers behind such an approach. Sure, there have been a number of investors who got rich timing the market. On the flip side, there probably have been a great deal more who got burned by it. We know how easy it is to procrastinate when it comes to initiating a long-term investment plan. However, the sooner you begin, the more likely the plan will succeed. While it can be tempting to play the market-timing game in an effort to build wealth quicker, you may in fact be digging yourself a deeper hole.





## The Flavors of Investing

Today's investment options are plentiful, and focus can be a powerful thing. It is tempting to jump on the investment bandwagon when certain parts of the market soar based on a trend, analyst report, or estimation. Overweighing to certain sectors is at the heart of this pastime as both mutual fund managers and investors attempt to anticipate economic, political and social outcomes.

While great potential exists, sector investing can also come with great risk.

As seen in the image below, what is hot one year isn't always hot the following year. Interested investors should be willing to follow a sector's ups and downs, as timing the market is difficult. In recent years, the number of sector or specialty funds has risen dramatically, making it

easier for investors to access specific segments of the market. Investing in specific sectors can add volatility to a portfolio, but exposure to the right sectors can contribute to improved financial performance. Keep in mind that while sector investing can fill a gap or serve as a speculative play, a balanced asset allocation should be the core of any portfolio.

### Annual Stock Market Performance: 1998–2007

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Highest return	Software 66.9	Software 97.0	Utilities 55.5	Cons. Services 10.4	Cons. Goods -4.1	Hardware 65.3	Energy 33.0	Energy 34.4	Telecom 35.6	Energy 37.2%
	Hardware 64.5	Hardware 81.1	Healthcare 38.1	Bus. Services 3.4	Financial -12.2	Ind. Materials 35.9	Utilities 23.4	Bus. Services 16.0	Utilities 24.8	Ind Materials 20.5
	Telecom 51.8	Media 53.0	Financial 27.1	Cons. Goods -1.4	Energy -13.8	Cons. Services 35.5	Ind. Materials 18.8	Utilities 14.8	Energy 23.1	Utilities 18.2
	Media 45.1	Ind. Materials 19.8	Energy 24.5	Financial -6.4	Utilities -19.8	Financial 32.5	Telecom 18.0	Healthcare 8.2	Media 22.1	Hardware 16.9
	Cons. Services 42.4	Energy 17.9	Cons. Goods 5.2	Ind. Materials -7.5	Cons. Services -21.0	Media 32.2	Cons. Services 17.3	Financial 6.8	Financial 21.5	Software 15.8
	Healthcare 40.1	Telecom 17.8	Ind. Materials -0.6	Media -9.4	Healthcare -21.4	Bus. Services 27.1	Bus. Services 15.3	Ind. Materials 2.9	Ind. Materials 17.6	Bus. Services 13.7
	Utilities 15.1	Cons. Services 11.5	Cons. Services -12.8	Energy -11.3	Ind. Materials -23.3	Energy 25.5	Financial 14.1	Hardware 2.5	Software 17.6	Cons. Goods 11.3
	Cons. Goods 11.3	Bus. Services 9.3	Bus. Services -14.1	Healthcare -11.8	Bus. Services -24.0	Utilities 25.0	Cons. Goods 11.9	Cons. Goods 2.1	Cons. Goods 17.5	Telecom 11.2
	Financial 8.5	Financial 1.4	Hardware -31.1	Software -16.8	Media -30.7	Software 23.1	Software 10.8	Cons. Services 2.0	Bus. Services 13.4	Healthcare 9.6
	Ind. Materials 7.9	Healthcare -6.4	Media -35.2	Telecom -17.9	Software -32.5	Cons. Goods 22.2	Media 4.7	Telecom -2.4	Cons. Services 11.0	Cons. Services -5.2
	Bus. Services 5.4	Cons. Goods -8.1	Telecom -41.2	Utilities -26.5	Telecom -34.9	Healthcare 19.1	Healthcare 3.9	Software -2.7	Hardware 9.1	Media -12.9
Lowest return	Energy -4.6	Utilities -11.2	Software -46.2	Hardware -32.9	Hardware -41.3	Telecom 9.0	Hardware -3.8	Media -11.0	Healthcare 7.9	Financial -15.9

This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Past performance is no guarantee of future results. Sector investments are narrowly focused investments that typically exhibit higher volatility than the market in general. Sector investments will fluctuate with current market conditions and may be worth more or less than the original cost upon liquidation. Returns and principal invested in stocks are not guaranteed.

Source: Sectors in this example are represented by the Morningstar Sector Indexes.



## The Big Picture

The United States has long been the focal point of the global economy. However, by the end of 2007, 57% of the world's stock market capitalization was represented by international exchanges. Net inflows to foreign markets have skyrocketed, while the investors in foreign firms have seen double-, even triple-digit returns in some cases.

Despite the healthy economic growth of foreign markets along with their performance when compared with the performance of the U.S. market, many investors still shy away from international opportunities. What many investors overlook is the potential for overseas investments to bring stability and diversification to their portfolios.

This image presents the three best-performing developed-nation stock markets worldwide (out of a total of 23) on an annual basis for the past 10 years. The U.S. market's weak performance compared with the other developed markets over the last few years is quite evident. The U.S. has ranked toward the bottom during each of the last six years. In fact, the U.S. finished in the top 10 only three times during the last decade — and never in the top five.

Please keep in mind that it is rare to find any single market that has consistently performed among the top global stock markets. With it being nearly impossible

### The Big Picture

	1st	2nd	3rd	USA Rank
2007	Finland	Hong Kong	Germany	18th
2006	Spain	Portugal	Ireland	22nd
2005	Canada	Norway	Denmark	18th
2004	Austria	Norway	Greece	22nd
2003	Greece	Sweden	Germany	21st
2002	New Zealand	Austria	Australia	18th
2001	New Zealand	Australia	Ireland	8th
2000	Switzerland	Canada	Denmark	12th
1999	Finland	Singapore	Sweden	10th
1998	Finland	Greece	Belgium	8th

to predict which markets will be top performers in any given year, it may be wise to hold a portfolio that is diversified across several countries. Furthermore, the independent movement of global markets has provided considerable diversification benefits when held in combination with U.S. investments. Remember that the most important decision an investor can make is how to allocate assets across different asset classes, including the international class. Asset allocation does not assure a profit, nor does it protect against loss in declining markets.

This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Past performance is no guarantee of future results. All returns were calculated in U.S. dollars. Returns and principal invested in stocks are not guaranteed. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, and differences in accounting and financial standards.

Source: Equities for each country are represented by Morgan Stanley Capital International Indexes and the U.S. stock market by the Standard & Poor's 500<sup>®</sup>, which is an unmanaged group of securities and considered to be representative of the stock market in general. Developed countries in this analysis include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, United Kingdom and the United States.



It is important to understand that while diversification can help you manage risk, it does not guarantee a profit or protect against loss in a declining market.

Investments are subject to market risk, will fluctuate, and may lose value.

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