

Presentation to:

AAA-NC

Planning and Investing for Individuals

Sadri Gueche, September 29th 2005

LEHMAN BROTHERS

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Understanding the Big Picture

The Big Picture

Know what is available to you

- ◆ 401k and Deferred Compensation Plan
 - ◆ IRA and Roth IRA
 - ◆ Roll over 401k to an IRA account
 - ◆ 529 Plan
-
- ◆ Brokerage Account (short term)
 - ◆ Asset Allocation Account (long term)
 - ◆ Saving and Checking account for liquidity
 - ◆ Life insurance
 - ◆ Trust/Power of Attorney/Will

Precept 1: “MAX OUT YOUR 401k”

Understanding Stocks and Bonds

Stocks and Bonds

Both are ways to raise money for companies/government/municipalities

- ◆ Stocks reflects the value of the company
 - ◆ The Value of the company is the present value of the future cash flow of the business
 - ◆ “You own a piece of the business”
-

- ◆ Bond: is a debt security, similar to an IOU
- ◆ You lend money to the issuer and in return you will receive a rate of interest during the life of the bond and the face value (the principal) at maturity

- ◆ Example: Clearwater company’s new discovery
-

Stocks and Bonds

Categories of Stocks and Bonds

Stocks:

- ◆ Size of company
 - ◆ Geography
 - ◆ Sector: commodities, technology, ...
 - ◆ Type of Business (growth vs value)
-

Bonds:

- ◆ Government (Domestic/Foreign)
 - ◆ Municipal
 - ◆ Agency
 - ◆ MBS/ABS
 - ◆ Corporate
-

Stocks and Bonds

No free lunch

- ◆ Stocks for Capital Appreciation
- ◆ Bonds for Capital Preservation

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- ◆ Precept 2: “UNDERSTAND THE RISK YOU ARE TAKING: THE HIGHER THE RETURN, THE HIGHER THE RISK”

Capital Market Assumptions

Asset Class	Benchmark	10-Year ⁽¹⁾ Historical Return	12-mo. Fwd-Looking Return	12-mo. Fwd-Looking Risk	Baseline Moderate Portfolio	Recommended Moderate Portfolio	Diff b/w Baseline & Recommended	Themes
Cash								
Cash	LEH US Short Treasury	4.1%	3.8%	0.6%	0.0%	8.0%	+8.0%	
Fixed Income								
US Investment Grade Fixed Income	LEH US Agg	6.8%	3.8%	3.6%	23.0%	14.0%	-9.0%	U.S. bond market at risk
US High Yield Fixed Income	LEH High Yield	7.0%	4.7%	7.5%	2.0%	0.0%	-2.0%	
International Fixed Income	LEH Global Agg	5.1%	4.6%	8.3%	0.0%	7.0%	+7.0%	Equities attractive
Equity								
US Large Cap Growth Equities	Russell 1000 Growth	7.0%	7.5%	19.2%	9.0%	7.5%	-1.5%	Dollar at risk
US Large Cap Value Equities	Russell 1000 Value	12.0%	6.5%	14.3%	11.0%	8.5%	-2.5%	
US Mid Cap Equities	Russell Midcap	12.9%	7.3%	16.1%	4.0%	4.0%	+0.0%	
US Small Cap Equities	Russell 2000	9.9%	7.8%	20.0%	3.5%	2.0%	-1.5%	
International Equities	MSCI EAFE	5.5%	7.6%	15.0%	15.0%	25.0%	+10.0%	
Alternative Investments								
Long/Short Equity	CSFB Tremont	13.5%	5.7%	10.3%	9.0%	8.0%	-1.0%	Dollar at risk
Arbitrage Funds	LEH Diversified	11.1%	4.2%	3.6%	11.0%	7.0%	-4.0%	
Private Equity	Cambridge Assoc PE	28.4%	10.5%	38.3%	4.5%	2.0%	-2.5%	
Commodity								
Commodities	Dow Jones-AIG Comm	8.9%	4.9%	13.5%	3.0%	4.0%	+1.0%	
Real Estate								
Real Estate	NAREIT	14.6%	5.3%	13.7%	5.0%	3.0%	-2.0%	

(1) As of June 2005, except for hedge funds which are as of March 2005 and private equity which is as of March 2005.

IMPORTANT: The Hypothetical Return generated by this asset allocation analysis regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. The numbers displayed do not represent a guaranteed amount, but rather in which the hypothetical return or dollar amount for a particular investment period may fall. Results may vary over time and with each use of this analysis tool.

Not a Reserve and Portfolio Allocation. The Recommended Portfolio Allocations above are for an investor with moderate risk tolerance. Please visit the LehmanLive Asset Allocation homepage for recommendations for more conservative or more aggressive investors.

Understanding Asset Allocation

The Goal of Asset Allocation and Risk Management

What is Risk?

- ◆ Chance of losing money
- ◆ Chance of failing to meet financial goals
- ◆ Higher returns come at the cost of greater risk

Risk Tolerance

- ◆ **Conservative:** For risk averse investors seeking capital preservation and current income; seeks to maximize return while limiting volatility to no more than 4%
- ◆ **Moderate:** For risk neutral investors seeking moderate capital appreciation and possibly some current income; seeks to maximize return while limiting volatility to no more than 10%
- ◆ **Aggressive:** For risk seeking investors seeking aggressive capital appreciation with no need for current income; seeks to maximize return with no constraint on volatility

An Example

- ◆ Assuming a \$1 million investment for five years, the probability of significant losses is high for a volatile single security selection:

Investment	YHOO
Expected Returns	12%
Volatility	90%
Losses greater than:	Probability
10%	35.3%
25%	31.9%
50%	25.2%
75%	14.3%

- ◆ Even for a significantly less volatile stock, the potential for loss is still high:

Investment	GE
Expected Returns	8%
Volatility	26%
Losses greater than:	Probability
10%	18.0%
25%	10.8%
50%	2.2%
75%	0.2%

- ◆ **A diversified portfolio offers even lower volatility with a much lower probability of loss:**

Investment	Diversified Portfolio
Expected Returns	6%
Volatility	8%
Losses greater than:	Probability
10%	0.5%
25%	0.0%
50%	0.0%
75%	0.0%

Annual Asset Class Returns

A predictable pattern or a grab bag?

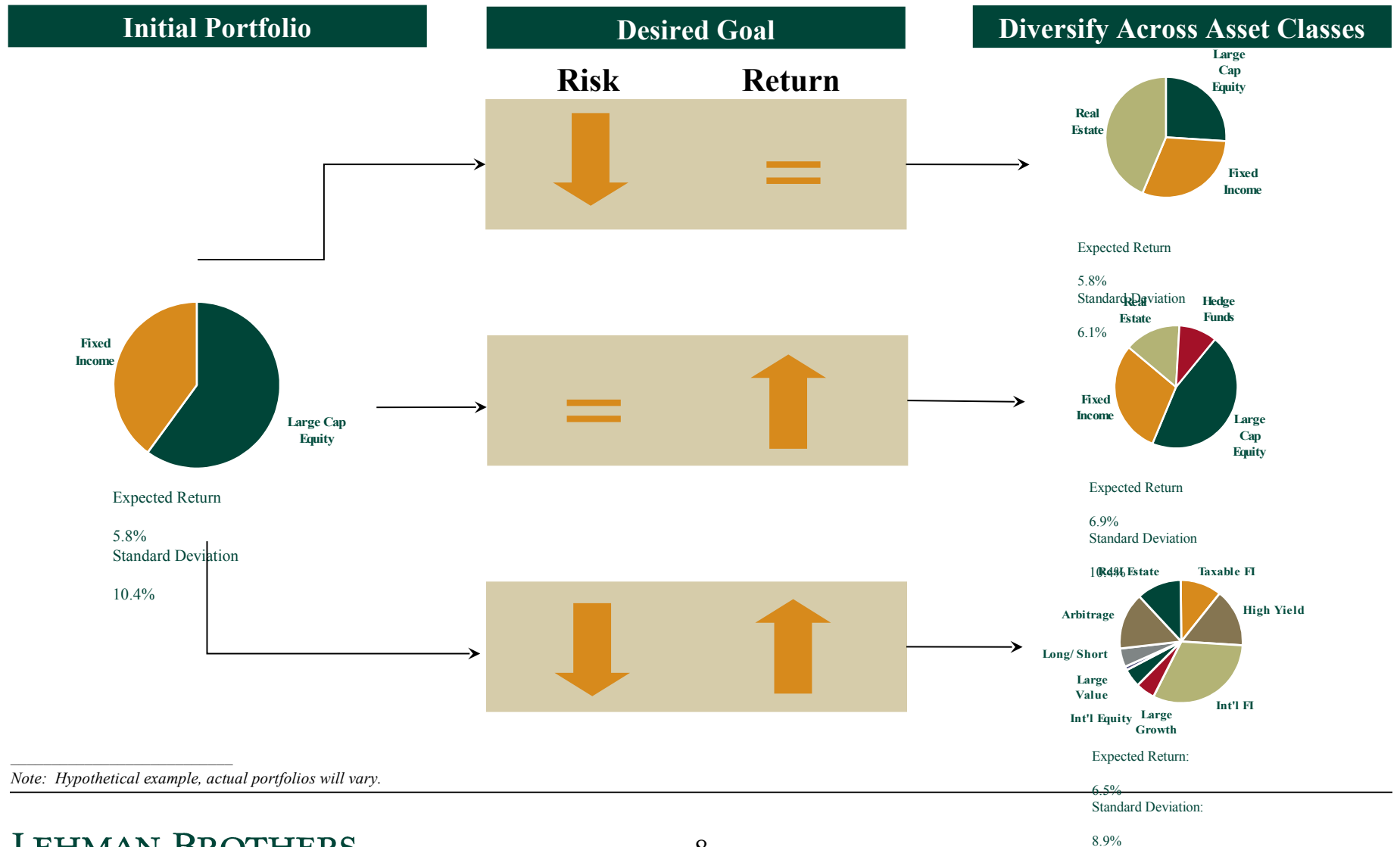
As of June 30, 2005

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
MSCI EAFE 24.9%	MSCI EMF 40.4%	MSCI EMF 65.0%	Lehm. Bros. Agg. 9.0%	MSCI EMF 59.9%	Russell 2000 Value 29.1%	MSCI EMF 78.8%	MSCI EAFE 8.1%	Russell 1000 Value 38.4%	NAREIT 35.8%	Russell 1000 Value 35.2%	Russell 1000 Growth 38.7%	MSCI EMF 66.4%	NAREIT 25.9%	NAREIT 15.5%	Lehm. Bros. Agg. 10.3%	MSCI EMF 56.3%	NAREIT 30.4%	MSCI EMF 6.3%
Russell 1000 Growth 5.3%	Russell 2000 Value 29.5%	Russell 1000 Growth 35.9%	Russell 1000 Growth -0.3%	Russell 2000 Growth 51.2%	Russell Midcap Value 21.7%	MSCI EAFE 33.0%	NAREIT 3.2%	Russell 1000 Value 37.8%	Russell 1000 Growth 23.1%	Russell Midcap Value 34.4%	Russell 1000 Growth 27.0%	Russell Midcap Value 51.3%	Russell 2000 Value 22.8%	Russell 2000 Value 14.0%	NAREIT 5.2%	Russell 2000 Growth 48.5%	MSCI EMF 26.0%	Russell Midcap Value 5.5%
LEH HY 5.0%	MSCI EAFE 28.6%	Russell Midcap Growth 31.5%	Russell 1000 Growth -4.2%	Russell Midcap Growth 47.0%	LEH HY 15.7%	Russell 2000 Value 23.8%	Russell 1000 Growth 2.7%	Russell 1000 Growth 37.2%	Russell 1000 Growth 22.4%	Russell 1000 Value 32.9%	MSCI EAFE 20.3%	Russell 2000 Growth 43.1%	Russell Midcap Value 19.2%	Lehm. Bros. Agg. 8.4%	LEH HY -1.4%	Russell 2000 Value 46.0%	Russell Midcap Value 23.7%	NAREIT 4.9%
Russell 1000 Value 2.9%	Russell Midcap Value 24.6%	Russell 1000 Value 30.4%	Russell Midcap Growth -5.1%	LEH HY 46.2%	NAREIT 14.6%	NAREIT 20.1%	Russell 1000 Value 0.4%	Russell Midcap Value 34.9%	Russell 1000 Value 21.6%	Russell 2000 Value 31.8%	Russell Midcap Growth 17.9%	Russell 1000 Growth 33.2%	Lehm. Bros. Agg. 11.6%	LEH HY 5.3%	MSCI EMF -6.0%	Russell Midcap Growth 42.7%	Russell 2000 Value 22.3%	Lehm. Bros. Agg. 2.5%
Russell Midcap Growth 2.8%	Russell 1000 Value 23.2%	Russell 1000 Value 25.2%	Russell 1000 Value -8.1%	Russell 2000 Value 41.7%	Russell 1000 Value 13.8%	Russell 1000 Value 18.1%	LEH HY -1.0%	Russell Midcap Growth 34.0%	Russell 2000 Value 21.4%	Russell 1000 Growth 30.5%	Russell 1000 Value 15.6%	MSCI EAFE 27.3%	Russell 1000 Value 7.0%	Russell Midcap Value 2.3%	Russell Midcap Value -9.6%	MSCI EAFE 39.2%	MSCI EAFE 20.1%	Russell 1000 Value 1.8%
Lehm. Bros. Agg. 2.8%	Russell 2000 Growth 20.4%	Russell Midcap Value 22.7%	LEH HY -9.6%	Russell 1000 Growth 41.2%	MSCI EMF 11.4%	LEH HY 17.1%	Russell 2000 Value -1.6%	Russell 2000 Growth 31.0%	Russell Midcap Value 20.3%	Russell Midcap Growth 22.5%	Lehm. Bros. Agg. 8.7%	Russell 1000 Value 20.9%	LEH HY -5.9%	MSCI EMF -2.4%	Russell 2000 Value -11.4%	Russell Midcap Value 38.1%	Russell Midcap Value 16.5%	Russell Midcap Growth 1.7%
Russell 1000 Value 0.5%	Russell 1000 Value 17.3%	Russell 2000 Growth 20.2%	MSCI EMF -10.6%	Russell Midcap Value 37.9%	Russell 1000 Value 8.9%	Russell Midcap Value 15.6%	Russell 1000 Value -2.0%	Russell 2000 Value 25.8%	Russell Midcap Growth 17.5%	Russell Midcap Growth 18.9%	Russell Midcap Value 5.1%	Russell 1000 Value 7.4%	Russell 1000 Value -7.8%	Russell 1000 Value -5.6%	Russell 1000 Value -1.5%	NAREIT 38.5%	Russell Midcap Growth 15.5%	LEH HY 1.1%
Russell Midcap Value -2.2%	NAREIT 13.5%	Lehm. Bros. Agg. 14.6%	NAREIT -15.4%	NAREIT 35.7%	Russell Midcap Growth 8.7%	Russell 2000 Value 13.4%	Russell Midcap Value -2.1%	LEH HY 19.2%	LEH HY 11.4%	Russell 2000 Growth 13.0%	LEH HY 1.9%	LEH HY 2.4%	Russell Midcap Value -11.7%	Russell 2000 Growth -9.2%	MSCI EAFE -15.7%	Russell 1000 Value 30.0%	Russell 2000 Growth 14.3%	Russell 2000 Value 0.9%
NAREIT -3.6%	Russell Midcap Growth 12.9%	Russell 2000 Value 12.4%	Russell Midcap Value -16.1%	Russell 1000 Value 33.0%	Russell 2000 Growth 7.8%	Russell Midcap Growth 11.2%	Russell Midcap Growth -2.2%	Lehm. Bros. Agg. 18.5%	Russell 2000 Growth 11.3%	LEH HY 12.8%	Russell 2000 Growth 1.2%	Russell Midcap Value -0.1%	MSCI EAFE -14.0%	Russell 1000 Value -12.4%	Russell 1000 Value -21.7%	Russell 1000 Value 29.9%	Russell 1000 Value 11.4%	Russell 1000 Value 0.1%
Russell 2000 Value -7.1%	LEH HY 12.5%	MSCI EAFE 10.8%	MSCI 2000 Growth -17.4%	Russell 1000 Value 24.6%	Lehm. Bros. Agg. 7.4%	Russell 1000 Value 10.2%	Russell 2000 Growth -2.4%	NAREIT 13.3%	MSCI EAFE 6.4%	Lehm. Bros. Agg. 9.7%	Russell 2000 Value -6.5%	Lehm. Bros. Agg. -0.8%	Russell 1000 Growth -22.4%	Russell Midcap Growth -20.4%	Russell Midcap Growth -27.4%	Russell 1000 Growth 29.7%	Russell 1000 Value 11.1%	MSCI EAFE -0.8%
Russell 2000 Growth -10.5%	Russell 1000 Growth 11.3%	NAREIT 8.8%	Russell 2000 Value -21.8%	Lehm. Bros. Agg. 16.0%	Russell 1000 Growth 5.0%	Lehm. Bros. Agg. 9.8%	Lehm. Bros. Agg. -2.9%	MSCI EAFE 11.6%	MSCI EMF 6.0%	MSCI EAFE 2.1%	NAREIT -18.8%	Russell 2000 Value -1.5%	Russell 2000 Growth -22.4%	Russell 1000 Growth -20.4%	Russell 1000 Growth -27.9%	LEH HY 29.0%	Russell 1000 Growth 6.3%	Russell 1000 Growth -1.7%
	Lehm. Bros. Agg. 7.9%	LEH HY 0.8%	MSCI EAFE -23.2%	MSCI EAFE 12.5%	MSCI EAFE -11.9%	Russell 1000 Growth 2.9%	MSCI EMF -7.3%	MSCI EMF -5.2%	Lehm. Bros. Agg. 3.6%	MSCI EMF -11.6%	MSCI EMF -25.3%	NAREIT -6.5%	MSCI EMF -30.6%	MSCI EAFE -21.2%	Russell 2000 Growth -30.3%	Lehm. Bros. Agg. 4.1%	Lehm. Bros. Agg. 4.3%	Russell 2000 Growth -3.6%

Source: Consulting Services Group

Benefits of Diversification

The addition of just one or multiple asset classes can give you the potential to lower volatility, increase expected returns, or both



Asset Allocation

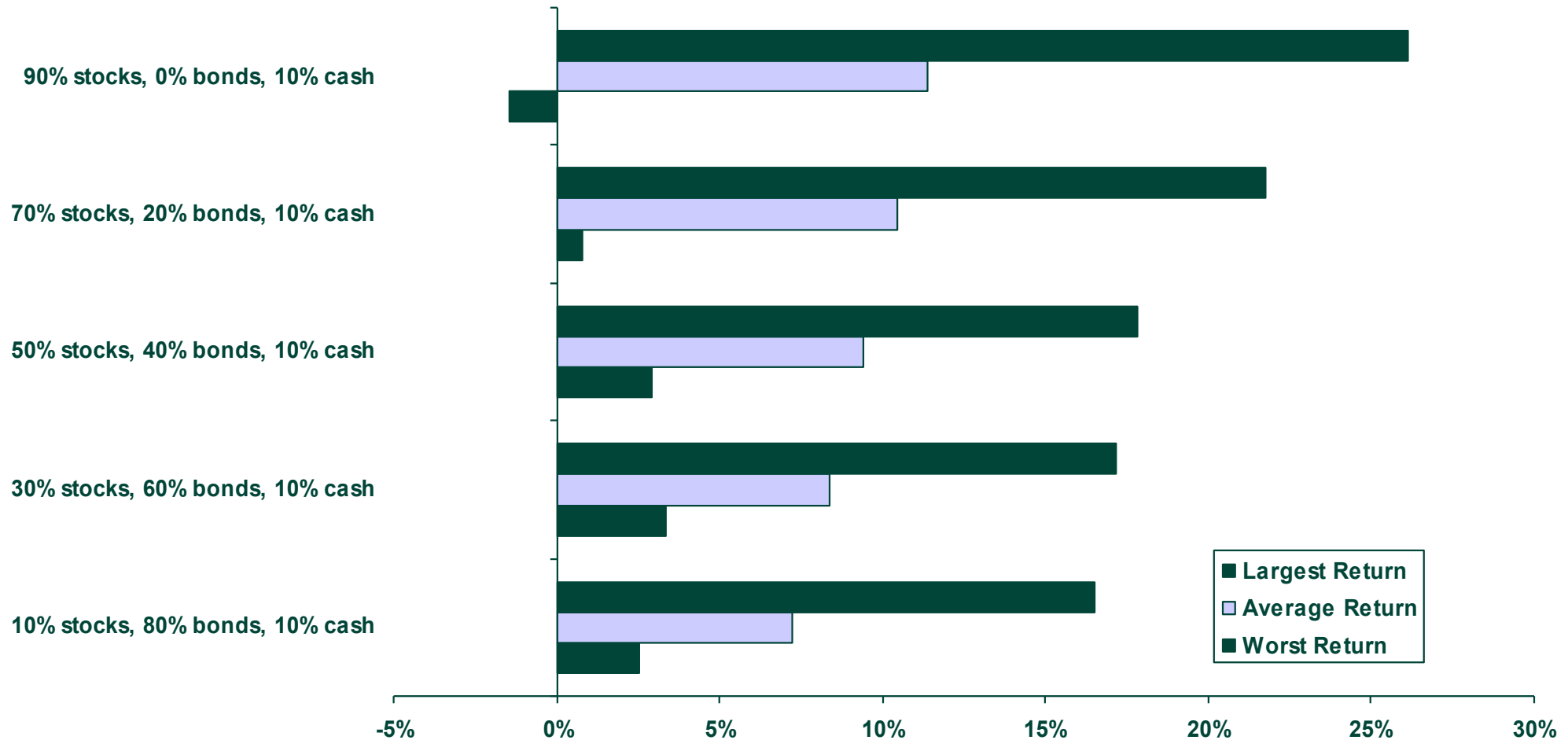
The Concept of Absolute Return

- ◆ Absolute/Relative return
 - ◆ The power of compounded interest
 - ◆ Up 20%, Up 20%, Down 20% versus Up 8%, Up 8%, Up 8%
 - ◆ Limit your downside
-

- ◆ Precept 3: “LIMIT YOUR DOWNSIDE: THE BEST WAY TO MAKE MONEY IS NOT TO LOOSE MONEY”

Asset Allocation: Risk & Reward

5-Year Returns 1953-2003



Source: Ibbotson. Stocks are represented by the S&P 500 Index which is an unmanaged group of securities and considered to be representative of the stock market in general; Bonds are represented by the 5-year U.S. Government Bond; Cash is represented by the 30-day U.S. Treasury Bill. The information presented herein was compiled from sources believed to be reliable. It is intended for illustrative purposes only, and is furnished without responsibility for completeness or accuracy. Past performance is not indicative of future results. The hypothetical results presented herein are based on historical index data. The results do not represent the performance of any Neuberger Berman managed account or product and do not reflect the fees and expenses associated with managing a portfolio. These returns are used for discussion purposes only. They are not intended to represent, and should not be construed to represent a prediction of future rates of return. See Appendix for complete description of each index.

Taking Advantage of the Markets

Baseline/Strategic versus Recommended/Tactical Portfolios

Baseline/Strategic

- ◆ Identify an appropriate mix of assets (cash, fixed income, equities and alternative investments)
- ◆ Optimize for the highest return for a given level of risk suitable for a long-term investor
- ◆ Include unique investment objectives, such as liquidity and income requirements, tax status, risk tolerance

Recommended/Tactical

- ◆ Optimize for short term shifts within the portfolio, responding to market opportunities
- ◆ Market opportunities dependent upon economic, political and market environment

Portfolio Recommendations

Asset Allocation

Capital Market Assumptions

Recommended Portfolios

Asset Class		Equilibrium Looking Return	Expected Return	Expected Standard Deviation	Conservative	Moderate Conservative	Moderate	Moderate Aggressive	Aggressive
Fixed Income									
Cash	Lehman Short Treasury 3-6 Month	4.0%	3.8%	0.6%	17.0%	8.5%	8.0%	6.5%	4.0%
US Core Fixed Income	Lehman U.S. Aggregate	4.0%	3.8%	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%
US Non-Taxable Fixed Inc.	Lehman U.S. Municipal Bond	4.0%	3.8%	3.6%	41.0%	29.0%	14.0%	3.5%	0.0%
US High Yield	Lehman U.S. High Yield Bond	5.2%	4.7%	7.5%	0.0%	0.0%	0.0%	0.0%	0.0%
International Fixed Inc.	Lehman Global Aggregate ex USD	4.3%	4.6%	8.3%	4.0%	5.5%	7.0%	9.0%	7.0%
Equity									
Large Cap Growth	Russell 1000 Growth Total Return	8.7%	7.5%	19.2%	3.0%	7.0%	7.5%	7.5%	7.5%
Large Cap Value	Russell 1000 Value Total Return	7.3%	6.5%	14.3%	2.5%	6.0%	8.5%	7.5%	7.0%
Mid Cap Core	Russell Mid Cap Total Return	8.2%	7.3%	16.1%	2.0%	3.5%	4.0%	8.5%	13.5%
Small Cap Core	Russell 2000 Total Return	8.6%	7.8%	20.0%	0.5%	1.5%	2.0%	3.0%	7.0%
International Equity	MSCI EAFE Total Return	7.7%	7.6%	15.0%	14.0%	18.5%	25.0%	32.0%	40.0%
Alternative Investments									
Long/Short Equity	CSFB Tremont L/S Index	6.1%	5.7%	10.3%	5.0%	6.0%	8.0%	10.0%	3.0%
Arbitrage Funds	LB Custom Div Arb Index of CSFB Tremont	4.5%	4.2%	3.6%	5.0%	7.5%	7.0%	0.0%	0.0%
Private Equity	LB Custom PE Index of Cambridge Assoc	12.1%	10.5%	38.3%	0.0%	0.0%	2.0%	5.5%	8.0%
Commodity									
Commodities	Dow Jones Commodity	5.0%	4.9%	13.7%	4.5%	5.0%	4.0%	4.0%	3.0%
Real Estate									
Real Estate	NAREIT	5.7%	5.3%	13.8%	1.5%	2.0%	3.0%	3.0%	0.0%
Total					100.0%	100.0%	100.0%	100.0%	100.0%

Forward Looking Statistics

Return	4.8%	5.4%	5.9%	6.6%	7.2%
Standard Deviation	4.1%	6.2%	8.3%	11.1%	13.5%
Sharpe Ratio	0.24	0.25	0.26	0.26	0.25

How It All Comes Together

Working with the Portfolio Advisory Group

A disciplined asset allocation process maximizes the probability of achieving long-term objectives

Client Investment Objectives

- ◆ Assess risk tolerance level and investment horizon
- ◆ Identify long-term investment objectives/goals (questionnaire)

Overview of Current Holdings

- ◆ Analyze current holdings by asset class, sector, tax status and risk
- ◆ Determine risk profile of current holdings
- ◆ Classify current holdings into corresponding asset classes

Optimal Asset Allocation

- ◆ Evaluate asset classes across fixed income, equities, alternatives, cash and real estate
- ◆ Incorporate proprietary forward-looking capital market assumptions into asset allocation model
- ◆ Consistent asset allocation solutions with optimal risk/return profile

Manager Selection

- ◆ Customize client portfolio by selecting investment managers that meet client's investment goals
- ◆ Provide optimal combination of active and passive vehicles

Monitoring and Rebalancing

- ◆ Review each client's investment objectives and portfolio performance on a regular basis
- ◆ Portfolio rebalancing as necessary

The precepts of Individual Investing

- ◆ Precept 4: “SET UP A STRATEGY THAT FITS YOUR GOALS AND RISK PROFILE”
 - ◆ Precept 5: “DIVERSIFY: DO NOT PUT ALL YOUR EGGS IN ONE BASKET”
 - ◆ Precept 6: “STICK TO THE STRATEGY”
-

In Summary

In Summary

The Precepts of Individual Investing

- ◆ Precept 1: “MAX OUT YOUR TAX FREE ACCOUNT”
- ◆ Precept 2: “UNDERSTAND THE RISK YOU ARE TAKING: THE HIGHER THE RETURN, THE HIGHER THE RISK”
- ◆ Precept 3: “DIVERSIFY: DO NOT PUT ALL YOUR EGGS IN ONE BASKET”
- ◆ Precept 4: “LIMIT YOUR DOWNSIDE, THE BEST WAY TO MAKE MONEY IS NOT TO LOOSE MONEY”
- ◆ Precept 5: “SET UP A STRATEGY THAT FITS YOUR GOALS AND RISK PROFILE”
- ◆ Precept 6: “STICK TO THE STRATEGY”

Platform

Lehman Platform

2 Platforms focused on Asset Allocation

- ◆ HIGH NET WORTH INDIVIDUALS
 - ◆ NEUBERGER BERMAN
 - ◆ CONCEPT AND STRATEGY ARE THE SAME
-