As the trauma of the 2008 crash recedes, investors are reevaluating their infatuation with “safe havens.”

Seth J. Masters
Chief Investment Officer
Bernstein Global Wealth Management

The “Safety Bubble” Deflates

The rush into “safe” assets that we saw after the financial meltdown appears to have run its course. That’s not surprising, since those assets became dangerously expensive. What’s next?

At year-end 2012, we published a white paper entitled “Desperately Seeking Safety.” Its thesis was that after the 2008–2009 market crisis, investors were looking for safety and income in all the wrong places. Misguided notions of safety had led investors to crowd into instruments like Treasury bonds, high-dividend-yielding stocks, and indexed portfolios.

Make no mistake: Each of those investments can have a place in a well-diversified portfolio. However, we thought a “safety bubble” had formed that was less extreme than the tech bubble of the late 1990s, but akin to it in one crucial way: Investor emotion—in this case, the desire for safety—was trumping other fundamental considerations.

We concluded that the safety bubble would eventually deflate.

A year later, we now see evidence that the safety bubble is indeed deflating, both in investment flows (Display 1) and in the relative performance of various asset classes. As that process unfolds, we expect investments that are generally seen as risky to continue their recent outperformance versus investments that are generally seen as safe. Specifically, we expect:

- Stocks to beat bonds,
- Active portfolios to outperform passive indexed investments, and
- “Riskier” active equity strategies, such as growth and value, to beat “safe” equity income strategies.

Display 1
Investment Flows Show Change in Sentiment
Net Flows (US$ Billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Stocks</th>
<th>Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008–2012</td>
<td>$318</td>
<td>$1,003</td>
</tr>
<tr>
<td>2013*</td>
<td>$(79)</td>
<td>$182</td>
</tr>
</tbody>
</table>

*Through November 30, 2013
For US-domiciled mutual funds, excluding sector and specialty-equity funds, money-market funds, and exchange-traded funds
Source: Lipper, Strategic Insight, and AllianceBernstein
Historical analysis and projections are not necessarily indicative of future results.
What’s Wrong with Safe Investments?
What’s not to like about safer investment portfolios, especially after the debacle of 2008? Nothing, except that safety comes with a cost—and sometimes the cost of safety can be downright prohibitive.

Reading the Price Tags
With bond yields still close to record lows, the cost of seeking safety in bonds is clear: meager returns that may lead to investors running out of money. Yes, in the absence of default, bonds offer regular income payments and return of principal if held to maturity. Bonds are also good diversifiers of stock risk. But bond-heavy portfolios are prone to falling short on growth, especially when starting yields are low.

Consider a 60-year-old retired couple with annual spending of just 3% of their initial portfolio, grown with inflation. We estimate that if this couple allocates 100% to municipal bonds, there’s a 42% chance of spending down all their assets during their lifetime, assuming that they are in the top US marginal tax bracket and pay 6.5% state tax (see Display 9, page 9). Market risk—whether defined as volatility or the risk of a large loss—isn’t the only risk. For most investors, this “conservative” portfolio poses another, very serious risk: shortfall risk (running out of money too soon).

Likewise, the stocks of high-dividend-paying companies in slow-growing but reliable industries such as utilities, telecom, and consumer staples are generally seen as “safe.” While dividend yields higher than bond yields may seem attractive, so many investors crowded into these stocks during and after 2008 that high-dividend-yielding stocks’ relative valuations shot up from their typical market discount to sizable premiums (see display at right). More recently, prices of these stocks have dropped as the market continued to rise—not what safety-seekers would expect or desire. Their relative valuations are still well above the average since 1965.

Many investors have also sought “safety” by investing in broad indexes, rather than actively managed portfolios. However, most indexes are capitalization-weighted, so the securities that dominate the index dominate index portfolios, too. As the safety bubble grew, the weight of high-dividend-yielding stocks in the S&P 500 rose from its long-term average of 30% to a high of 44%. While owning indexes may be appropriate for some investors, it’s important to remember that indexes have a bias toward whatever is currently in favor and, hence, often overpriced.

In periods of stress, investors tend to prize stability and safety too much. But in time, investors discover that every investment carries with it some degree of risk: if not risk of loss, then risk of inadequate growth.

"Safe" Stocks Became Extremely Expensive
Relative P/E of High-Dividend-Yielding Stocks

Through December 18, 2013
Past performance is not necessarily indicative of future results.
Trailing P/E of the quintile of US large-cap stocks with the highest dividend yields, relative to the S&P 500. Data are capitalization-weighted.
Source: Center for Research in Security Prices, FactSet, and AllianceBernstein
An Inflection Point?

Clearly, investors are changing their behavior. Display 1, on page 1, compares net flows into and out of stocks and bonds from 2008 through 2012 with net flows in the first 11 months of 2013. From 2008 through 2012, investors added more than $1 trillion to bond funds, while reducing their money in stock funds by nearly $320 billion. In 2013, after stocks had soared for four years and bonds had begun to falter, investors finally started to add to their stock holdings and retreat from bonds.

These flows demonstrate once again that investors do a terrible job of timing markets: They fled equities throughout a terrific market rebound.

The recent net flows into equities also suggest that investors’ single-minded search for safety is finally coming to an end. Flows among types of equity portfolios reinforce this point. During the safety bubble, investors withdrew far more from actively managed stock portfolios than from stock funds overall, and added to passive index portfolios they perceived as safer. Since May, however, net flows into active portfolios have been positive.

Furthermore, active growth and value funds, which are perceived as riskier, saw massive net outflows during the safety bubble but modest net inflows in recent months.

More evidence that the safety bubble is ending lies in the relative returns of high-dividend-yielding stocks. These less-volatile, return-seeking investments include telecom, utilities, and consumer-staples stocks; global real estate investment trusts (REITs); and preferred stocks.

As Display 2 shows, all of these “safe” stocks had high absolute returns in the 12 months ending April 2013, and most of them far outpaced the S&P 500. Since then, however, most of them have posted negative returns. The exception—consumer-staples stocks—had a positive return, but lagged the S&P 500 by more than eight percentage points. Most bonds, the canonical “safe” asset, also lost value as interest rates began rising in May 2013.

In our view, “safe” investments became more risky because investors crowding into them drove their prices up too high. When “safe” assets become risky, what should investors expect?

Not with a Bang but a Whimper

We expect the safety bubble to gradually deflate, rather than burst as the technology bubble did in 2000. Tech stocks are inherently volatile, prone to shooting up when they gain favor and crashing down when they lose allure. Most “safe” assets are far less volatile, so safety bubbles tend to gradually lose air.
For investors, this is good. We’re unlikely to see the broad market and economic decline that accompanied the bursting of the tech bubble—or for that matter, the collapse in energy stocks in the early 1980s. Safety bubbles that end with a whimper, not a bang, inflict less collateral damage.

The safety bubble is also deflating because the economy is becoming stronger. Improving economic data led the Federal Reserve to start talking about tapering its bond purchases last spring, and to finally announce in December that it would begin a modest taper in January 2014. The talk of a taper last spring made bonds (and stocks that move in sympathy with bonds, including REITs and utilities) no longer seem so safe. Sustained, if subdued, economic growth also gave investors the confidence to seek longer-term returns, rather than near-term stability, in their portfolios.

Get Active

One result of investors lifting their gaze beyond tomorrow is that stocks are no longer moving in lockstep. After the financial crisis five years ago, stocks rose and fell together to an unusual degree: When fears rose, most stocks fell; when fears abated, most stocks gained. You can see this in the high and rising correlations among stocks within the MSCI World Index after 2008 (Display 3).

Over the past two years, however, intramarket correlations have gradually fallen to normal levels, as investors have begun to pay more attention to the unique earnings, cash flow, balance-sheet, and management

### Display 3

**Lower Correlations Bode Well for Active Management**

Average Pairwise Correlations of Stock Returns

[Graph showing correlation levels from 1988 to 2013]

*Historical analysis is not necessarily indicative of future results.*

Equally weighted average of correlations between all possible pairs of stocks in the index based on six months of daily returns.

_Source: Morgan Stanley Capital International (MSCI) and AllianceBernstein_

### Display 4

**Active Managers Have Regained the Lead**

Returns and Ranks of US Large-Cap Active Equity Managers

[Table showing percentile ranking of S&P 500]

*Past performance is not necessarily indicative of future results.*

Large Cap Active includes Lipper Large Cap Core, Large Cap Value, and Large Cap Growth classifications, excluding exchange-traded funds and index funds.

_Source: FactSet, Lipper, Standard & Poor’s, and AllianceBernstein_
characteristics of each company, even if the potential payoff was less certain and less immediate.

When intramarket correlations were high and most stocks were moving together, it was difficult for active managers to beat their benchmark indexes. As a result, the S&P 500 Index ranked above most US large-cap equity managers from 2008 through May 2013. In the last six months, that trend reversed: More than half of all US large-cap active equity managers beat the S&P 500 (Display 4). With intramarket stock correlations down, we expect active managers as a group to continue doing relatively well.

We expect active value and growth strategies to benefit most from the renewed focus on longer-term fundamental strengths. For value and growth strategies to do well, investors have to be willing to look beyond the short term: to recognize which value companies will be able to address the problems that led to their low valuations, or which growth companies will be able to sustain superior growth rates for longer than the consensus expects.

While the safety bubble was building, low-volatility and high-income active equity strategies generally did best. Now, “riskier” strategies such as growth and value are taking the lead.

Is the Stock Market Too High?
Shortly after we wrote “Desperately Seeking Safety,” a new worry came to the fore. Many pundits argued that the market had rebounded so much that it had become expensive, making it too late for investors to get back into stocks. We disagreed in early 2013, and we still do today, even though the S&P 500 gained more than 32% in 2013, reaching all-time nominal highs.

Here’s why: Stock markets rise over time with economic and earnings growth, so stock markets frequently set new peaks and regain prior peaks after drops. As a result, the S&P 500 has been within 5% of its prior peak almost half the time since 1900 (Display 5).

Second, market level has historically had no correlation with subsequent returns. Over the past 40-plus years, buying when the S&P 500 was close to a prior peak or well below a prior peak has neither subtracted much nor added much to compound returns.

But market valuation has mattered—a lot. Market returns have been well above average in the one, three, five, and 10 years after the market was cheap relative to earnings. Market returns have been below average in the periods after valuations were high.

Today, stock markets are no longer trading at the fire-sale prices of early 2009—but neither are they expensive (Display 6, next page). On a P/E basis, developed-market stocks worldwide are at about their historical average, and emerging-market stocks are selling at a significant discount.
The US market was trading at about 15 times forecasted 2014 earnings and 19 times trailing 12-month earnings at the end of November 2013, but we think valuations weren’t stretched.

As discussed in detail in “The Case for the 20,000 Dow,” stock valuations and bond yields tend to have an inverse relationship: When bond yields are high, stock valuations tend to be low, and vice versa. Low bond yields tend to reduce company borrowing costs, drive up the present value of future earnings and dividends, and make bonds a less appealing alternative to stocks—as they are today. Global and US stocks remain very cheap compared with bonds, given today’s low yields, as Display 6 also shows.

In other words, under current conditions, we’d expect a higher-than-normal stock-market P/E. And while earnings growth rates are moderate, approximately two-thirds of S&P 500 companies surprised the market on the upside in the third quarter of 2013. US stocks are more attractive than they look at first glance.

**A Time to Diversify**

We never advocate throwing caution to the wind. In the short term, there’s always the risk that investor sentiment will shift, or that economic, geopolitical, or company-specific news will trigger a market pullback. That’s one reason why diversification and a long time horizon are crucial.

Bonds remain the most effective diversifier of stock risk, in our view.

While bond income is indeed thin today, and bond returns in 2013 were modestly negative as yields climbed off a very low base, bonds remain the primary tool to mitigate equity risk.

Most investors should continue to include bonds in their portfolios. The key is selecting the right bonds. At this time, we prefer the “sweet spot” on the yield curve—short and intermediate durations, with limited interest-rate risk. We are also exploiting the currently steep yield curve by selling before maturity to harvest the return from “roll.”

We are also tilting to credit. In taxable bond portfolios, we are emphasizing investment-grade corporates instead of Treasuries, because corporates generally outperform when interest rates are rising in a growing economy.

In municipal bond portfolios, we are emphasizing essential purpose revenue bonds instead of tax-dependent general obligation bonds.

Lastly, diversifying globally can widen the opportunity set and reduce risk, if the global bonds are hedged into US dollars to reduce the volatility that foreign currency exposure can bring.

Interest rates will almost certainly rise further over time, but any pain that this inflicts is likely to be short-lived, in our view. Ultimately, the extra income from owning higher-yielding new issues will more than compensate for any short-term capital losses incurred. Selling out of stocks in 2009 was a disastrous decision for those who overreacted to the 2008 crash. Selling...
out of bonds today would also be ill-advised, in our view.

We also see merit in diversifying return-seeking assets with allocations to real assets and some types of alternative investments. We believe the benefits of seeking more diverse sources of return can reduce risk without cutting return over time.

Display 7 shows the diversification benefits of adding alternative investments from 1996 through November 2013. The bottom line shows the results for stock/bond mixes ranging from 30% to 100% stocks: Increasing stock exposure boosts return, but also increases portfolio risk. The top line shows the impact of adding a well-diversified allocation of hedge funds: similar or better returns with less volatility.

We think portfolios should also be diversified by investment style (including value, growth, and stability stocks); geography (across developed and emerging markets); and inflation sensitivity (adding real assets and inflation-resistant bonds, since inflation spikes are notoriously hard to predict).

Take the Long View

By definition, diversified portfolios will always lag the winning asset class over any period, but they’ll beat the loser, too. They can also benefit from a wider opportunity set and reduce portfolio volatility.

Winning asset classes garner exciting headlines and payoff in the short term, while the benefits of diversification garner few headlines and accumulate over time. In order to gain the benefits of diversification, investors have to be willing to adopt a long-term perspective. That’s difficult to do.

While the S&P 500 had compound annual returns of 8.2% over the 20 years ending December 31, 2012, the average stock-mutual-fund investor earned only 4.3%, according to a well-known study (“2013 Quantitative Analysis of Investor Behavior,” Dalbar, Inc., March 2013). The results for bond investors were even more dismal.

Why? Investors tended to buy the best-performing funds and sell the laggards. Whether it entails chasing hot managers, hot styles, or hot asset classes, short-term trend following tends to mean buying high and selling low. It destroys wealth.

Of course, the short term does matter: A large short-term drop in portfolio value can be emotionally painful, and if you have to make a large withdrawal at low prices, it forces you to lock in losses. Investors may want to keep a portion of their assets in highly liquid short-term instruments.

Display 7

Diversification Elevates the Efficient Frontier

Annualized Risk and Return: January 1996–November 2013

Past performance is not necessarily indicative of future results. Alternative asset-class allocations are intended for a specific investor with certain characteristics and should not be construed to represent the appropriate allocation for every investor.

Stocks are diversified by geography and style and represented by 35% Russell 1000 Value Index, 35% Russell 1000 Growth Index, 25% MSCI EAFE index of developed international markets, and 5% MSCI Emerging Markets Index. Bonds are represented by the Lipper Short/Intermediate Municipal Debt Average and hedge funds by the HFRI Fund-Weighted Composite Index. Our complete research conclusions are provided in “Demystifying Hedge Funds: Taking a Rigorous Research Approach,” available upon request.

Source: Hedge Fund Research, Lipper, MSCI, Russell Investments, and AllianceBernstein
to fund necessary expenditures. Many investors may also benefit from dynamic adjustments to their asset allocation that help smooth the ride, particularly when risks rise and expected returns aren’t high enough to compensate for them. Such strategies can reduce risk and potentially add value—and they can help keep you in the market when it’s down, so you can profit from the rebound.

But focusing only on the short term is a recipe for investment failure, in our view. It promotes wholesale, and generally misguided, shifts in asset allocation and managers in response to every significant market move. This all-too-common practice runs counter to the basic principles of smart investment planning:

- Identify the long-term strategic allocation that’s right for you;
- Modify it tactically in response to the prevailing markets, if you can do so in a disciplined, unemotional way; and
- Revise your strategy as your goals and circumstances change.

**On the Horizon**

What returns should investors expect in the years ahead? We expect returns for both stocks and bonds to be lower than in the last 30 years (*Display 8*).

Low and gradually rising interest rates are likely to mute bond returns for some time to come, while subdued global economic growth and a gradual decline in profit margins from above-average levels are likely to mute stock returns.

Specifically, we project compound annualized returns of 3.3% for municipal bonds and 8.1% for global stocks over the next 30 years, in the median case. As a result, we expect annualized returns for balanced portfolios to be some two percentage points lower than the returns that investors have enjoyed over the past three decades.

Over the past 30 years, for example, a portfolio with a 70% allocation to risk-mitigating bonds compounded at 7% a year. To garner a 7% return over the next 30 years, investors would have to cut the bond allocation to about 20%, we project. Most investors would not be comfortable taking that much additional risk. In our view, this means that careful investment planning and portfolio management will become far more important to achieving objectives going forward.

How can investors make good plans? We suggest that investors weigh two kinds of risk: the risk of a large loss, on
**Display 9**

Why “Safety” Can Be Risky
60-Year-Old Couple, Spending 3%

<table>
<thead>
<tr>
<th>Probability of Peak-to-Trough Loss of 20%*</th>
<th>Percent in Risk-Mitigating Bonds</th>
<th>Probability of Running Out of Money†</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;2%</td>
<td>100%</td>
<td>42%</td>
</tr>
<tr>
<td>&lt;2%</td>
<td>70%</td>
<td>14%</td>
</tr>
<tr>
<td>38%</td>
<td>40%</td>
<td>7%</td>
</tr>
<tr>
<td>72%</td>
<td>20%</td>
<td>6%</td>
</tr>
<tr>
<td>92%</td>
<td>0%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Data do not represent past performance and are not a promise of future results or a range of future results.

As of September 30, 2013

*Projections indicate the probability of a peak-to-trough decline in pretax, pre-cash-flow cumulative returns of 20% over the next 30 years. Because the Wealth Forecasting System uses annual capital-market returns, the probability of peak-to-trough losses measured on a more frequent basis (such as daily or monthly) may be understated. The probabilities depicted above include an upward adjustment intended to account for the incidence of peak-to-trough losses that do not last an exact number of years.

†Represents the probability of running out of money in the lifetime of a 60-year-old retired couple spending $30,000 per year (inflation-adjusted) from a $1 million portfolio; assumes 6.5% state tax. The life span of the individuals varies in each of our 10,000 trials in accordance with mortality tables. To reflect that high-net-worth individuals live longer than average, we subtract three years from each individual's age (e.g., a 65-year-old would be modeled as a 62-year-old). Mortality simulations are based on the Society of Actuaries’ Retirement Plans Experience Committee RP-2000 mortality tables.

Bonds modeled as intermediate-term diversified municipals. Balance of portfolio modeled as stocks: 21% US diversified, 21% US value, 21% US growth, 7% US small-/mid-cap, 22.5% developed international, and 7.5% emerging markets.

Based on Bernstein’s estimates of the range of returns for the applicable capital markets over the periods analyzed. See Notes on Wealth Forecasting System for further details.

Source: AllianceBernstein

The one hand, and the risk of running out of money, on the other. The left side of Display 9 shows that the risk of a 20% peak-to-trough decline in portfolio value increases with greater exposure to return-seeking investments (primarily equities).

Investors should keep this in mind, because abandoning a long-term plan in the wake of a large loss will invite failure (as all too many learned in the aftermath of 2008).

But the right side of Display 9 shows that the risk of running out of money increases with exposure to risk-mitigating bonds. Risk-mitigating bonds have historically done a good job of reducing the odds of short-term portfolio loss, but a poor job of generating portfolio growth.

We estimate that there’s a 14% chance that a 60-year-old retired couple with a 70% allocation to risk-mitigating bonds will run out of money in their lifetime, if they spend just 3% of the portfolio’s initial value, grown with inflation, each year.

For investors who need growth to achieve their objectives, opting for “safety” in the short run can increase the risk of failure over the long term. This is why the most important investment decision you make is setting and then maintaining your allocations to return-seeking, risk-mitigating, and diversifying assets.

In an ever-expanding world of investment options, you can assemble a portfolio using a selection of stock, bond, alternative, and real-asset products, in the proportions best calibrated to meet your needs and your risk tolerance. Your Bernstein Advisor can assist you with that task, and help you quantify the trade-off between short- and long-term security.

**Time to Review Your Progress?**

The solid gains you likely realized in 2012 and 2013 may make this a good time to review your progress toward your goals with your Advisor.

*If you have reached your core capital requirement—the money you will need to fund your lifestyle for as long as you live—you might want to de-risk your portfolio by trimming your allocation to stocks and other...*
return-seeking assets. This could spare you sharp losses in a possible future market downturn. Or, you might want to augment your current stock and bond allocations with diversifiers such as hedge funds and real assets, which could help reduce portfolio volatility without diminishing returns.

*If you have surpassed your core capital amount,* you’ve begun to acquire what we call “surplus capital.” You might now be in a position to make gifts to family members or charity, or to fund a new venture of some kind. Yet another option is to use your newly gained flexibility to increase your spending level.

*If you have not yet reached your core capital amount,* you might want to revisit your asset allocation for a different reason. Given the muted outlook for investment returns, you might want to increase your allocation to equities and other growth assets to increase the likelihood of reaching your goals—*if you feel you can live with the added investment risk.*

Whatever your situation, now is a great time to meet with your Bernstein Advisor to reassess whether you have the right asset mix to reach your goals and to keep your risks in check.

Opting for the long term can be uncomfortable, but ultimately, long-term success is what matters. But remember: We are watching your back, helping you to position your portfolios to meet your goals in the relatively low-return environment we expect. The deflation of the safety bubble is a healthy development that suggests the markets are steadying, which may make it less difficult to do what is needed for long-term success.
Our Research Advantage

Research drives all Bernstein investment services and wealth-planning strategies. Below are six examples of our recently published studies, available on www.bernstein.com along with a broad spectrum of research.

**RETIRED PLAN PLANNING**

All the Right Moves

How to meet retirement goals in uncertain markets

**WEALTH MANAGEMENT**

My, What Big Teeth You Have! Reducing This Year’s Tax Bite

Strategies to help manage the impact of new and higher federal tax rates

**LIQUIDITY PLANNING**

Art: The Problem Child of Estate Planning

Managing the extra complexity of passing on these beloved assets

**INVESTING**

The Case for Integrated Wealth Management

The “best-of-breed” approach is flawed. There is a better way.

**ASSET ALLOCATION**

Desperately Seeking Safety

Macroeconomic uncertainty and post-2008 trauma fueled a “safety bubble” that is unlikely to last.

**ENDOWMENTS & FOUNDATIONS**

How Much Can You Earn? How Much Can You Spend?

Aligning spending policy with asset allocation for charitable organizations

*Bernstein does not provide tax, legal, or accounting advice. Where appropriate, you should consult professionals in these areas before implementing any strategy.*
Notes on Wealth Forecasting System

The Bernstein Wealth Forecasting SystemSM (WFS) is designed to assist investors in making a range of key decisions, including setting their long-term allocation of financial assets. The WFS consists of a four-step process: (1) Client Profile Input: the client’s current assets, income, expenses, cash withdrawals, tax rate, risk-tolerance level, goals, and other factors; (2) Client Scenarios: in effect, questions the client would like our guidance on, which may touch on issues such as which vehicles are best for intergenerational and philanthropic giving, what his/her cash-flow stream is likely to be, whether his/her portfolio can beat inflation long term, when to retire, and how different asset allocations might impact his/her long-term security; (3) The Capital Markets Engine: our proprietary model that uses our research and historical data to create a vast range of market returns, taking into account the linkages within and among the capital markets (based on indexes, not Bernstein portfolios), as well as their unpredictability; and (4) A Probability Distribution of Outcomes: based on the assets invested pursuant to the stated asset allocation, 90% of the estimated returns and asset values the client could expect to experience, represented within a range established by the 5th and 95th percentiles of probability. However, outcomes outside this range are expected to occur 10% of the time; thus, the range does not establish the boundaries for all outcomes. Further, we often focus on the 10th, 50th, and 90th percentiles to represent the upside, median, and downside cases.

Asset-class projections used in this paper reflect initial market conditions as of September 30, 2013. They include the following median forecasts of 30-year compound rates of return: US diversified stocks (represented by the S&P 500 Index), 7.6%; US value stocks (represented by the S&P/Barra Value Index), 7.9%; US growth stocks (represented by the S&P/Barra Growth Index), 7.4%; US small-/mid-cap stocks (represented by the Russell 2500 Index), 8.3%; developed international stocks (represented by the Morgan Stanley Capital International [MSCI] EAFE Index, with countries weighted by market capitalization and currency positions unhedged), 8.2%; emerging-markets stocks (represented by the MSCI Emerging Markets Index), 6.5%; hedge funds (represented by the diversified hedge fund asset class), 6.0%; municipal bonds (represented by AA-rated diversified municipal bonds with seven-year maturities), 3.3%; and inflation (represented by the Consumer Price Index), 3.0%. Globally diversified equity portfolios are an annually rebalanced mix of 21% US diversified, 21% US value, 21% US growth, 7% US small-/mid-cap, 22.5% developed international, and 7.5% emerging markets.

An important assumption is that stocks will, over time, outperform long-term bonds by a reasonable amount, although this is by no means a certainty. Moreover, actual future results may not be consonant with Bernstein’s estimates of the range of market returns, as these returns are subject to a variety of economic, market, and other variables. Accordingly, this analysis should not be construed as a promise of actual future results, the actual range of future results, or the actual probability that these results will be realized.

Note to All Readers

The information contained herein reflects the views of AllianceBernstein L.P. or its affiliates and sources it believes are reliable as of the date of this publication. AllianceBernstein L.P. makes no representations or warranties concerning the accuracy of any data. There is no guarantee that any projection, forecast, or opinion in this material will be realized. Past performance does not guarantee future results. The views expressed herein may change at any time after the date of this publication. This document is for informational purposes only and does not constitute investment advice. It does not take an investor’s personal investment objectives or financial situation into account; investors should discuss their individual circumstances with appropriate professionals before making any decisions. This information should not be construed as sales or marketing material or an offer or solicitation for the purchase or sale of any financial instrument, product, or service sponsored by AllianceBernstein or its affiliates.

Bernstein Global Wealth Management is a unit of AllianceBernstein L.P.

Bernstein Global Wealth Management does not offer tax, legal, or accounting advice. In considering this material, you should discuss your individual circumstances with professionals in those areas before making any decisions.

A Word About Risk

Alternative investments involve a high degree of risk and are designed for investors who understand and are willing to accept these risks. There can be no assurance that any alternative investment strategy will achieve its investment objectives. Prospective investors should consider many factors when determining if an investment in a fund is suitable, such as market illiquidity; use of short sales; volatility associated with leverage; limited diversification; currency rate volatility; interest-rate volatility; counterparty credit risk; default risk; recovery rates; prepayment rates; reliance on quantitative investment models; regulatory, legal, and political risk; hedging risk; illiquid investments; third-party service providers; relative value strategies; foreign markets; and derivative instruments.

Information About MSCI

MSCI makes no express or implied warranties or representations, and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This paper is not approved, reviewed, or produced by MSCI.

© 2013 AllianceBernstein L.P.