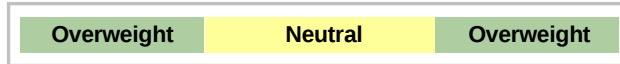


Sub-Asset Class

Versus

Sub-Asset Class



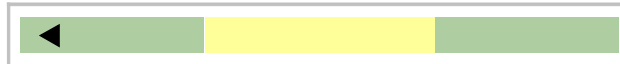
Stocks



Bonds/Cash

Stock market valuations are approximately 10% below its 50-year average. Thus, the stock market is priced for above-average returns in the years ahead -- at the same time cash and fixed income interest rates are at historically low levels and priced for below-average returns.

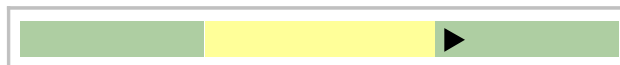
Large Cap Stocks



Small and Mid Cap Stocks

By many measures, such as rolling 5-year relative valuations or relative price comparisons, large cap stocks are the cheapest they have been versus small cap stocks in decades. Larger companies also tend to have a higher share of their revenues come from international sources. Larger caps also tend to be higher quality and have higher dividend yields.

Value Stocks



Growth Stocks

We believe that growth stock valuations are currently more attractive than those of value stocks. Growth stocks were also relatively cheap versus value stocks in the early 1990s, just before a multi-year stint of significant outperformance.

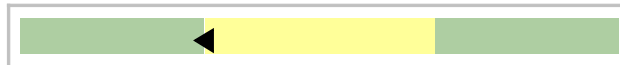
Domestic Stocks



International Stocks

International stocks look more attractive due to lower valuations and better expected growth rates. In addition, the dollar appears to be overvalued. All else being equal, a weaker dollar helps the relative performance of international stocks. In sum, we expect international to outperform domestic stocks in the years ahead.

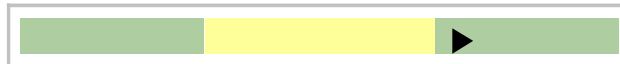
Developed Int'l Markets



Emerging Markets

Emerging market economies have had the better growth in recent years, and are expected to continue growing at a faster pace in the years ahead. We believe, however, that valuations may already capture a good portion of these growth expectations. And, if anticipated, faster economic growth does not necessarily translate into stronger equity returns.

High Quality Bonds



High Yield Bonds

Higher quality bonds are trading at historically low interest rates. Even higher quality corporate bonds appear expensive relative to Treasuries as their yield spreads have fallen well below long-term averages. High yield corporate bonds (especially BB rated), however, do not appear as expensive on a relative basis.

Long-Term Bonds



Short-Term Bonds

Interest rates significantly declined in recent months. As a result, rates are at historically low levels. These lower levels don't seem worthy enough to commit long-term money to given a variety of risks, including inflation. We remain defensive on duration (interest rate sensitivity).

*The investment ideas and expressions of opinion may contain certain forward looking statements and should not be viewed as recommendations, personal investment advice or considered an offer to buy or sell specific securities.*

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*Although bonds generally present less short-term risk and volatility than stocks, bonds do contain interest rate risk (as interest rate rise, bond prices usually fall and vice versa) and the risk of default, or the risk that an issuer will be unable to make income or principal payments. Additionally, bonds and short-term investments entail greater inflation risk, or the risk that the return of an investment will not keep up with increases in the prices of goods and services, than stocks.*

*Investments in mid and small-cap stocks typically have higher risk characteristics than large cap stocks and may be subject to greater price fluctuations than large-cap stocks.*

*Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations, all of which may be magnified in emerging markets.*

*Lower-quality debt securities generally offer higher yields, but also involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. An fixed income security sold or redeemed prior to maturity may be subject to loss.*

*Stock values fluctuate in response to the activities of individual companies and general market and economic conditions, domestically and abroad. IA-KF1162*