Using Exchange Traded Funds

SPDR
State Street Global Advisors

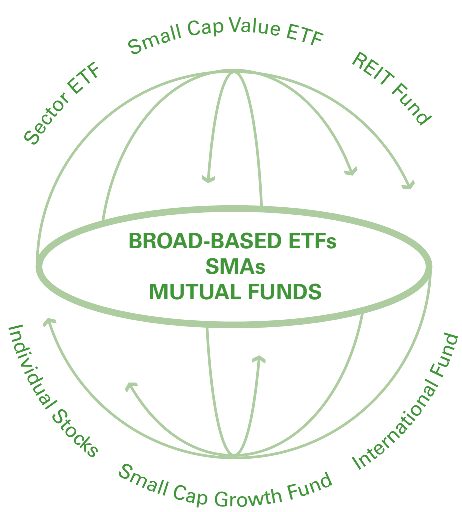
Precise in a world that isn't.℠

The unique attributes and benefits of ETFs appeal to both institutional and individual investors. Typically structured like mutual funds, but listed and traded on an exchange like stocks, ETFs are flexible trading and investment vehicles that can be used to help satisfy a number of critical investment needs.

Asset Allocation

Savvy investors are discovering what institutional investors have known for some time: asset allocation, not security selection, helps drive long-term investment results. However, advanced asset allocation strategies have been difficult for many individual investors to implement, given the costs and asset size required to achieve proper levels of diversification.

That is, until now. ETFs offer investors a sophisticated tool to efficiently gain exposure to broad market segments, encompassing a wide range of asset classes, equity market capitalizations, styles and sectors. This enables investors to build customized investment portfolios consistent with their financial needs, risk tolerance and investment horizon. It's important to remember that diversification and asset allocation do not ensure a profit or guarantee against loss.



SAMPLE USES

Completion Strategies *An investor can use ETFs to fill asset allocation voids in a portfolio. Voids can arise due to non-representation of certain sectors, industry or market capitalization ranges. The broad array of ETFs available provides an efficient mechanism to complete a diversified asset allocation plan. For example, if an investor was benchmarked to the S&P 500® Index, but through stock selection remained underweight to Financials, by purchasing a Financial Sector ETF the investor could reduce the underweight relative to the benchmark.*

Active Sector Rotation *An investor can buy or short sector ETFs in an attempt to benefit from the divergent performance of different segments of the economy.*

Core-Satellite Strategy *Style-, sector-, commodity-based or other ETFs that track "satellite" asset classes can be used as a cost-effective* and efficient complement to a "core" investment in a separately managed account, mutual fund or broad benchmark ETF. Conversely, broad-based ETFs can be used as the core of an investment strategy and complemented with other style- and sector-specific ETFs or mutual funds.*

*Frequent trading of ETFs could significantly increase commissions and other costs such that they may offset any savings from low fees or costs.

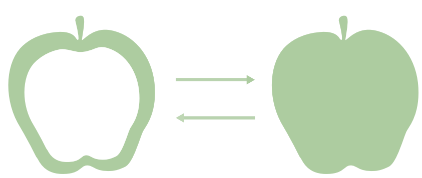
Tax Management

ETFs can be employed to help investors minimize their tax consequences. Year-end is prime time for investors to evaluate their portfolios' tax exposure. Investors can structure tax-swap transactions using ETFs to bank portfolio losses while potentially avoiding the impact of wash-sale rules. A tax swap is defined as the sale of one security, followed by the purchase of a similar investment. The sale of the security purchased at the higher price potentially triggers a loss, which can be used to offset gains realized elsewhere in the portfolio. This may help to reduce taxes due for the current year, or fund the purchase of additional positions in order to realize gains that could be offset by the loss. If there are no realized gains in the current year, losses can be carried forward and used to offset gains in future years. More importantly, tax swaps enable investors to maintain or alter their desired market exposure when they do take a loss.

Whether the objective is to harvest losses from mutual funds, concentrated stock positions or another ETF, the investor may choose to hold the ETF purchased in place of the sold position for its diversification benefit. Alternatively, the investor can sell the ETF after 31 days have passed, pursuant to the wash-sale rule, and then re-purchase the original position.*

SAMPLE USES

Book losses from a concentrated stock position *Sector ETFs may enable an investor to maintain exposure to a particular market segment while simultaneously harvesting the loss from a losing position. (e.g., an investor with an underwater position in a biotech firm sells the stock at a loss and then purchases an ETF with a highcorrelation to the sold position.) By doing so, the investor maintains her exposure to, or conviction in, the sector while increasing the diversification of her portfolio.*



* Information represented in this material does not constitute tax advice. Investors should consult their tax advisors before making any financial decisions.

Risk Management

ETFs are an attractive hedging vehicle because they can be sold short. The broad array of ETFs available today creates risk management approaches for individuals and smaller institutions that only large institutional investors could access previously. Also, the smaller denominations in which ETFs trade relative to most derivative contracts provide an accurate risk exposure match for portfolios of any size. Furthermore, in the US, ETFs can be shorted on a down-tick, providing greater trading flexibility.

The increasing use of incentive stock options has also created a growing segment of affluent investors with unique risk management needs. By using sector ETFs,* these investors can hedge their concentrated exposure to the companies they own or work in and effectively diversify their risk exposure across the broader equity market.

1. Short seller borrows ETF shares from a lender
2. Short seller sells ETF shares
3. Short seller repurchases ETF shares ideally at a lower price
4. Short seller returns ETF shares to lender
5. Ideally short seller keeps profit

The use of short selling entails a high degree of risk, may increase potential losses and is not suitable for all investors. Please assess your financial circumstances and risk tolerance prior to short selling. An investor makes money only when a shorted security falls in value. Short selling is done on margin, and so you must pay interest and are subject to the rules of margin trading. The shorter must pay the lender any dividends or rights declared during the course of the loan. The two reasons for shorting are to speculate and to hedge. There are restrictions as to what stocks can be shorted, and when a short can be carried out (uptick rule).

SAMPLE USES

Long/Short Market Neutral Strategies An investor is long the S&P 500 Index and feels the Technology Sector will underperform. By selling short a Technology Sector ETF, the dollar amount of the long position can be balanced with the short position to minimize the Technology Sector exposure inherent in the S&P 500 Index.

Concentrated Portfolios An investor has a concentrated holding in a stock expected to decline in price, but cannot sell the holding because of potential market impact, undesirable tax consequences or other restrictions on the position. Shorting ETFs in related sectors or industries provides a temporary hedge that can be constructed at a competitive cost and liquidity.

*Because of their narrow focus, sector funds tend to be more volatile than funds that diversify across many sectors and companies.

Transition Management

When investors change asset managers, they are often concerned with how to preserve equity exposure during the transition. One way to achieve this goal is to liquidate the portfolio and re-invest the assets in an ETF with a high correlation to the benchmark of the active manager. Once established, the new manager can then sell the ETF shares to fund the purchase of the new portfolio's holdings.*

Sell
Old fund manager

Hold
Use ETF as a temporary holding for market exposure

Buy
New fund manager

SAMPLE USES

An investor is no longer satisfied and decides to terminate the current investment manager of his active small cap growth portfolio. Until he identifies a new active manager, he temporarily chooses to place his assets in a small cap growth ETF. This will maintain proper asset allocation exposure and limit cash drag until a new manager can be identified. Once he selects a new manager, his ETF portfolio can be easily sold and the proceeds can be used to fund the new active manager.

* Liquidating a portfolio and re-investing the assets could incur additional costs such as fees, expenses and possible tax consequences. Additionally, the investment return and principal value of your investment could fluctuate in value, so that when shares are sold or redeemed they may be worth more or less than when they were purchased.

DEFINITIONS

S&P 500® INDEX The S&P 500 Index is composed of 500 selected stocks, all of which are listed on the Exchange, the NYSE or NASDAQ, and spans over 24 separate industry groups. Since 1968, the S&P 500 Index has been a component of the US Commerce Department's list of Leading Indicators that track key sectors of the US economy. Current information regarding the market value of the S&P 500 Index is available from market information services.

CORRELATION The correlation coefficient measures the strength and direction of a linear relationship between two variables. It measures the degree to which the deviations of one variable from its mean are related to those of a different variable from its respective mean.

STATE STREET GLOBAL ADVISORS
State Street Financial Center
One Lincoln Street
Boston, MA 02111

866.787.2257
www.spdrs.com