U.S. Stocks and Bonds Before and After Taxes

Even though investors don't always realize it, taxes can have a dramatic effect on an investment portfolio, especially in today's relatively uncertain tax environment. The tax law enacted in December 2010 was only intended to last for two years, and new changes may be effected in 2013.

The image illustrates the hypothetical growth of inflation and a $1 investment in stocks and bonds before and after taxes since 1926. Over the long run, the adverse effect of taxes on investment returns becomes especially pronounced. Stocks are the only asset class depicted that provided any significant long-term growth. After considering taxes, government bonds barely outperformed inflation over this time period. In a world with taxes, focusing on fixed-income assets alone has not provided investors with a substantial increase in wealth. If you desire substantial after-tax growth, you may want to consider a larger allocation to stocks. Another alternative, if you are able, is to consider tax-deferred investment vehicles.

Government bonds and Treasury bills are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, while stocks are not guaranteed. Stocks have been more volatile than the other asset classes.

Federal income tax is calculated using the historical marginal and capital gains tax rates for a single taxpayer earning $110,000 in 2010 dollars every year. This annual income is adjusted using the Consumer Price Index in order to obtain the corresponding income level for each year. Income is taxed at the appropriate federal income tax rate as it occurs. When realized, capital gains are calculated assuming the appropriate capital gains rates. The holding period for capital gains tax calculation is assumed to be five years for stocks, while government bonds are held until replaced in the index. No capital gains taxes on municipal bonds are assumed. No state income taxes are included.

Stocks in this example are represented by the Standard & Poor's 90 index from 1926 through February 1957 and the S&P 500® index thereafter, which is an unmanaged group of securities and considered to be representative of the U.S. stock market in general. Government bonds are represented by the 20-year U.S. government bond, and inflation by the Consumer Price Index. An investment cannot be made directly in an index.

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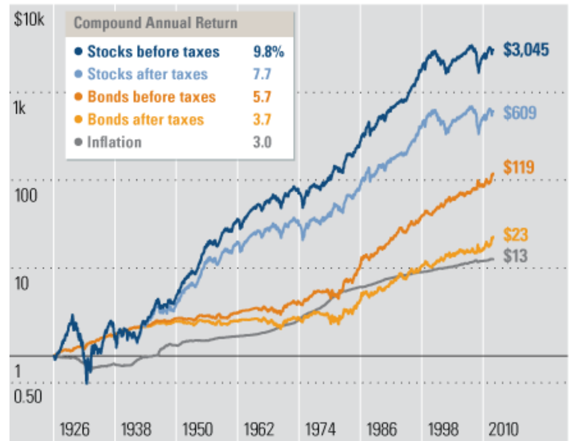

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.