

MAKE YOUR MONEY WORK



1ST QUARTER 2002

Bond and Fixed Interest Investments May Enhance Portfolio Stability

Today's uncertain financial market has many plan participants revisiting the potentially stabilizing influences of bond and fixed interest investments. For instance, management consultant Hewitt Associates found that during September 2001, 401(k) monies shifted from stock to bond investments on a greater percentage of days than in any month since August 1998. While it may be a natural reaction to take a closer look at these types of investments when the stock market is not performing so well, the fact is that bonds and fixed interest may be used to help manage portfolio risk in any market environment.

Understanding Bonds

Unlike stocks, which represent company ownership, bonds represent a loan to either a corporation, municipality, or government agency. The bond issuer (or borrower) promises to pay an investor (the lender) a fixed amount of interest on a periodic basis, typically every quarter or six months. In addition, the issuer is obligated to return the entire principal to the investor at a set future time, or maturity date, which may typically range from one to 30 years.

Like stocks, the prices of bonds move up and down over time. However, the historic price movements for bonds have not been as dramatic as they have been for stocks. In addition, the performance of bonds and stocks doesn't always move in tandem. That's why bonds may have the potential to help mitigate the paper losses that stocks generally suffer during market and economic downturns. For these reasons, bonds can play an important role in managing risk within a portfolio.

Perhaps the simplest way to invest in bonds is through a bond mutual fund, which offers several advantages, including instant diversification, liquidity, and professional management.

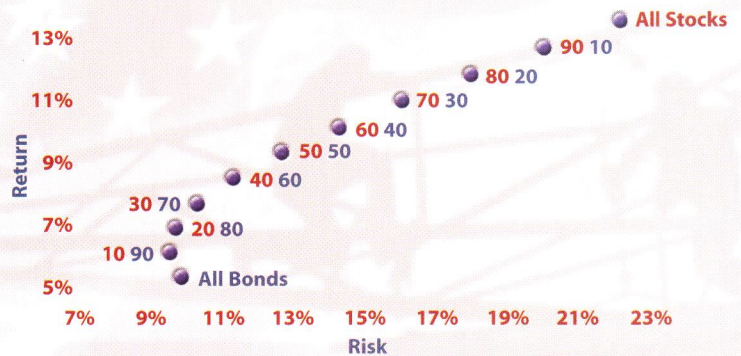
Understanding Fixed Interest

AUL's Fixed Interest Account is not a bond or a bond fund. It is an interest-earning account. This account has similarities to a bond because it provides an income stream, and AUL provides a guarantee of principal and interest earnings.¹ Before you invest in the AUL Fixed Interest Account, you need to find out what transfer restrictions apply to this account. To learn more about the AUL Fixed Interest Account, visit www.eRetirement.aul.com.

¹Guarantee is based on the continued claims-paying ability of American United Life Insurance Company®.

Using Bonds to Help Manage Risk

A proper mix of stocks and bonds may help you manage risk without abandoning growth potential. This chart shows how a hypothetical portfolio with different stock/bond allocations performed during the past 75 years.

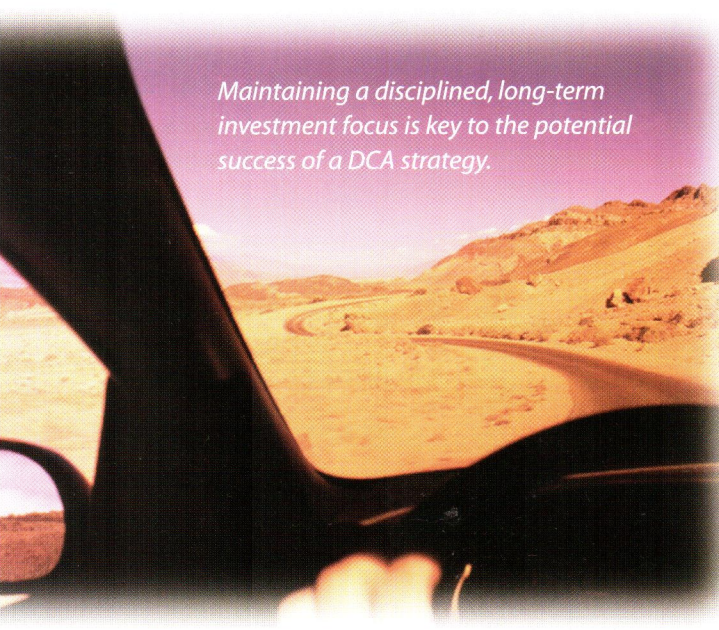


Sources: Standard & Poor's; Lehman Brothers. Based on rolling 12-month periods from January 1, 1926, to September 30, 2001. Stocks are represented by the S&P 500, an unmanaged index generally considered representative of the U.S. stock market. Bonds are represented by the Lehman Long-Term Government Index. Indices do not take into account the fees and expenses associated with investing, and individuals cannot invest directly in any index. Risk is based on standard deviation. Past performance does not guarantee future results.

Dollar Cost Averaging: Putting Your Investment Program on Automatic

Investing in a down market requires three things: discipline, time, and a plan.

- The **discipline** to stay focused on your long-term investment goals despite short-term financial challenges.
- The **time** to allow you to withstand sudden and even prolonged drops in the U.S. stock market.
- A **plan** that may let you take advantage of buying opportunities that come along even when the market seems at its worst.



Maintaining a disciplined, long-term investment focus is key to the potential success of a DCA strategy.

If you possess the first two, discipline and time, consider the merits of establishing a systematic investment plan. A long-term investment strategy such as dollar cost averaging (DCA) can help take some of the guesswork and emotion out of making investment decisions and offer you the potential for rewards years from now.

It's All About Accumulating Units¹

Here's how a DCA plan works: Simply identify a dollar amount that you feel comfortable investing on a regular basis, usually monthly, and stick with it no matter what direction the stock market is heading. Buying during a bear market may sound dicey at first. However, you buy more accumulation units than would be possible if prices were higher.

If prices continue to drop, that means you buy even more units. Unit accumulation is central to a DCA strategy, which presumes that you are not concerned about selling units for years. Over time, dollar cost averaging may actually help lower the average cost per unit you pay (see box on right). It's true that, if the market improves, you'll be paying more for each new unit, but remember, too, that the value of the units you already own will be appreciating.

Stay Focused on Long-Term Goals

You may not realize it, but if you contribute to your retirement plan on a regular basis, you're essentially practicing dollar cost averaging. Maintaining a disciplined long-term investment focus is key to the potential success of a DCA strategy. In fact, investment professionals often advise clients against trying to

Dollar Cost Averaging in Action

This hypothetical example demonstrates the merits of dollar cost averaging. It assumes a regular monthly investment of \$50 for six straight months. The average "cost" paid per unit would be lower than the average "price" per unit. That may not sound like much at first, but the difference can add up over the years.


Month Purchased	Price Per Unit	Number of Units Purchased
January	\$15	3.3
February	\$13	3.8
March	\$12	4.2
April	\$10	5.0
May	\$11	4.5
June	\$12	4.2

The results ...

- ... total units accumulated during six-month period: **25**
- ... average cost per unit: **\$12.00**
- ... average price per unit: **\$12.17**

Source: Standard & Poor's. Dollar cost averaging does not ensure a profit and does not protect against loss in declining markets. Investors should consider their financial ability to continue purchasing units through periods of low price levels. "Cost" equals total investment dollars (\$300) divided by the total number of units purchased (25). "Price" equals the accumulated total of unit price per month (\$73) divided by the number of months (6). Your experience may differ.

¹The DCA strategy is not available for the AUL Fixed Interest Account.

time the market. Before making any investment decision, speak to your financial advisor, who is trained to help you keep your investment program on track through the ups and downs of the marketplace. 

eRetirement™ Is Here and Ready to Serve You

At AUL, we recognize the importance of providing you with value-added services. That's why we continually monitor and improve our Web site and the information it provides you, our customer. We're excited to invite you to visit www.eRetirement.aul.com. We listened to your feedback and created this site as a quicker, easier way to access your retirement services account information.

Once you are on the main eRetirement™ page, you'll see the daily stock indices as well as timely retirement topics where you'll learn more about investments and the financial markets in general.

By clicking on the *participants* button, you can access your retirement account information as well as participant-related topics. After selecting the *participants* button, you will also notice that the sign-in page has taken on a new look.

If you are an active AUL NetServe user, you will be allowed access to the new Account Services site by using your




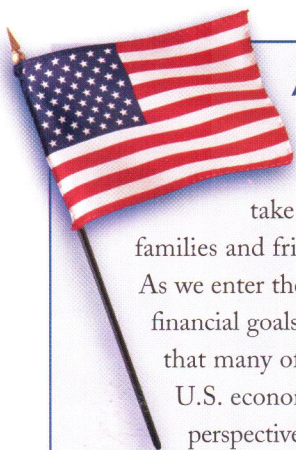
existing Personal Identification Number (PIN). However, when you first visit the site, you will be asked to provide additional personal information that will help us identify you should you ever lose, forget, or choose to change your PIN. Should the need arise, these new security

measures will allow you to regain access simply by answering a few questions.

New or existing participants who haven't accessed their accounts recently will be allowed immediate access to their accounts after completing a quick and easy online registration process.

We will continue to offer synchronization between your Account Services and AUL TeleServe passwords. Keeping the same password for both systems will make it easier for you to remember only one code to access both of these systems. To synchronize your password, you can select a numeric-only password from four to 20 digits in length.

We look forward to your feedback on the improvements to our Web site. Please visit us soon! 



AUL Remains Strong Despite Uncertain Times

The previous issue of *Make Your Money Work* went to press prior to the terrorist attacks of September 11. We'd like to take this opportunity to extend our thoughts and prayers to the families and friends who have been forever changed by these horrific events. As we enter the new year, AUL remains committed to helping you reach your financial goals. At the same time, we understand the financial uncertainty that many of you may be feeling. It's important to remember that the U.S. economy has endured many crises throughout its history. For a perspective on how the financial markets have performed during and after periods of turmoil and tips for coping with today's markets, see AUL's special report at www.eRetirement.aul.com.

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