

# Heads Up

5th Anniversary Issue!



## BENCHMARKS – Comparing Apples to Apples

**M**arket indexes are important tools in the financial management industry. They are lists of securities being traded in stock, bond and money markets. Each asset class within these markets has different performance expectations and patterns. Financial institutions—banks, investment houses, and even stock exchanges—have developed thousands of indexes to track these diverse market segments. Indexes represent the average of their particular segment.

These indexes are used as benchmarks against which the performance of investment funds can be measured. They provide a standard for comparing returns over time—market to market and fund to market. Remember, however, that you cannot invest in an index. Most actively managed funds are designed to track their market in the short-term and outperform it over time. The longer the time period, the greater the chance the comparison will reflect how efficiently a fund performs compared to its market. The performance table on the back page of this newsletter shows year-to-date, one-year, and 3- and 5-year annualized (average annual returns) performance for the DAP/401(k) funds and the indexes used as benchmarks.

### Simple versus complex

All major indexes are weighted so that their largest components influence the overall performance of the list. There are different ways to do the weighting. For example, the Dow Jones Industrial Average uses price weighting. Of its 30 listings, the most influential are those with shares selling at the highest price on the market. Price weighting often distorts this index because companies whose stock is selling at a higher price have more influence on the average than companies with shares selling for less, regardless of the overall available equity. Nevertheless, the “Dow” has remained the media’s most popular index for summarizing performance of the American stock market.

Plans with highly diversified funds like those in the DAP/401(k) need broader indexes against which to compare performance. The Russell 1000® Index, for example, contains many more large company stocks—1,000 of the largest companies in the US; the S&P 500 Index includes the 500 largest.

### “Cap” weighting

The Russell 1000® Index is capitalization-weighted as opposed to price-weighted. The total number of buyable shares multiplied by the price of each determines the capital weighting of a company and its

rank in the index. Many other popular indexes are “cap” weighted, including the Wilshire 5000, Russell 2000®, MSCI EAFE, and the Merrill Lynch 1-3 Year Government/Agency Bond Index.

### Model Portfolio Benchmarks

You’ll notice a combination of indexes as benchmarks for the Model Portfolios. These benchmarks combine indexes in roughly the same proportion as the fund invests in different markets. For example, the Conservative Model Portfolio benchmark uses 20% of the Russell 1000® Index, 20% of the Wilshire 5000 Index and 60% of the Merrill Lynch 1-3 Year Government/Agency Bond Index. **HU**

### A Message from the Investment Committee

This anniversary issue of *Heads Up* marks five years of operation for the TWA Pilots DAP/401(k) Plan under the self-directed, daily-valued, cash account structure that became effective July 1, 1993. During this time, your defined contribution retirement assets increased from about \$800 million to almost \$1.6 billion, and most TWA pilots experienced strong gains in their individual plan accounts. More importantly, the TWA pilots, individually and collectively, gained control of their own financial destiny.

This Plan represents the largest financial asset for most pilots, and the one they are counting on to provide a comfortable, secure retirement. With five years of operating history, we can now demonstrate conclusively that the Plan is doing its job of providing long-term financial security to TWA pilots and their families. The DAP/401(k) Investment Committee is proud of the work done by the committee and the plan office staff on your behalf. The committee remains dedicated to providing the best possible retirement investment vehicle for the TWA pilots at the lowest possible cost. **HU**

### Figuring the Return on Complex Benchmarks

*The Conservative Model Portfolio*

A simplified example: Suppose the Russell 1000® returned 15%, the Wilshire returned 24% and the Merrill Lynch returned 6% for a given period of time. The benchmark’s performance would be weighted 20% of the Russell 1000’s performance, 20% of the Wilshire 5000’s performance, and 60% of the Merrill Lynch’s for a combined return of 11.4%.

Benchmark Index	Actual Component Return	Weighted Return
<b>Russell 1000®</b>	<b>15%</b>	<b>3% (15 x .2)</b>
<b>Wilshire 5000</b>	<b>24%</b>	<b>4.8% (24 x .2)</b>
<b>Merrill Lynch 1-3 Yr. Govt/Agency Bond Index</b>	<b>6%</b>	<b>3.6% (6 x .6)</b>
<b>Conservative Model Portfolio Index</b>		<b>11.4%</b>

# DAP/40 I (k) Indexes – A Thumbnail Sketch

## Stable Value Fund

**Benchmark: Merrill Lynch 1-3 Year Treasury/Agency Bond Index, formed in September 1982**

Lists short-term fixed income instruments issued by the US Treasury Department and agencies of the US government. Such instruments are of high quality, backed either explicitly or implicitly by the US government. Currently, the index holds around 550 issues and the portfolio has a value of around \$900 million. The issues have a maturity ranging from one to three years.

## Conservative Equity Fund and Growth Stock Fund

**Benchmarks: Russell 1000® Value and Growth, formed in March 1979**

The Russell 1000® represents the performance of the 1,000 largest US companies in the Russell 3000® Index (index of the 3,000 largest capitalized stocks in the US, offered on a US exchange or OTC, not including pink sheet or OTC Bulletin listings).

The Russell 1000® represents about 90% of the total capitalization in the 3000, from the largest company to the 1,000th largest. The index is calculated by multi-

plying the composite closing price by the adjusted shares. The Russell 1000® is further divided into two style indexes, the Value and Growth Indexes. The Value style (used for the Conservative Equity Fund) measures performance of the companies with lower price-to-book ratios and lower forecasted growth values. The Growth style (used for the Growth Stock Fund) measures those with higher price-to-book ratios and higher forecasted growth values.

## Equity Index Fund

**Benchmark: Wilshire 5000 Stock Index, started December 1980**

Consists of US equities for which daily pricing is available, from the largest US company to the 5,000th. The portfolio lists more than \$10 billion worth of shares, 99.2% of which are in US common stock. In addition to common stock, the index lists non-US equity, REITs, and Limited Partnerships.

## International Stock Fund

**Benchmark: Morgan Stanley Capital International Europe Australia Far East Index (MSCI EAFE), calculated since 1969**

Tracks the world's major non-US stock

markets. Countries currently include: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Malaysia, Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland, United Kingdom.

The index is weighted by market capitalization. Morgan Stanley selects investable stocks among all countries until a target 60% of the industry's capitalization is reached. By including 60% of each industry group, the Index captures 60% or so of each country's stocks' total capitalization as well. The fund is reconstituted annually.

## Aggressive Growth Stock Fund

**Benchmark: Russell 2000®, formed in March 1979**

Represents the performance of small cap companies in the US. These 2,000 companies represent the smaller 2/3 of the Russell 3000®, about 10% of the total capitalization, the 1,001st largest capitalized to the 3,000th stock in the Russell 3000®. Pink sheet or OTC Bulletin listings are excluded. Capitalization is calculated by multiplying the composite closing price by the adjusted shares. **HU**

## Back to Basics

Periodically reviewing investing basics can help you keep your goals in mind and your actions in perspective. Here's a brief recap:

**The magic of compounding** – Compounding is the income earned on both your original investment and any interest your investment earns. Even a small monthly contribution can grow to a large sum over time.

**Risky business** – No investment is risk-free. Familiarity with the various types of risk can help you choose how much you're willing to accept in your retirement account. Some of the major investing risks are asset class risk, credit risk, inflation, interest rate risk, international investing risk, market risk, principal risk and volatility.

**Inflation lurks in the shadows** – Inflation has been virtually non-existent for the past few years, but it has been known to hit double digits (a whopping 13.3% in 1979). Inflation is the gradual rise in the cost of goods and services resulting in a decrease in purchasing power. Inflation has averaged about 4% a year for most of this century.

**Diversify, diversify, diversify** – Diversification is your first line of defense against risk. Combining investments takes a middle road through the highs and lows of market performance, allowing your retirement plan money the opportunity to grow regularly with fewer fluctuations along the way.

**Allocate your assets** – Asset allocation is the process of distributing investments between or among different asset classes to produce a rate of return consistent with an investor's ability to accept risk. The investments you choose depend on your age, lifestyle, accumulated wealth, years until retirement and how you feel about risk.

**Market timing can misfire** – Sure, the potential gain from a successful market timing strategy may be large, but the truth is that market timers rarely hold the right investments at the right time consistently. By trying to time the market, you risk missing its best days. And you have to be right twice: when you sell and when you buy.

**Know yourself** – Know how much investment risk you can tolerate. Know what your financial goal is. Know your time horizon. Know how you want to live in retirement. Plan and invest accordingly. **HU**

# Reviewing the DAP/401(k)'s Investment Options

Following is a brief review of each investment option and a performance comparison with its benchmark over the past five years (annualized numbers, July 1, 1993, through June 30, 1998).

Plan Assets*		
	July 1, 1993	June 30, 1998
401(k)	\$72	\$192 million
DAP	\$767	\$1,306 million

\* In millions

## Stable Value Fund

This option is designed to provide liquidity and safety of principal while providing a higher return over time than that offered by money market funds. It invests in a combination of traditional investment contracts, security-backed investment contracts, actively managed bonds and cash. The benchmark is the Merrill Lynch 1-3 Year Government Agency Index.

<i>Five-year performance comparison</i>	
Benchmark	5.61%
Fund	6.27%

## Conservative Equity Income Fund

This option may include a range of value investment managers such as equity income, growth and income, etc. This option avoids using managers whose style is viewed as speculative or who concentrate assets in single industries or sectors. It includes funds with the common attributes of relatively low volatility and reasonable dividend yields. The benchmark is the Russell 1000® Value Index.

<i>Five-year performance comparison</i>	
Benchmark	21.22%
Fund	19.26%

## Equity Index Fund

This option is invested in a portfolio of diversified common stocks designed to provide a return similar to that of the broad stock market. The benchmark is the Wilshire 5000 Index.

<i>Five-year performance comparison</i>	
Benchmark	21.56%
Fund	21.07%

*Note: Annualized fund performance is reported net of all plan expenses. Benchmarks do not have management or administrative fees.*

## Growth Stock Fund

This option invests in stocks from companies with higher historical or expected growth rates in sales or earnings. The primary objective is capital appreciation. This is achieved by investing in securities of established, well known companies and smaller, lesser known companies. The benchmark is the Russell 1000® Growth Index.

<i>Five-year performance comparison</i>	
Benchmark	23.48%
Fund	19.91%

## International Stock Fund

This option contains funds whose managers invest in securities across world markets. It may contain broadly diversified portfolios and/or portfolios of managers who have shown successful results in making more concentrated country/currency/company investments. The primary objective is longer-term growth of capital through a diversified portfolio of world market securities. The benchmark is the Morgan Stanley Capital International Europe Asia Far East (MSCI EAFE) Index.

<i>Five-year performance comparison</i>	
Benchmark	10.34%
Fund	14.80%

## Aggressive Growth Stock Fund

This option contains portfolios that typically include growth and value stocks of small to medium companies. The primary objective is capital appreciation through investment in equity securities with significantly better-than-average growth prospects. This fund carries more risk, but the potential for higher returns, than the other DAP/401(k) funds. The benchmark is the Russell 2000® Index.

<i>Five-year performance comparison</i>	
Benchmark	16.05%
Fund	14.76%

## TWA Stock Fund

This fund is designed to give 401(k) participants the opportunity to invest their retirement savings in TWA stock. The fund holds both TWA common stock and cash for liquidity. Because it invests in a single company stock, this fund carries the highest risk of all funds in the 401(k) plan.

## Conservative Portfolio

Designed for investors who wish to limit volatility and risk of principal, this option invests in a 40% equity/60% stable value combination. The fund's objective is income and capital preservation. The benchmark is a composite of the underlying funds' indexes.

<i>Five-year performance comparison</i>	
Benchmark	11.85%
Fund	11.72%

## Moderate Portfolio

Designed to provide a balanced long-term asset allocation suitable for a majority of participants, this option invests in a 65% equity/35% stable value mix. Its objective is capital growth and income. Generally, more money is invested in this option than any other in the plan. The benchmark is a composite of the underlying funds' indexes.

<i>Five-year performance comparison</i>	
Benchmark	14.57%
Fund	14.31%

## Aggressive Portfolio

Designed for participants with long time horizons and those willing to accept more risk and higher volatility in their investments. This option invests in an 80% equity/20% stable value mix. The fund's objective is capital accumulation. The benchmark is a composite of the underlying funds' indexes.

<i>Five-year performance comparison</i>	
Benchmark	15.90%
Fund	15.52%

## Fidelity Funds Window

This option allows DAP participants to invest in 44 mutual funds offered by Fidelity Institutional Retirement Services Company. Participants may allocate between 1% and 100% of their money from the basic DAP options into a wide variety of mutual funds. There are approximately 543 DAP participants with a total of \$137.7 million currently in the Fidelity Funds Window option.

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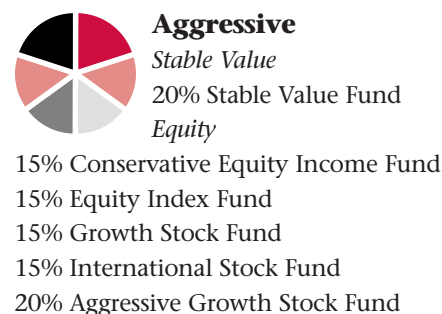
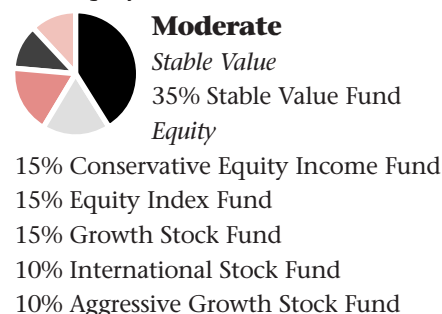
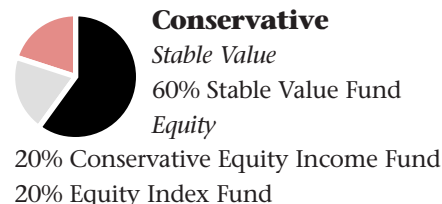
# Performance



## Fund Performance – Quarter Ended June 30, 1998

Fund	YTD 1998	1 year	3 years	5 years
<b>Benchmark</b>				
<b>Stable Value Fund</b>	<b>3.36%</b>	<b>7.20%</b>	<b>6.78%</b>	<b>6.27%</b>
Merrill Lynch 1-3 yr. Gov't/Agency	3.02%	6.80%	6.27%	5.61%
<b>Conservative Equity Income Fund</b>	<b>14.00</b>	<b>26.29</b>	<b>24.68</b>	<b>19.26</b>
Russell 1000 Value Index	12.16	28.84	28.84	21.22
<b>Equity Index Fund</b>	<b>14.88</b>	<b>28.16</b>	<b>27.47</b>	<b>21.07</b>
Wilshire 5000 Index	15.47	28.86	28.12	21.56
<b>Growth Stock Fund</b>	<b>20.66</b>	<b>29.66</b>	<b>25.36</b>	<b>19.91</b>
Russell 1000 Growth Index	20.38	31.39	30.17	23.48
<b>International Stock Fund</b>	<b>17.07</b>	<b>14.35</b>	<b>16.19</b>	<b>14.80</b>
MSCI EAFE Index	16.08	6.38	11.01	10.34
<b>Aggressive Growth Stock Fund</b>	<b>7.48</b>	<b>15.95</b>	<b>15.23</b>	<b>14.76</b>
Russell 2000 Index	4.93	16.50	18.85	16.05
<b>Conservative Portfolio</b>	<b>7.78</b>	<b>14.99</b>	<b>14.40</b>	<b>11.72</b>
Conservative Composite Index	7.40	15.42	14.95	11.85
<b>Moderate Portfolio</b>	<b>11.12</b>	<b>18.13</b>	<b>17.21</b>	<b>14.31</b>
Moderate Composite Index	10.35	17.91	18.15	14.57
<b>Aggressive Portfolio</b>	<b>12.41</b>	<b>19.65</b>	<b>18.68</b>	<b>15.52</b>
Aggressive Composite Index	11.18	18.90	19.72	15.90

## Revisiting the DAP/401(k) Model Portfolios

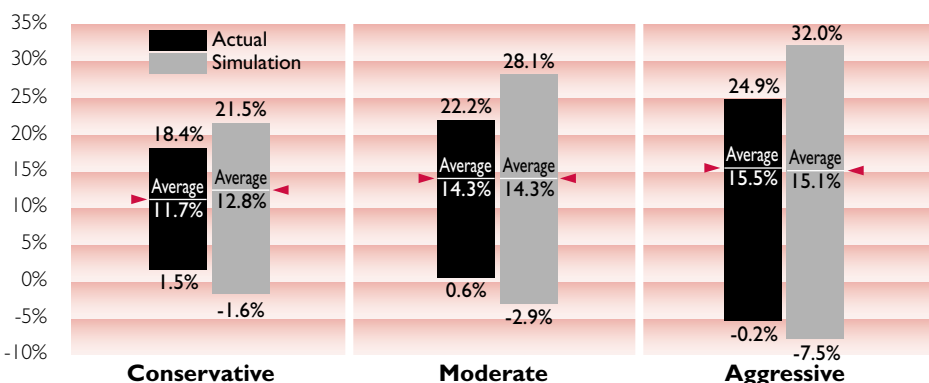


## DAP/401(k) Model Portfolio Mix Performance

This chart shows long term (24 years) *simulations* of the range of returns for the Model Portfolio mixes. The highest and lowest annual returns are shown along with the average for the period. Five-year actual returns for the Portfolios are also shown, including the highest and lowest annual returns as well as the average for the period.

### Range of Returns

Historical Simulations 1979 – 1997 and Five Year Actual Returns, July 1, 1993 – June 30, 1998



Performance shown for the Model Portfolios (1979 – 1997) is simulated based on returns of the benchmark indexes of each of the underlying TWA Pilots' DAP/401(k) funds used to create the Model Portfolios. Simulated returns compiled by Frank Russell Company. Simulated results shown do not reflect the deduction of transaction, management, and administrative costs. The simulations assume annual rebalancing to the target allocations. Past performance is for illustrative purposes only and is not a guarantee of future performance. This information is provided for reference only. For more information on the Model Portfolios, call the TWA Pilots' DAP/401(k) at 314-739-7373. Average numbers are compound annualized numbers.

Here are the important advantages to the Model Portfolios:

- A prudent long-term choice over the Stable Value Fund
- Immediate diversification
- Automatic rebalancing
- Total investment strategy
- Choice of three funds: Conservative, Moderate and Aggressive

The intent of this communication is to provide useful information, not investment advice. Each participant in the TWA Pilots' DAP/401(k) Plan is ultimately responsible to make his or her own investment decisions.

**More Information and Interacting with the Plan:**

To get account balance information, or to make transfers, call 1-800-828-8100 between 8 am and 5 pm, CST Monday through Friday. 1-847-883-0471 (not toll-free) from rotary telephone or outside the U.S. Use company I.D. 6662 followed by the # sign. Daily NAV, call 1-800-TWA-2017 (toll-free). Fidelity Funds 1-800-881-4015.

**Other Information:**

TWA Pilots' DAP 401(k)  
Investment Committee  
3221 McKelvey Road, Suite 105  
Bridgeton, MO 63044-2551  
314-739-7373

