

Heads Up



COVERING RISK

Minimizing risk to their investments should be a major part of how TWA pilots make their nest eggs grow in the DAP/401(k) plan. Fortunately, all the investment options are highly diversified and expertly managed. They diversify contributions, both yours and the Company's, by spreading the money among a host of different individual investments. Diversification generally reduces risk and some potential return. Expert management strives to track market performance in the short-term and to outperform it over time.

The Importance of Diversifying

You can further increase risk control by combining diversified investment options that trade in different markets. Why? Because the varied financial markets tend to react differently to changing economic, market, and business conditions. You can see increased efficiency over time when you diversify in different markets, or asset classes.

Let's illustrate the effect using the Sharpe Ratio, which has become an industry standard for measuring return for risk taken. Simply put, the higher the Sharpe Ratio, the more an investment return covers volatility risk. William F. Sharpe won the 1990 Nobel Prize in Economics for his ratio and its role in comparing investments. You'll find the Sharpe Ratio at work rating the efficiency of mutual funds in services such as *Morningstar's Mutual Funds*.

How it Works

Sharpe determined that part of every investment's return could be risk-free. You start by subtracting a risk-free return from your own investment's return. Most financial analysts use a money market return because it has little risk compared to other investments. For example, if your investment has an average return of 10% and the money market has returned 4% over the same period; you would subtract 4% from 10%. Sharpe called this

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Sharpe-ning the DAP/401(k) Investment Options

DAP/401(k) investment performance reflects the U.S. bull market of the past four years. More importantly, the investment options compare favorably to their benchmarks regardless of whether their markets are up or down. For example, the International Stock Fund has been much more efficient than its benchmark, despite the lower recent performance of the international stock markets.

The Equation: Sharpe Ratio = Portfolio Return - Risk-Free Return ÷ Standard Deviation
Investment Option Listed in Order of Efficiency from Low to High

DAP/401(k) Investment Option and Benchmark	Annualized Average Return	Risk Premium	Risk (Standard Deviation)	Sharpe Ratio
International Stock Fund	13.4%	8.4%	±10.6%	.79
MSCI EAFE Index (Intl)	9.4	4.4	12.8	.34
Aggressive Growth Fund	16.2	11.2	15.2	.74
Russell 2000® Index (Sm. Cap)	17.5	12.5	12.9	.98
Aggressive Model Portfolio	15.4	10.4	8.7	1.2
Growth Stock Fund	19.1	14.1	11.1	1.3
Russell 1000® Growth Index	22.7	17.7	12.7	1.4
Moderate Model Portfolio	14.1	9.1	7.0	1.3
Conservative Equity Fund	19.3	14.3	9.9	1.4
Russell 1000® Value Index	24.7	19.8	10.2	1.9
Conservative Model Portfolio	11.7	6.7	4.6	1.5
Equity Index Fund	24.1	19.1	10.3	1.9
Wilshire 5000 Index	21.0	16.0	13.2	1.2

The annualized returns and standard deviation reported for investments and indexes in this table are based on four years performance as of Sept. 30, 1997. The risk-free rate was 4.9% (Salomon Brothers 90-Day T-Bill Index).

DAP/401(k) News

IRS 415 Change Increases Maximum 401(k) Contributions

Beginning in 1998, Internal Revenue Service 415 limits (regulating contributions to qualified plans) will be based on gross instead of taxable compensation. The IRS 415 limit of 25% of income or \$30,000 is unchanged. TWA's contribution will remain at 14.3% for pilots with more than one year of service, and 3.3% for pilots in their first year of service. The change will raise the maximum contribution pilots may make to their 401(k) accounts from 8.5% to 10.7%.

Call Benefits Express after December 15 to increase your monthly contribution.

Maximum 401(k) Contribution Increasing

The 1998 maximum 401(k) contribution allowed by the IRS has been increased to \$10,000.

TWA Stock Prospectus Supplement

The company recently distributed a prospectus supplement for the TWA Stock Fund in the 401(k). Please call the DAP/401(k) office at (314) 739-7373 if you need a copy.

The TWA Stock Fund is one of several investment options available in the 401(k) plan. However, it carries the most risk because it contains only company stock. It is the nature of single-company stocks to fluctuate much more than a well-diversified portfolio containing many different types of investments, such as the DAP/401(k) options. These options generally offer less investment risk than any single stock.

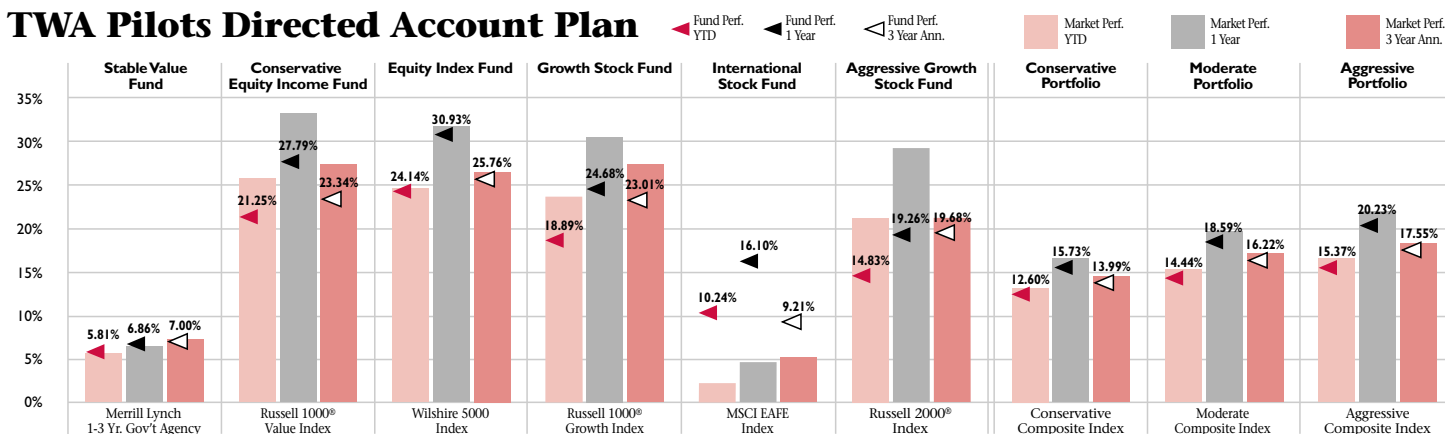
New Pilots — Have You Directed Your Company Contributions?

The company contributions to your DAP/401(k) account are automatically deposited to the Stable Value Fund if you do not select specific options. Call Benefits Express at 1-800-828-8100 to reallocate your investments to your choice of plan options.

Performance



TWA Pilots Directed Account Plan



How To Read Performance: The graphic display above shows fund performance as arrows and shows market performance, represented by the benchmarks, as bars. Fund and market performance YTD runs through October 31, 1997. Fund performance is reported net of all expenses. One-year performance runs from November 1, 1996 through October 31, 1997. Three-year annualized performance runs from November 1, 1994 through October 31, 1997.

FUND COMPONENT WEIGHTING

These tables represent component weighting for individual investment funds as of October 31, 1997. Weighting percentage does not include index fund target of \$20 million.

Stable Value Fund

Cash/BGI Money Market	5%
PRIMCO GIC	45%
Wellington Bonds	Liq 10%/Core 40%

Conservative Equity Fund

BGI 100/0 U.S. TAA	20%
Federated Stock Trust	20%
Morgan Core	20%
Neuberger/Berman Guardian	20%
USAA Income Stock	20%

Equity Index Fund

BGI US Equity Index	100%
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Growth Stock Fund

Fidelity Contrafund	20%
Fidelity OTC	20%
Janus Fund	20%
MFS Research	20%
Vanguard US Growth	20%
BGI Growth Index	

International Stock Fund

Am Century - 20th International GR	25%
EuroPacific Growth	25%
Janus Overseas	20%
Templeton Foreign	30%

Aggressive Growth Stock Fund

AIM Constellation	16.7%
BGI Aggressive Market Index	16.6%
DFA 9-10 US Small Co.	16.6%
Franklin Small Cap Growth	16.7%
Heartland Value	16.7%
MFS Instl Emerging Equities	16.7%

Net Value of Funds (Millions) 401(k) DAP

(October 31, 1997)	401(k)	DAP
Stable Value Fund	\$30.2	\$164.7
Conservative Equity Fund	36.3	88.3
Equity Index Fund	15.3	75.2
Growth Stock Fund	13.6	62.9
International Stock Fund	13.7	53.1
Aggressive Growth Stock Fund	28.6	62.0
Conservative Portfolio	2.8	34.1
Moderate Portfolio	15.9	495.6
Aggressive Portfolio	6.2	23.6
Fidelity Funds Window	—	132.2
TWA Company Stock	5.0	—
Total	\$167.6	\$1,191.7

Covering Risk cont. from front

difference the *risk premium*, the reward you get for investing in something that has some risk.

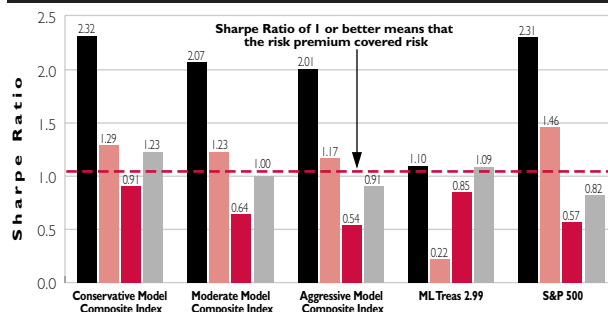
Sharpe then took volatility—the range of returns above and below the average return for the period (standard deviation)—and divided it into the risk premium. The result is the Sharpe Ratio. A ratio of one means your risk premium exactly covered the risk. A ratio better than one indicates superior efficiency. Less than one indicates inferior efficiency.

A Historical Look

How much more efficiently would the DAP/401(k) portfolios have performed over a long period of time? Because the Plan is only a little more than four years old, and has begun life in a robust bull market, let's use benchmarks instead of the actual funds. Then, we can go back further to analyze efficiencies in both up and down markets.

As the chart above demonstrates, the benchmarks used for the Conservative and Moderate portfolios were relatively efficient, even ten years ago when the 1987 stock market crash pulled the market down. Over the last four years, as shown in the table on page 1, the DAP/401(k) Model Portfolios' Sharpe

Model Portfolios: Efficient Investments



This chart compares the risk/return relationship between simulated portfolios made from the benchmarks for the DAP/401(k) Model Portfolios to a broad stock and bond index. Compares from June 1997 back one, four, 10 and 15 years. Past returns do not guarantee future performance.

Ratios indicate that using one of the Model Portfolios may increase investment efficiency. Past performance doesn't guarantee future returns, but the chart above suggests that you will likely increase your risk efficiency by diversifying across asset classes. **HU**

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.

Web Site: www.twalpa.org/dap/

Other Information:

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