

Heads Up

TWA Pilots' DAP/401(k) Plan Quarterly Review



July 1995, Volume 4, Issue 4

WHY MODEL PORTFOLIOS?

Do you like to build houses, fix cars, cook from scratch, or put together your own investment portfolio? The DAP/401(k) Plan offers many options to help you build an almost infinite number of investment combinations. For those who prefer not to build portfolios from scratch, however, the DAP/401(k) Plan features three *model* portfolios as single investment alternatives.

The Model Alternative

The model portfolios are designed for *conservative, moderate or aggressive* investors. Each is constructed from among the six stand-alone options, which invest in domestic stocks, non-US stocks and fixed income instruments. They are "pre-mixed" to different proportions to satisfy time horizons, risk comfort zones, and earnings expectations. Model portfolios also make great core investments around

through diversification. Over time, they should grow equal to the markets in which they trade. The six stand-alone options are already highly diversified, resulting in less risk than you would encounter picking individual stocks or mutual funds. The model portfolios create yet another level of diversification by combining stock and fixed income asset classes.

The composition of the model portfolios is shown in the pie charts below. The percentage of Plan money allocated to each manager's portfolio is shown in "Reviewing the DAP/401(k)'s Investment Options" on page 3 (usually shown in the Fund Component Weighting column on the back page).

By rebalancing, the Plan keeps these percentages more or less constant. When the value of one option exceeds its

high earnings potential. *Value* selection seeks underpriced investments that are expected to regain most or all of their value. *Market orientation* concentrates on market trends or buying indexes such as the Wilshire 5000. Together, these managers and their individual styles bring additional diversification to the DAP/401(k) Plan. They make their decisions at different times and for different reasons, further decreasing the possibility that all the Plan's options could lose value at the same time.

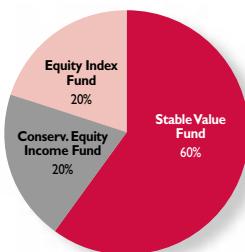
Diversification Across Markets

The DAP/401(k) Plan features options that combine investments from both US and non-US markets. Because non-US stocks trade in different regional markets worldwide, they seldom gain and lose value at the same time as US stocks. Hence, added diversification.

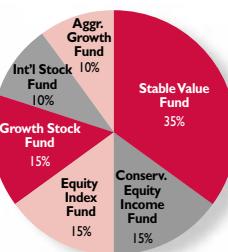
Similarly, the Stable Value Fund adds diversification because it invests in entirely different asset classes from stocks. Fixed income investments usually react to the market and the economy in their own ways. This option is diversified with a short-term interest fund for liquidity, traditional investment contracts, and security-backed investment contracts. In addition, it includes an actively managed moderate duration bond portfolio, structured in a manner that tempers bond market volatility. **HU**

What's in the Model Portfolios?

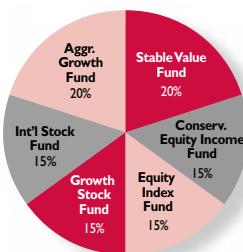
Conservative Portfolio



Moderate Portfolio



Aggressive Portfolio



which you can add other stand-alone options to finely tune the asset allocation of your DAP/401(k) account.

Consider the Moderate Model Portfolio. It uses the six basic options including all 26 managers. Its holdings cover the full spectrum of investments, including money market instruments, insurance contracts, short-term bonds, large company stocks (actively and passively managed), small company stocks, and international stocks.

Maintaining Risk/Return Characteristics

Generally, multiple investments offer considerable protection against risk

assigned percentage by a small margin, all options are rebalanced to the original target allocation. This rebalancing ensures that the risk/return characteristics of each model portfolio match a participant's objectives: *conservative, moderate or aggressive*.

Diversification by Style

Financial managers tend to use different investment styles to decide what to buy, sell or hold. The DAP /401(k) managers are selected to obtain a balance of these styles.

Growth selection seeks investments that are expected to grow significantly with

Celebrating Two Successful Years for DAP/401(k) Funds

Welcome to the second anniversary issue of "Heads Up."

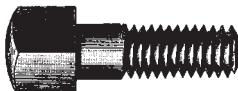
Consider this issue as a DAP/401(k) Plan quick reference guide. It recaps important information about the Plan and investing in general, including the DAP/401(k) investment options, basic investing concepts, the advantages of starting early, and a closer look at the model portfolios.

Please take some time to review. Save this issue for future reference.

Investing: The Nuts and Bolts

Periodically reviewing investing basics can help keep your DAP/401(k) account growing.

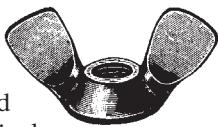
You're responsible for your own investment decisions. Here are some key concepts to remember.



■ Start Your Retirement Savings Program Now

The earlier you start, the better. But it's never too late. (See "The Early Bird Ends Up With the Caviar" below.)

Compounding The interest earned on both your principal and any interest your principal earns.



■ Remember Inflation

Inflation will rob your retirement funds of their buying power now and after you begin to use them. Are you saving enough?

Inflation The erosion of money's

purchasing power due to the rising cost of goods and services.

■ Nothing is Risk Free

Understand the risks. Fit the degree of risk you take to your personal investment strategy.

Risk The potential to lose money in an investment.

■ Protect Against Volatility

The best approach to retirement savings is "diversification"—spreading your savings across many investment types that tend to move in different directions, such as US stocks, non-US stocks, and fixed income. The DAP/401(k) model portfolios provide this type of diversification.

Volatility How much and how often the value of an investment increases or decreases in value.

Diversification The process of keeping your nest eggs in **more** than one basket.

■ Allocate Your Assets

Diversification is a good way to nail down risk. Use asset allocation as the hammer. Pick a course that's right for you and stay with it. Market timing seldom pays.



Asset allocation The process of distributing investments between or among different asset classes to produce the greatest possible return consistent with an investor's ability and willingness to accept risk.

Market timing The process of deciding when to buy or sell securities based on economic factors, such as changing interest rates, or technical indications, such as trading volume. Most experts believe this is not a successful approach to investing.

Continued on page 4

The Early Bird Ends Up With the Caviar

Your DAP/401(k) account is a key component of your retirement resources. You want your money to continue working for you when you retire, and the larger your account balance, the better. If you or a fellow pilot are still 401(k) holdouts, weigh the following advantages of contributing to the Plan early in your career.

If you start your 401(k) contributions early, you'll get a lot more retirement income than you will from the DAP alone. In fact, if you regularly contribute to your DAP/401(k) account for 20 to 30 years,

compounding on your contributions will provide many times more money than you contribute.

Consequently, you can make relatively **small contributions** to your account when you start early because your assets have more time to grow.

Your time horizon, or number of years you invest, can help you determine how much **risk** you should take. Generally speaking, the longer

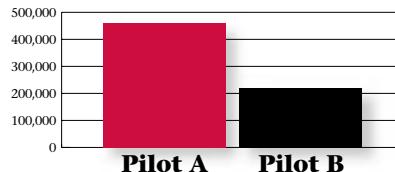
your time horizon, the more risk you can afford in exchange for high returns. Remember, your time horizon is your entire life expectancy, so you must be prepared to fund 20 or more years of retirement. As you approach retirement, you may want to preserve enough money in less volatile investments to fund your immediate needs, but you should also seek enough equity exposure to maintain growth throughout your life.

Long time horizons and diversification help you weather the effects of short-term **market fluctuations**. For example, the return on a broad market of equities was 1.3% for 1994, but over the long term from 1930 through 1994 they have provided an average annual return of 11.4%*.

Remember, it's never too early to start saving for retirement. Your 401(k) contributions are your insurance for the future—start making them now and you'll be covered at retirement. The longer you wait, the less money you'll have working for you.

* As measured by the S&P 500 Stock Index.

Starting Early Pays Off in the Golden Years



Pilots A and B started working for TWA the same year, earning the same beginning salary of \$50,000, with annual increases of 4%. Pilot A started a savings program immediately, putting away 5% of salary annually, with no interruptions, earning an annual return of 8%. After 30 years, Pilot A would amass \$460,300.

Pilot B decided to wait to start a savings program. If he saved 11% of his salary annually for the last 10 years before retiring, earning an annual return of 8%, he would accumulate \$220,830. Although contributing the maximum allowed, he would still miss out on considerable returns created by the compounding process over the first twenty years.

Remember, starting early is best, but it's never too late.

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

No two investors are alike. That's why the DAP/401(k) features six individual investment options, three model portfolios, and the Fidelity Funds Window (DAP only). This broad selection allows participants to build a diversified portfolio that meets their personal investing needs.

Following is a brief review of each investment option and a performance comparison with its benchmark over the past two years (actual performance, July 1, 1993 through June 30, 1995).

Plan Assets*

July 1, 1993 June 30, 1995

401(k)	\$72	\$110
DAP	\$767	\$872

*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.

Fund component weightings:

Wellington Bonds	Liq. 10%/Core 40%
PRIMCO GIC	45%
Cash	5%

Net value of fund*: 2 yr perf comparison

401(k)	\$23.8	11.12	Benchmark
DAP	\$102.8	11.31	Fund

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.

Fund component weightings:

Federated Stock Trust	21%
Morgan Core	21%
Neuberger/Berman Guardian	21%
USAA Mutual Income Stock	16%
Wells Fargo TAA	21%

Net value of fund*: 2 yr perf comparison

401(k)	\$23.1	22.39	Benchmark
DAP	\$39.0	24.49	Fund

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. It should closely approximate the return of indexes such as the Wilshire 5000.

Fund component weightings:

Wells Fargo US Equity	100%
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Net value of fund*: 2 yr perf comparison

401(k)	\$3.3	26.22	Benchmark
DAP	\$19.6	25.57	Fund

Aggressive Growth Stock Fund

This option contains portfolios that typically include growth 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.

Fund component weightings:

AIM Constellation	17%
Heartland Value	16%
DFA 9-10 U.S. Small Co.	16%
Fidelity Select	17%
PIMCO Adv. Oppty. "A"	17%
20th Century Vista	17%

Net value of fund*: 2 yr perf comparison

401(k)	\$27.0	25.35	Benchmark
DAP	\$56.3	30.10	Fund

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, less common companies.

Fund component weightings:

Fidelity Contrafund	20%
Fidelity OTC	20%
Janus Fund	20%
20th Century Growth	20%
Vanguard World US Growth	20%

Net value of fund*: 2 yr perf comparison

401(k)	\$4.7	30.16	Benchmark
DAP	\$27.7	25.86	Fund

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 long-term growth of capital through a diversified portfolio of world market securities.

Fund component weightings:

EuroPacific Growth	38%
Templeton Foreign	38%
20th Century Intl Equity	10%
Morgan Stanley Instl Asia	7%
Morgan Stanley Instl Emerg Mkts	7%

Net value of fund*: 2 yr perf comparison

401(k)	\$13.1	19.59	Benchmark
DAP	\$50.1	27.15	Fund

Conservative Portfolio

Designed for investors who wish to limit volatility and risk of principal, this option invests in a 60% fixed income/40% equity combination. The fund's objective is income and capital preservation.

Fund component weightings:

Stable Value Fund	60%
Conserv. Equity Income Fund	20%
Equity Index Fund	20%

Net value of fund*: 2 yr perf comparison

401(k)	\$1.0	16.31	Benchmark
DAP	\$15.1	16.24	Fund

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% fixed income mix. Its objective is capital growth and income. Generally, more money is invested in this option than any other in the Plan.

Fund component weightings:

Stable Value Fund	35%
Conserv. Equity Income Fund	15%
Equity Index Fund	15%
Growth Stock Fund	15%
Intl. Stock Fund	10%
Aggr. Growth Stock Fund	10%

Net value of fund*: 2 yr perf comparison

401(k)	\$11.1	20.30	Benchmark
DAP	\$461.4	21.22	Fund

* In millions, as of June 30, 1995

Continued on page 4

Performance



See printed newsletter for performance

How To Read Performance: The graphic display above shows fund performance as arrows and market performance, represented by the benchmarks, as bars. Fund and market performance YTD runs through June 30, 1995. Performance since inception runs from July 1, 1993, when all six funds and three model portfolios became available to participants, through June 30, 1995.

Investing: The Nuts and Bolts cont. from page 2

Dollar-cost averaging Accumulating assets by investing a set amount of dollars at regular intervals. You buy more shares or units when prices are low. You own more at a greater value when prices go back up. Your monthly contributions to the 401(k) automatically dollar-cost average for you.

■ Invest for Your Lifetime

Investment selection is a function of your age, goals and risk tolerance. Retiring from TWA doesn't mean you should put your DAP/401(k) investments in neutral and let them coast. On the contrary, you should invest with the DAP/401(k) according to your life expectancy. Investment professionals recommend stock market exposure into retirement.

Time horizon The length of time investors have to invest their money.

■ You're in Control

The key is to set your course and stick to it. Let your life circumstances dictate your DAP/401(k) asset allocation decisions, not the market's movements. You choose which investments are appropriate for your account by how long you have to invest, how much you need to accumulate, and your tolerance for risk.

Bottom line, all the Plan's options offer steady growth potential over time, long into retirement when your account must help supply your income. **HU**

Reviewing the DAP/401(k) cont. from page 3

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% fixed income mix. The fund's objective is capital accumulation.

Fund component weightings:

Stable Value Fund	20%
Conserv. Equity Income Fund	15%
Equity Index Fund	15%
Growth Stock Fund	15%
Intl. Stock Fund	15%
Aggr. Growth Stock Fund	20%

Net value of fund*: 2 yr perf comparison

401(k)	\$3.3	22.26	2 yr
DAP	\$15.3	23.08	Benchmark Fund

Fidelity Funds Window

This option allows DAP participants to invest in 33 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 500 DAP participants with \$80 million in the Fidelity Funds Window option.

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* In millions, as of June 30, 1995

Important Reminder for retirees nearing age 70 1/2

Please double-check your DAP/401(k) beneficiary form for accuracy. If it is not up-to-date, your minimum distribution may be higher than necessary.

Contact Benefits Express to review your form or file a new one.

DAP/401(k) Important Telephone Numbers

Performance:

Benefits Express Daily NAV 1-800-892-2017
Fidelity Funds 1-800-881-4015

Account Information:

Benefits Express 1-800-828-8100

For account balance information or to make transfers, 8 am to 5 pm CST Monday through Friday.

From rotary telephones or from outside the US, call 1-708-883-0471.

Use company ID# 6662 followed by the # sign.

Comments and Other Information:

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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.

