

Heads Up



Your DAP/401(k) Portfolio

Dr. Jekyll or Mr. Hyde?

Right now, your DAP/401(k) portfolio has a risk/return personality. But is it the one you gave it or has it developed one of its own over time? Are you overdiversified? Taking on more risk than you have to? Have you added new funds without reviewing your objectives? Or is your portfolio out of balance because of the recent stock market boom?

Many TWA pilots may think they are taking conservative or moderate risks with their retirement savings because they started out with one of the Model Portfolios. They don't count the stand-alone funds they added in the meantime, the selection they made through the Fidelity Funds Window, or the way their modest stand-alone additions have grown in value.

In the aggregate, a portfolio's total return is the sum of its weighted components' returns. For example, "Captain John Doe" holds a portfolio with 50% in the Moderate Model Portfolio, 25% in the International Stock Fund and 25% in the Growth Stock Fund. His portfolio's return will be the sum of half the Moderate Model Portfolio return, and a quarter each of the International Stock and Growth Stock Funds' returns. Suppose he wants to roughly estimate a 3-year total return for that portfolio (see table to the right).

In this example, Captain Doe's portfolio actually outperformed the Moderate Portfolio by a few basis points. But at what increase in risk? You can consider exposure to the increased volatility of stocks as a yardstick for risk—the higher your percentage of equity

holdings, the more volatility, or risk, you should expect. The Moderate Model Portfolio includes 65% stocks. Captain Doe's portfolio contains 82-1/2% stocks, exposing him to more volatility risk from the fluctuations of the stock market over the past three years. Since his mix earned a slightly higher return, you might ask yourself, "Was the extra risk worth it?"

Suppose the stock markets had declined during this period. Captain Doe's return would likely have lagged behind the Moderate Model because his portfolio had a greater exposure to stocks. If Captain Doe's return had been significantly higher than the Model Portfolio, he could justify the added risk. Otherwise, Captain Doe may want to reconsider his asset allocation. If he believes, for example, that international or growth stocks are going to increase in value faster, he might stand pat. Otherwise, by selecting a Model Portfolio, he may realize similar returns without risking so much of his assets to stock volatility.

A Simple Exercise

Use the table on page 2 to determine the equity exposure of your own portfolio.

Portfolio Investments	Weight in Portfolio	3-year Fund Return (From Heads Up)	Weighted Return (Weight in Portfolio x Fund Return)
Moderate Model	50%	12.53%	6.27%
International Stock	25%	7.87%	1.97%
Growth Stock	25%	17.33%	4.33%
TOTAL	100%	—	12.57%

Source: TWA Pilots' DAP 401(k) 3 year annualized performance as reported in March 1997 "Heads Up."

A Message from the Investment Committee

With this anniversary issue of "Heads Up," the TWA Pilots DAP/401(k) Plan Investment Committee marks four full years of operation under the self-directed cash account structure put into place July 1, 1993. This long-sought change in the former TWA Pilots Trust Annuity Plan (or "B Plan") was the culmination of persistent efforts by a number of TWA pilots, working in officer, representative and MEC committee positions of the Air Line Pilots Association, to provide a substantially improved retirement investment vehicle for TWA pilots. We believe that the TWA Pilots DAP/401(k) Plan has met or exceeded the expectations of these pilots in every respect, and we would like to acknowledge their role in bringing this state-of-the-art retirement plan into existence. While their names are too numerous to be listed here, they should and will be remembered by all TWA pilots for their vision and devotion to the highest traditions of the Air Line Pilots Association.

Over the last four years, your Investment Committee (composed of pilot, company, and outside investment professional members) has been mindful of the trust you have placed in us and the Plan staff to ensure that your DAP/401(k) accounts are administered to the very highest standards. We believe we have achieved that objective, and we are confident that the retirement investment vehicles provided to the TWA pilots in this plan are as good or better than any available in the defined contribution plan industry. We hope you are pleased with the results of our efforts, and that you are finding your personal financial goals more attainable through your participation in this very special defined contribution retirement plan, designed by TWA pilots, for TWA pilots.

Your DAP/401(k) Portfolio cont. from front

1. Identify the plan options you use and write the percentage of each in Column 2.

Example: Suppose a portfolio contains 20% Stable Value Fund, 45% Equity Index Fund, 15% International Stock Fund, and 20% Aggressive Growth Fund. Enter these percentages in Column 2.

1 Option	2 Percent Invested in Option	3 Percent of Option in Stocks	4 Stock/Stable Value Ratio	5 Simulated Average Annual Return*	6 Percent Equity Exposure	7 Weighted Average Annual Return*
Stable Value	Example: 20%	0%	0/100	9.46%	Example: 0%	Example: 1.9%
Conservative Equity Income		100%	100/0	16.23%		
Equity Index	Example: 45%	100%	100/0	15.59%	Example: 45%	Example: 7%
Growth Stock		100%	100/0	15.26%		
International Stock Fund	Example: 15%	100%	100/0	13.83%	Example: 15%	Example: 2.1%
Aggressive Growth Stock	Example: 20%	100%	100/0	14.22%	Example: 20%	Example: 2.8%
Conservative Model Portfolio		40%	40/60	12.53%		
Moderate Model Portfolio		65%	65/35	14.00%		
Aggressive Model Portfolio		80%	80/20	14.85%		
Fidelity Funds Window**		100%	100/0	?		
TOTALS	Example: 100%				Example: 80%	Example: 13.8%

Source: Simulated average annual returns based on 18-year results of the DAP/401(k) Funds' benchmarks: ML Govt. Agency 1-2.99 (Stable Value Fund), Russell 1000® Value Index (Conservative Equity Income Fund), Wilshire 5000 Index (Equity Index Fund), Russell 1000® Growth Index (Growth Stock Fund), MSCI EAFE Index (International Stock Fund), Russell 2000® Index (Aggressive Growth Stock Fund).

**Try to get as close to 18-year history with your Fidelity Funds, or their benchmarks, as you can.

2. Multiply Column 2 by the percentage of stocks in that fund shown in Column 3. Enter the answer in Column 6.

Example: 20% Stable Value Fund x 0% equity = 0%

45% Equity Index Fund x

100% equity = 45%

15% International Fund x

100% equity = 15%

20% Aggressive Growth Fund x

100% equity = 20%

3. Multiply Column 2 by your funds' simulated average annual returns shown in Column 5. Enter the answers in Column 7.

Example: 20% Stable Value Fund x 9.46% = 1.9%

45% Equity Index Fund x 15.59% = 7%

15% International Fund x

13.83% = 2.1%

20% Aggressive Growth Fund x

14.22% = 2.8%

4. Total Column 6 and then Column 7. Compare the equity exposure and weighted return for your portfolio to the Model Portfolios alone. How do your equity exposure and return compare?

As you can see, over an eighteen year period, this example portfolio would have

averaged more than a percent less return than the Aggressive Model Portfolio at the same exposure to equities. Moreover, it would have also underperformed the Moderate Model Portfolio that has even less exposure to equities.

Model Portfolios

Does your portfolio's equity exposure equal or exceed that of any of the Model Portfolios? How do your returns compare? If you have more equity exposure and a lower or similar return, you may want to revisit your asset allocation. Even if you have a higher equity exposure and a higher return, it's always a good idea to review your needs, risk tolerance and time horizon to ensure your equity exposure is appropriate for you.

The Model Portfolios are highly diversified, automatically rebalanced and have performed well when compared to their benchmark. You may want to consider re-allocating to the Model Portfolio that best suits your objectives. Those who want to craft a portfolio more precisely may choose from among the six stand-alone options or the 44 Fidelity mutual funds available through the Fidelity Funds Window. One of the Model Portfolios can be used as a core

DAP/401(k) News

New Fund Components

Since January 1, 1997, three new funds have been added to the DAP/401(k) Plan options.

- In the International Fund, **Janus Overseas** replaces the Morgan Stanley Emerging Markets and Morgan Stanley Instl Asia ex-Japan.
- In the Aggressive Stock Fund, the **MFS Instl Emerging Equities** and **Franklin Small Cap Growth** replace American Century 20th Vista and PIMCO Opportunity.

Please see the back page for fund component weightings.

Transfer Fees

Please remember that 12 transfers are permitted per year, per plan. Additional activity will be charged at \$100 per transfer. For 1997, the numbers began accruing May 1.

Plan Communications Notebook

If you have lost or misplaced your Plan Communications Notebook, you may order a new one for \$15 from the DAP/401(k) Plan office at 314-739-7373.

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.

ALPA Retirement Planning Kit

Please contact TWA MEC Benefits Specialist Mary Ulett at (314) 770-8500 or CompuServe at 73714,64 to receive your kit. Include a payroll number, intended retirement date and your spouse's name and birth date with your request. **HU**

investment, but be sure to consistently monitor your equity exposure. You may increase your risk/return potential with other DAP/401(k) funds or decrease the risk/return potential by adding some of the Stable Value Fund. Either way, you want to be in control of your DAP/401(k) investments. **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 four years (annualized numbers, July 1, 1993 through June 30, 1997).

Plan Assets*		
	July 1, 1993	June 30, 1997
401(k)	\$72	\$160.6
DAP	\$767	\$1,153.9

* 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>Four-year performance comparison</i>	
Benchmark	5.38%
Fund	6.03%

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>Four-year performance comparison</i>	
Benchmark	19.38%
Fund	17.57%

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>Four-year performance comparison</i>	
Benchmark	19.80%
Fund	19.35%

Note: 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>Four-year performance comparison</i>	
Benchmark	21.58%
Fund	17.59%

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>Four-year performance comparison</i>	
Benchmark	11.36%
Fund	14.92%

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. The benchmark is the Russell 2000® Index.

<i>Four-year performance comparison</i>	
Benchmark	15.94%
Fund	14.47%

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>Four-year performance comparison</i>	
Benchmark	10.97%
Fund	10.92%

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>Four-year performance comparison</i>	
Benchmark	13.74%
Fund	13.38%

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>Four-year performance comparison</i>	
Benchmark	15.17%
Fund	14.51%

Fidelity Funds Window

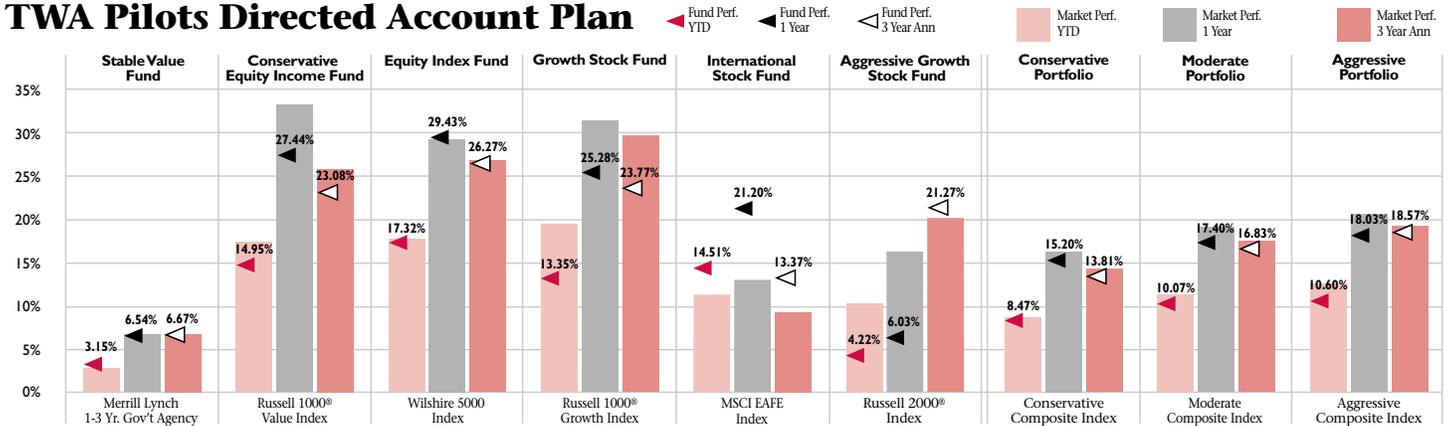
This option allows DAP participants to invest in 44 mutual funds offered by Fidelity Institutional Retirement Services Company. Participants may allocate between 1% and 100% of their money from the basic DAP options into a wide variety of mutual funds. There are approximately 500 DAP participants with a total of \$124.9 million currently in the Fidelity Funds Window option.

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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 June 30, 1997. Fund performance is reported net of all expenses. One-year performance runs from July 1, 1996 through June 30, 1997. Three-year annualized performance runs from July 1, 1994 through June 30, 1997.

FUND COMPONENT WEIGHTING

These tables represent component weighting for individual investment funds as of June 30, 1997. Weighting percentage does not include growth index fund target of \$20 million.

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

Conservative Equity Fund	Weighting
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	Weighting
BGI U.S. Equity Index	100%

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

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

Aggressive Growth Stock Fund	Weighting
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
(June 30, 1997)		
Stable Value Fund	\$25.2	\$133.3
Conservative Equity Fund	33.8	84.8
Equity Index Fund	14.1	71.1
Growth Stock Fund	12.8	63.0
International Stock Fund	18.3	64.8
Aggressive Growth Stock Fund	26.0	54.1
Conservative Portfolio	2.5	32.2
Moderate Portfolio	16.9	502.0
Aggressive Portfolio	5.6	23.7
Fidelity Funds Window	—	124.9
TWA Company Stock	5.4	—
Total	160.6	1,153.9

For New DAP/401(k) Investors: Making Ends Meet

Starting out is difficult for many people. Finding extra money can be a real challenge for any pilot on a first year's wage. Regardless, there can be real long term benefits if you can get active in your DAP/401(k) Plan right away. In fact, you could earn much more than your first year's income—if you're willing to make the sacrifice now and wait until retirement for the payoff.

As a first year pilot, TWA will contribute 3.3% of your income to the DAP. For a \$25,000 a year income, that amounts to \$825 or so.

In the first year, you may contribute 11% of your income to the 401(k) Plan. Regardless of what happens from year two onward until retirement, the table to the right offers one view of what you may expect at retirement based on your first year's activity in the plan.

From the second year on, TWA's contribution to the DAP increases to 14.3%. You may contribute up to 10.7% to the 401(k) in 1998 and beyond. As your income increases, so will the amount of money TWA contributes toward your retirement savings. You, naturally, control your ultimate future wealth by how you invest these contributions and how much you choose to contribute to the 401(k) Plan. You can pay yourself a lot of money at retirement by contributing early. Also, you can lower

Value of First Year's Savings

One Year's DAP Contributions	Total After Year 1	Total After Year 25	Total After Year 30
You don't contribute, but TWA contributes 3.3% of a \$25,000 income to the DAP	\$864 (\$825 times one year's growth at 10% real return)	\$9,429	\$15,514
You contribute \$825 plus your 11% and TWA contributes 3.3%	\$3,743 (TWA's \$825 plus your \$2,750 times one year's growth at 10% real return)	\$40,856	\$67,213

Real rate of return assumes a 14% rate of return minus 4% for inflation. Future totals are in today's dollars.

your income, for income tax purposes, by the amount you contribute to the 401(k) Plan. **HJ**

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
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314-739-7373

