## November 2006

# The ABCs of Real Estate Investment Trusts

If you listen to most financial representatives, you know that one of the keys to successful investing is diversification. It's perhaps the single most important strategy an investor can follow. The idea is that gains from some investments will offset the losses of other investments, thereby improving the bottom-line performance of a portfolio while reducing overall risk. Because there are never any guarantees with investing, being diversified prepares investors for both the good years and the not-so-good years. In fact, some experts believe that the way in which you diversify your investable assets is even more important than the individual investments you make.

1[1] Please note that while diversification is a recommended strategy, it cannot ensure a profit or protect against a loss.

One way to diversify a portfolio is by investing in real estate investment trusts (REITs). REITs are companies that own and manage commercial real estate and, by law, distribute 90% of taxable income to investors in the form of distributions. Because REITs typically have what economists call a "low correlation" to stocks and bonds, they may bring balance to portfolios.

Take a look at the chart below, which compares the performance of a hypothetical diversified portfolio including 20% publicly traded REITs with the performance of a portfolio consisting of stocks, bonds, and cash-equivalents only.

Chart based on risk and return data from 1972 through December 2005.

| | Annualized Average Return | Risk (Standard Deviation)*** |
|---|---|---|
| Stocks & Bonds* | 10.23% | 9.75% |
| Stocks, Bonds, & Real Estate** | 11.07% | 9.74% |

*Portfolio Mix - 50% Stocks, 40% Bonds, 10% T-bills.
**Portfolio Mix - 40% Stocks, 30% Bonds, 10% T-bills, 20% publicly traded REITs.
***Standard deviation measures the fluctuation of returns around the arithmetic average return of the investment.

Source: For the period December 1972 through December 2005, the index information used for each asset class was as follows: Stocks: Standard & Poor's 500; Bonds: 5-year U.S. Government Bond; Cash: U.S. 30-day Treasury bills; REITs: NAREIT Equity Index. As with a portfolio of all stocks or bonds, a diversified portfolio gives no guarantee of safety of principal, which is subject to fluctuation. Past performance does not guarantee future results. This data does not represent a particular fund. You cannot invest directly in an index.

Most notably, this comparison of historical, long-term results reveals that a diversified portfolio including REITs may perform competitively with a portfolio consisting of domestic stocks and bonds while incurring less risk.

**It May Pay to Own REITs:** REITs are required to pay 90% of taxable income to investors, even in a low-interest-rate environment. That's because REIT distributions are determined by earnings from properties based on leases with tenants — not directly by current interest rates or the ups and downs of the stock market. In fact, publicly traded REITs are paying an average dividend yield of

4.36% as of September 30, 2006 (Source: National Association of Real Estate Investment Trusts – Dividends are subject to change quarterly and are not guaranteed).

**Tax Advantages Have Their Advantages**
If there’s one thing we all have in common, it’s that none of us likes paying taxes. High taxes eat away at total returns. But REITs offer two tax-related benefits to help you keep more of what you earn. First, REITs as an entity generally do not pay income taxes the way regular corporations do. It’s astonishing, but corporations can pay as much as 35% in corporate taxes. That may mean 35% less that is actually funneled down to investors. REITs, on the other hand, are required to pay out 90% of their taxable income to investors in the form of distributions.

On top of this, because of a REIT’s property depreciation, a portion of the income from a REIT investment may be tax-deferred for investors. REIT investors may therefore receive an annual tax deferral against the current income they have received from their REIT investment. The net effect is that depreciation may shave a percentage off a REIT investor’s current year Form 1099-reportable income under current IRS Regulations.2[2]

If you’ve never considered REITs as a potentially valuable investment for your portfolio, now is a great time to talk to <financial representative’s name> about how an investment in REITs might make a difference in your long-term financial plans.

This is neither an offer nor a solicitation to purchase any products, which may be done only by a current prospectus. Please contact your financial representative to receive a prospectus, which includes information on charges, expenses, and other important facts. Investors should consider their investment objectives and risks, along with a product’s charges and expenses before investing. Please read the prospectus carefully before investing or sending money.

Securities offered through National Planning Corporation – Member NASD & SIPC.

A portion of dividends may be tax-deferred due to depreciation. Be advised that investments in real estate and in REITs have various risks including possible lack of liquidity, limited transferability and devaluation based on adverse economic and regulatory changes. Shares are not FDIC or NCUA/NCUSIF insured, not bank or credit union guaranteed, and may lose value.

Past performance does not guarantee future results.

Data is current as of August 4, 2006 and subject to change.

Courtesy of Wells Real Estate Funds.

1 [1]Source: “Beginners’ Guide to Asset Allocation, Diversification, and Rebalancing,” Securities and Exchange Commission, September 13, 2005.

2 [2]IRS regulations are subject to change. Please discuss your specific tax situation with your tax advisor.