

# How to Cope With Ongoing Market Volatility

*After an extremely volatile finish to last year, investors hoped to see a return to the relative tranquility that marked the financial markets of early 2007. Thus far, just the opposite has occurred—causing many investors to wonder what's in store ahead.*

The market's continued gyrations are being fueled by ongoing housing weakness, continued fallout from the subprime mortgage market, and fears the U.S. economy may be headed toward a recession.

The Federal Reserve Board (the "Fed") has responded to the strains on the economy by aggressively lowering short-term interest rates to stimulate growth. While in February the Fed reduced its outlook for GDP growth in 2008 to 1.3%-2.0% (down from 1.8%-2.5%), it does not foresee a recession and indicated that additional rate cuts could be forthcoming if necessary. MainStay Investments Chief Investment Strategist, William Knapp, Ph.D., also believes<sup>1</sup> the U.S. economy can stave off a recession. This forecast is based on his belief that "wary consumers will become more confident in the months ahead due to significant mortgage refinancing activity, lower gas prices, and the government's economic stimulus package."

1. As of February, 2008.

— continued on page 2.

## New Investor Class Shares Effective February 28, 2008

*As previously communicated to all of our shareholders in the 2007 year-end statement, on February 28, 2008, MainStay Funds introduced new Investor Class shares for most MainStay Funds.*

The new MainStay Investor Class shares are designed to accommodate and service shareholders with smaller account balances. Specifically, the new Investor Class shares are for accounts with assets less than \$25,000 on a per Fund account level; for all SIMPLE IRAs; and for certain retirement plans regardless of account size. Investor Class has the same sales load structure as Class A shares, with initial and subsequent investment

minimums of \$1,000 and \$50, respectively. Expenses are expected to be higher than Class A shares.

Meanwhile, Class A shares are now intended for accounts with assets of at least \$25,000 on a per Fund account level and for shareholders who invest in MainStay through certain broker-dealers or retirement plans, regardless of account size. With a new minimum initial investment of \$25,000, and no minimum on

subsequent investments, the modified Class A shares are expected to benefit from lower expenses than Investor Class shares.

### How Will This Impact My Existing MainStay Funds Investment?

Your Fund accounts may or may not be impacted, depending on the share class in which you are currently invested and your Fund account balances.

— continued on page 4.

## That's News to you

### Special Hurricane Rollover

If you took a "qualified hurricane distribution" from your IRA or another eligible retirement plan under the tax relief provided for Hurricanes Katrina, Rita, and/or Wilma, you may be able to repay the distribution to your IRA as a rollover contribution and avoid taxes on the distribution. For a Roth IRA, the repayment is first considered to be a repayment of earnings and any repayments in excess of earnings will increase your basis in the Roth IRA. The repayment must be made within three years after the "qualified hurricane distribution."

Please consult your tax advisor for more information if you think that you may be eligible for this special repayment opportunity.

### NYLIM is a DALBAR Winner Again

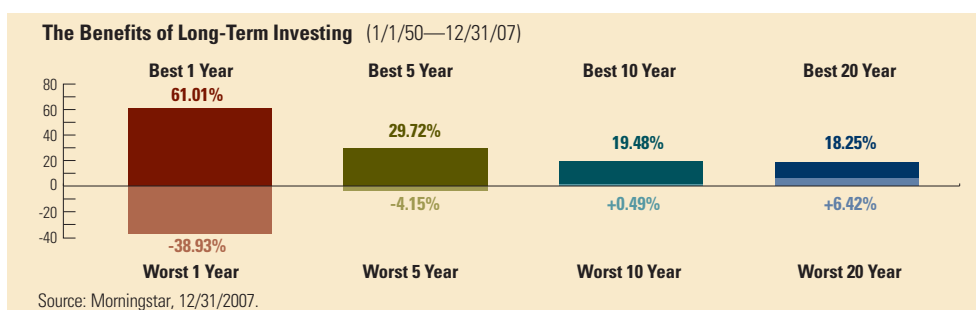
New York Life Investment Management LLC (NYLIM) has been awarded the 2007 DALBAR Mutual Fund Service Award. This marks the seventh consecutive year that NYLIM Service Company has received a DALBAR Award in recognition of its outstanding level of customer service to shareholders.

## How to Cope with Ongoing Volatility *(continued)*

### What Does Market Volatility Mean for You?

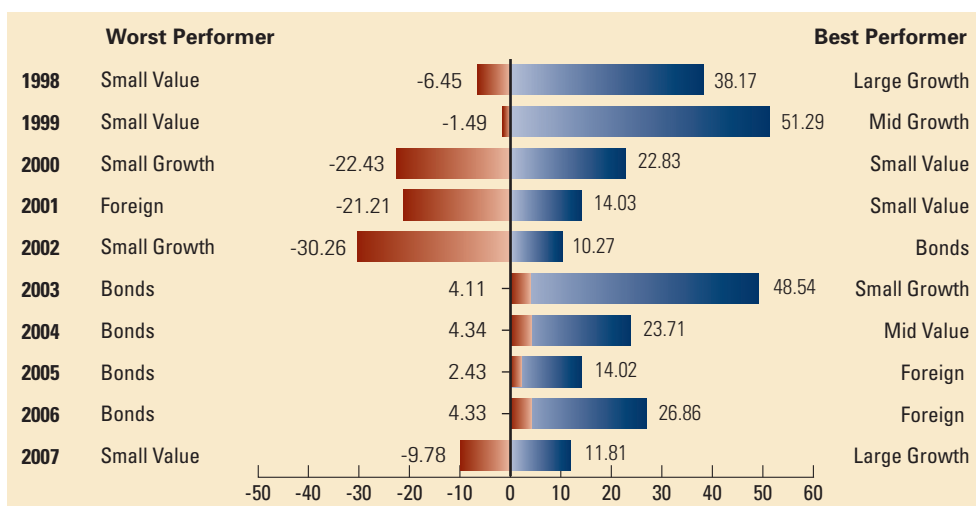
Until the uncertainty surrounding the economy dissipates, it's likely that we'll continue to experience periods of volatility in the financial markets.

How can you cope with such an environment? Perhaps the best advice is to remain focused on your long-term financial goals. While market volatility is unsettling, it's a natural occurrence and it can lead to significant opportunities for investors who maintain a long-term perspective. As you can see in the chart below, volatility has a significant impact over shorter time periods. However, the longer you hold your stock portfolio, the less volatility affects it, and the more likely you'll realize positive results.



### Don't Try to Hit a Moving Target

Market volatility can also serve as a wake-up call. Even long-term investors need to periodically review their portfolio with their financial advisor to insure that it's appropriate given their goals and risk tolerance. A key component of a portfolio review is to be sure it is adequately diversified. That's because investment performance is a moving target. As you can see in the table below, while one asset class may be a star performer one year, it can fall to the bottom of the pack the very next year. Given this dynamic, it's essential to maintain a portfolio that is diversified across a wide variety of asset classes and investment styles.



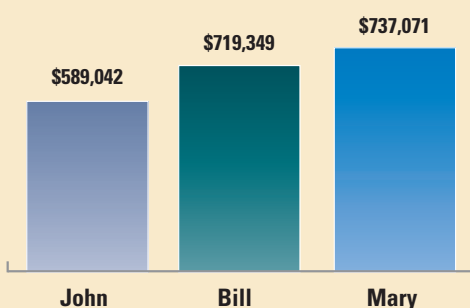
Past performance of the stocks and bond market is no guarantee of future results.

Source: Morningstar, 12/31/2007. The chart above represents the fluctuating performance for various indices that represent certain asset classes, ranking them from highest to lowest based on annual total returns. The chart is based on the annual total return of the following: large stocks (represented by S&P 500), large growth stocks (represented by Russell 1000 Growth Index), large value stocks (represented by Russell 1000 Value Index), mid stocks (represented by Russell MidCap), mid growth stocks (represented by Russell MidCap Growth Index), mid value stocks (represented by Russell MidCap Value Index), small stocks (represented by Russell 2000 Index), small growth stocks (represented by Russell 2000 Growth Index), small value stocks (represented by Russell 2000 Value Index), foreign stocks (represented by MSCI EAFE Index) and bonds (represented by Lehman Brothers Aggregate Bond Index). It is not possible to make investments directly into an index.

## Diversification in Action

A great way to see the power of diversification in action is through the following hypothetical “tale of three investors.” Mary and her two brothers John and Bill were introduced to their parents’ financial advisor to discuss their long-term financial goals. By the end of the discussion, they each agreed to open an account and invest \$10,000 annually for the next 20 years. However, each of them had very different investment methods in mind:

**The Advantage of Maintaining a Diversified Portfolio**  
Hypothetical results over a 20-Year Period (1/1/88—12/31/07)



- **John** liked to follow the market trends and invested his \$10,000 in the asset class that performed best over the prior 12 months.
- **Bill**, an optimist, believed his portfolio would do well by investing in the asset class that performed worst over the prior 12 months.
- And **Mary**, the most disciplined of them all, decided to diversify across several asset classes. In addition, she rebalanced her portfolio quarterly to ensure that her initial allocations remained constant.

Source: MPI Stylus, 12/31/07. Investment returns for the 20-year period from January 1, 1988, through December 31, 2007. For this illustration, six unmanaged indices were used with equal weighting: Russell 1000® Growth Index, which measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. Russell 1000® Value Index, which measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. Russell 2500® Growth Index, which measures the small- to mid-cap growth segment of the U.S. equity universe. Russell 2500® Value Index, which measures the small- to mid-cap value segment of the U.S. equity universe. MSCI EAFE® Index, which is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. & Canada. Lehman Brothers® Aggregate Bond Index, which tracks performance of debt instruments issued by corporations and the U.S. Government and its agencies. The indices are unmanaged and do not charge fees and expenses. Results assume the reinvestment of all capital gain and dividend distributions.

It is not possible to make investments directly into an index.

## Opportunities for Diversification

When creating an investment portfolio, it's essential to include securities whose performance does not tend to move in tandem (i.e. that are uncorrelated) with other investments. That way, if one holding falls in value, the loss may be made up with another holding that generates a positive return. Potential opportunities to diversify a portfolio include:

**International Stocks:** Historically, stock market performance is driven by corporate earnings. While earnings of some U.S. companies may decelerate given a moderating economy, there are stocks in non-U.S. countries that are experiencing solid growth. As such, adding an international stock component to a portfolio may add valuable diversification.

**Convertible Securities:** A convertible is a type of bond that can be converted into a predetermined number of shares of common stock. During periods of market volatility, convertibles may be a useful addition to a portfolio as they provide the upside potential of stocks and the downside cushion of dividend income.

## Don't Go It Alone

In today's world of instant and often conflicting market news, it's all too easy to lose sight of your ultimate financial goals. This is especially true during periods of extreme short-term volatility. Rather than try to cope with the market's ups and downs on your own, we encourage you to work closely with your financial advisor. In addition to helping you maintain a diversified portfolio, he or she can provide important guidance and support so you do not make ill-advised decisions that could derail your long-term objectives.



## Web World

### Put Your Mind to the Test

Be sure to invest some time reading all the new articles in the Investor Education section on our web site. The articles provide helpful information on a variety of subjects and most allow you to test your knowledge by taking a short quiz at the end.

The new articles listed below can be found at [mainstayinvestments.com/investored](http://mainstayinvestments.com/investored):

#### The Basics:

- **Common Stock Market Indexes –** Learn the difference between the S&P, Russell, and MSCI EAFE Indexes.
- **10 Money Mistakes Everyone Should Avoid –** Discover the most common investment mistakes and learn to avoid them.
- **What is an Expense Ratio? –** Learn the difference between mutual fund expenses and sales fees and commissions.
- **What is Return on Equity? –** Learn about and calculate this common investment evaluating tool.

#### Investment Strategies:

- **What are Growth Mutual Funds? –** Are these types of funds for you? Learn more and decide.
- **Using Mutual Funds to Invest in Foreign Securities –** Discover an easier way to invest in foreign securities.
- **Dollar Cost Averaging in Turbulent Times –** Smooth out the ups and downs of the market with dollar cost averaging.

#### Economy and Finance:

- **Economic Indicators –** Discover the most widely used measurements of U.S. economic health.
- **How Policies of the Federal Reserve Board Set Interest Rates –** The role of the Federal Reserve and its influence on the economy.



## New Investor Class Shares Effective February 28, 2008 *(continued)*

### Current Class A Shareholders

Depending on the size and type of your Fund account, shares will either:

- **Convert into Investor Class**

For shareholders with accounts under \$25,000 on a per Fund account level (\$10,000 in the case of IRA or 403(b)(7) accounts that are making required minimum distributions); and for all SIMPLE IRAs; regardless of account size.

These conversions are expected to be managed on a tax-free basis and occur automatically on or about March 28, 2008, for most MainStay Funds, and on or about May 1, 2008, for MainStay ICAP Funds and all SIMPLE IRA shareholders. **OR**

- **Remain in the modified Class A**

For shareholders with accounts over \$25,000 on a per Fund account level; or for shareholders who invest in MainStay through certain broker-dealers, including AdviserOne, or retirement plans regardless of account size.

### Current Class B Shareholders

- Current Class B Shareholders remain in Class B.
- Under the existing conversion feature applicable to Class B shares generally held eight years, Class B shares will convert automatically to either Investor Class or Class A shares, depending on the Fund account size and other eligibility requirements at the time of conversion.

### Ongoing Conversions

During automatic *quarterly* conversions, MainStay will convert any Investor Class shares to Class A shares when the Fund account balance exceeds the \$25,000 Class A minimum or if the Fund account otherwise becomes eligible to invest in Class A shares.

It's important to also note that during *semi-annual* automatic conversions, MainStay will convert any Class A shares to Investor Class shares when the Class A Fund account balance falls below the \$25,000 minimum (\$10,000 in the case of IRA or 403(b)(7) accounts that are making required minimum

distributions) or if the Fund account otherwise becomes ineligible to invest in Class A shares. Class A shares held in accounts falling below the minimum investment amount due to shareholder action (e.g., redemptions and exchanges) will be converted to Investor Class shares, unless otherwise qualified to hold Class A shares. In addition, and unless otherwise qualified to hold Class A shares, Class A accounts falling below the minimum investment due solely to market fluctuations may be converted to Investor Class shares.

These ongoing conversions are expected to be managed on a tax-free basis.

### For More Information

For additional details about our new Investor Class shares, changes to Class A share class eligibility, and the automatic conversion between these share classes, please read the prospectus dated February 28, 2008. If you have any questions, please contact your financial advisor or call us directly at 800-MAINSTAY (624-6782), option 2, from 8:00 a.m. to 6:00 p.m. eastern time any business day.



Winner of the 2007  
**DALBAR** Service Award

800-MAINSTAY (624-6782)  
mainstayinvestments.com



**Please call 800-624-6782 for a prospectus. Investors are asked to consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus contains this and other information about the investment company. Please read the prospectus carefully before investing.**

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