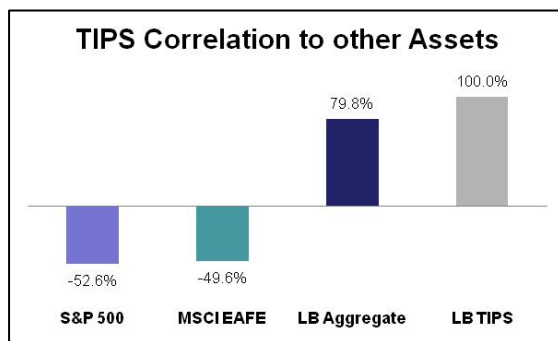




Using TIPS to diversify
Prepared by Frank Wan & Sidney Taylor
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Treasury Inflation Protected Securities (TIPS) are a U.S Treasury instrument that is indexed to inflation by way of an adjustable par value. TIPS are safe from a credit standpoint, but can experience modest negative returns during periods of disinflation. This asset class is a nice diversifier, having a negative correlation to stocks.



The U.S. economy is experiencing falling core inflation, but rising overall inflation. The housing sector decline has muted core inflation, while higher fuel and food prices (not included in the core number) have lifted the consumer price index, which rose 0.7% in May; the fastest monthly increase since 2005. Energy costs were up 5.4% in a single month. TIPS have performed better than bonds since January 2007, due to a rising CPI.

The chart below compares the cumulative performance of the Lehman TIPS index to stocks and bonds. TIPS experienced excellent performance since 1997, a period which captures both the large equity market increases during the late 90's and the declines during 2000-2002.

