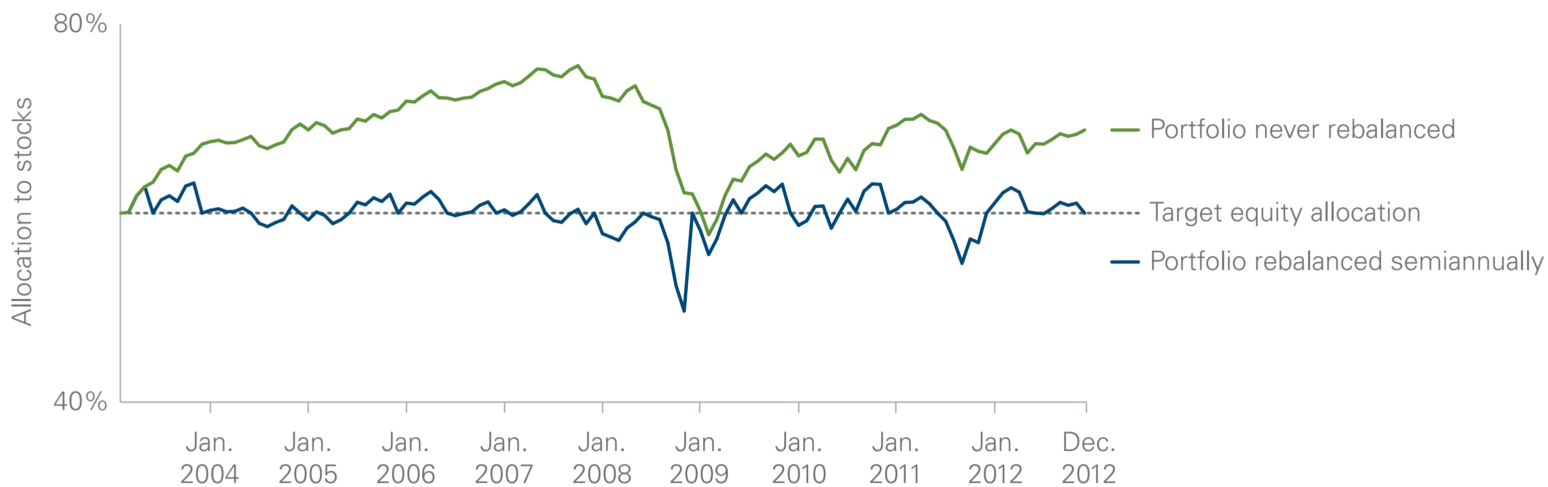
Why rebalance? Because it can reduce your portfolio's volatility.

Over time, movements in the market can cause your mix of investments to become riskier than we intended.

This illustration compares two portfolios. The green portfolio is never rebalanced and drifts away from its intended allocation of 60% stocks, making it more risky. The blue portfolio is regularly rebalanced, helping keep risk in check.

Changes in stock exposure for a rebalanced portfolio and a "drifting portfolio"



Notes: The initial allocation for both portfolios is 42% U.S. stocks, 18% international stocks, and 40% U.S. bonds. The rebalanced portfoliois returned to this allocation at the end of each June and December. Returns for the U.S. stock allocation are based on the Dow Jones Wilshire 5000 Index through April 2005 and on the MSCI US Broad Market Index thereafter. Returns for the international stock allocation are based on the MSCI All Country World Index ex USA, and returns for the bond allocation are based on the Barclays U.S. Aggregate Bond Index.

Source: Vanguard, using data provided by Thomson Reuters Datastream.

Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index. All investing is subject to risk, including possible loss of principal.

The bottom line:

When asked to choose between higher returns or lower risk, most investors chose to reduce their risk. That's why rebalancing is so important.