

advance

The Advance is published quarterly for shareholders of AllianceBernstein Mutual Funds

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Follow Your Head, Not Your Heart

Why do so many smart, responsible investors make decisions about their investments that undermine their goals? That's a question economists and psychologists have been pondering for the past 30 years.

This field of study, called behavioral finance, seeks to develop a framework to explain why people make the decisions they do about their money. Behavioral finance specialists recognize that investors often know and understand the fundamental rules of investing. Yet, many investors ignore these basic concepts when it comes to making decisions about their own investments – mostly because they tend to follow their heart, rather than listening to their head.

There are many reasons why investors make counter-productive decisions. Let's examine three of them, along with some suggestions on how to avoid these investing pitfalls.

1.) Loss Aversion

In simple terms, loss aversion is about the pain we experience when we lose money. For most investors, it's a much



bigger deal to lose money, than it is to make money. It's human nature to fear the pain of a loss more than feel attracted to a possible gain, especially if the gain is not guaranteed.

This is a primary reason why many investors defy the conventional wisdom to "buy low and sell high". The pain of having an investment that has had recent poor performance can become intolerable. So, to eliminate the pain of ownership, the investor sells at what could be the worst possible time.

(continued on page 2)

Investment Products Offered

- Are Not FDIC Insured
- May Lose Value
- Are Not Bank Guaranteed

On February 24, 2006, Alliance Capital changed its corporate name to AllianceBernstein. We feel that the new name better reflects the shared mission and values that form the foundation of our firm, and recognizes the success of the combination of Alliance and Bernstein over the past five years. Of course, what will not change are the principles at the heart of everything we do—our focus on the client, our dedication to research and our pursuit of investment excellence.

(continued from page 1)

No one likes to lose money. But as investors, we know that we have to assume some risk if we are going to achieve results over the long term. Behavioral finance experts demonstrate that most people have a disproportionate preference for stable investments.

Overcoming Loss Aversion

- Try not to over react to losses or make impulsive investment decisions
- Stay focused on the timeless principles of investing (put your head in charge of your heart)
- Establish a disciplined rebalancing strategy to help you buy and sell at more appropriate times, for example, when your investment portfolio becomes “unbalanced,” not when you discover a loss. Systematic rebalancing allows you to trim investments in top-performing assets and reinvest in other assets that have not performed as well.

2.) Tunnel Vision

Many investors look at the performance of individual components of their portfolio rather than looking at the whole. This tunnel vision, or narrow framing, encourages investors to focus on specific dangers, rather than the “big picture.” As a result, they shed their portfolio of losers—thus, deconstructing their original asset allocation.

However, if an investment portfolio is properly diversified, some parts of the portfolio will tend to lag at any given time, while others will probably flourish. A well-diversified portfolio is composed of many portfolios that are all capable of doing well over time, but not necessarily at the same time.

Overcoming Tunnel Vision

- Ensure your investment portfolio is well-diversified and accept the fact that there will likely be a part of the portfolio that does well and a part that underperforms
- Think about an asset allocation portfolio or a life cycle fund which will allow you to focus on the “big picture.” These portfolios come “pre-packaged” with a set mix of investments that change over time. For example, the typical life cycle fund contains more stocks when an investor is young and automatically migrates to more bonds over time as an investor reaches retirement age and wants to preserve the value of his or her investment.
- Establish a disciplined rebalancing strategy

3.) Inappropriate Extrapolation

Today, we have access to more information about our investments than ever before. Many investors assume that all this information can help them become better informed, so they can make better investment decisions. However, sometimes the opposite occurs. For some people, looking at investment performance monthly, weekly, or even daily can hamper their ability to make good choices.

Inappropriate extrapolation is about using data from the recent past and projecting it out to the future immediately. For example, if the market was down yesterday, an investor may tend to be overly pessimistic about the markets in the future. Focusing on interim and sometimes volatile changes

can undermine investor confidence, and the investment becomes less appealing.

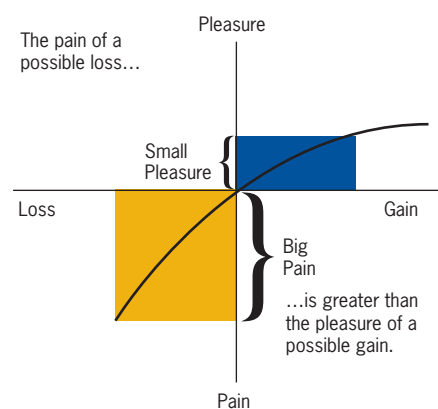
Overcoming Inappropriate Extrapolation

- Adopt a longer-term perspective and avoid seeking out market patterns that may not really exist
- Understand your long-term investment plan...and stick to it
- Remind yourself of the importance of thoughtful decision making

Remember, when it comes to investing, it's not what you know, it's what you DO that counts. Successful investing isn't even about the right fund, the right stock, or the right time to buy and sell...it's about the right plan, and just as important, the right mix of investments.

To learn more about asset allocation and the importance of having the right mix of investments, speak with your financial advisor, or visit our web site at www.therightmix.com. ■

Loss Aversion—Decisions Based on Fear



The information provided in this article is for educational purposes only and should not be construed as investment advice. Please consult your financial advisor for tailored investment guidance based on your risk tolerance and financial situation.

The Value of Value

The Value of Value

On March 29, 2006, the AllianceBernstein value funds celebrated their fifth anniversary. These funds have provided our shareholders with a research-driven, style-pure value strategy, which we believe is most effective in diversified, systematically rebalanced investment strategies. Simply put, that means ensuring your investment portfolio is properly diversified and rebalanced regularly.

Five Very Successful Years

As noted on the cover, in February of this year, we adopted AllianceBernstein as our overall corporate identity. This move may not appear significant. To us, however, it's a reaffirmation of the successful union of two respected investment organizations founded on research and disciplined portfolio construction. As a result of the merger, Bernstein's long-respected value service was made available to mutual fund investors for the first time. The funds' celebration of their five-year tenure mirrors the success of our organization.

Research Matters

Our value funds' success also validates the effectiveness of global research applied within a disciplined investment process. Fundamental stock research helps our value team identify attractively valued companies, while our quantitative research develops new analytical tools and frames the investment process. Research is equally important in designing diversified long-term investment strategies to help investors achieve their goals. One of the timeless principles that we employ is balancing growth and value stocks. Value stocks are important, but only as part of a diversified strategy.

Is Too Much Value a Good Thing?

The historic value run of the last five years has certainly benefited many investors, but it may well have upset your investment portfolio's style balance, particularly if you've failed to rebalance systematically. Even pronounced style cycles eventually come to an end. If your portfolio is now substantially overweight in value stocks, you may be leaving yourself vulnerable should growth stocks return to favor.

Getting Portfolio Construction Right

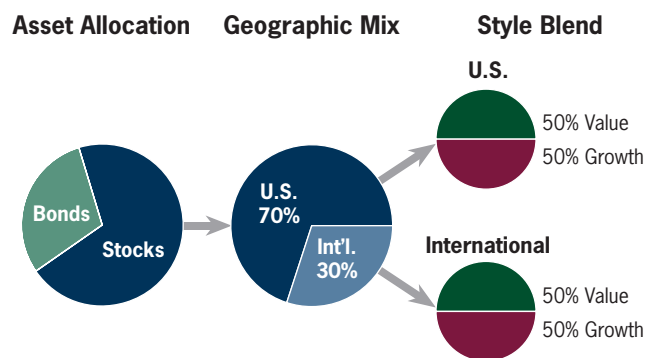
As mentioned in the article on page 2, when it comes to investing, it's about the right plan, and just as important, the right mix of investments. Building an effective investment portfolio means including multiple levels of diversification, not just between stocks and bonds, but also by geography and style within equities. Our research has shown that, to take advantage of global opportunities and achieve the optimal risk/return trade-off, investors

should allocate roughly 30% of their equity exposure to the international markets. Additionally, within the U.S. and international segments, we suggest equal 50% allocations to both growth and value investment styles. You should consider reviewing your current asset allocations for style imbalances and to restore, maintain, or create style balance as appropriate. This may mean adding or increasing your exposure to growth stocks.

Please be mindful that investments in international securities include risks not associated with investment in U.S.-based securities, including changes in foreign exchange rates and the possibility of substantial volatility due to political and economic uncertainties in foreign countries.

Since everyone's personal situation and risk tolerance is different, we suggest that you speak with your financial advisor to discuss the appropriate asset allocation for you. ■

A Proven Hypothetical Portfolio Construction Approach*



*These suggestions are hypothetical only. The asset allocation that is right for each individual will vary. Diversification alone does not protect against investment loss.

Capital Markets Outlook: The End of a Cycle?

Evaluating the prospects for capital markets means facing uncertainty, and this may tempt some investors to remain on the investing sidelines. With this outlook, we apply our global research effort to identify and explain important market developments and investment opportunities. By doing so, we hope to help you become better informed and, as importantly, remain invested in the face of uncertainty.

Non-U.S. Equities Led in 2005

We begin 2006 with a decidedly optimistic tone in the equity markets, but we're also faced with headlines speculating that 2006 could mark the end of a cycle—for corporate profits, economic growth, and Federal Reserve policy tightening. There is some merit to these arguments, but our outlook—while less robust than in the past year—is still positive, especially globally. And while the worries have changed, our investment prescription has not.

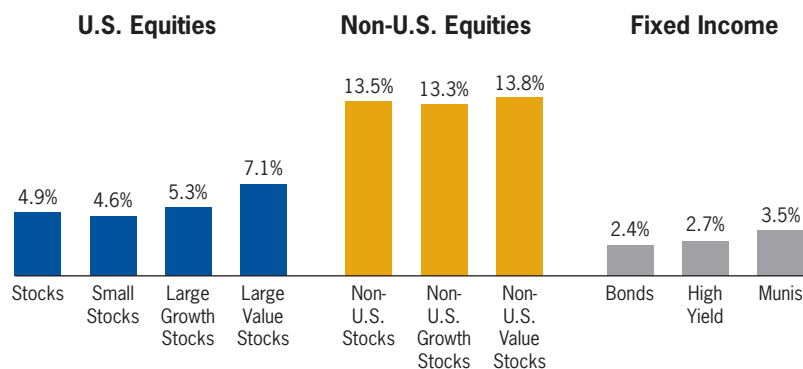
The strength of non-U.S. stocks remained the main story in 2005: International stock returns were almost triple the S&P 500 Stock Index despite a strengthening dollar. As in the U.S., value stocks managed to maintain a slight edge over growth stocks. Bond market returns for the year were modestly positive.

(See Display 1)

Global Economic Growth Rates to Normalize

Evidence is mounting that the U.S. economy is slowing while other economies, especially those of Japan and Europe, are finally beginning to show signs of sustainable life.

Display 1
Non-U.S. Equities Outpace in 2005



As of December 30, 2005

Past performance does not guarantee future results.

Sources: Standard & Poor's, MSCI, Merrill Lynch, Russell Investment Group, Lehman Brothers

The following unmanaged indices are represented in the chart. None of the indices reflect fees and expenses associated with the active management of a mutual fund portfolio. Stocks: S&P 500 - includes 500 U.S. stocks and is a common measure of the performance of the overall U.S. stock market. Small-cap stocks: Russell 2000 Index - a capitalization-weighted index that includes 2,000 of the smallest stocks representing approximately 10% of the U.S. equity market. Large-cap growth stocks: Russell 1000 Growth Index - measures the performance of those Russell 1000 companies with greater-than-average growth orientation. Large-cap value stocks: Russell 1000 Value Index - measures the performance of those Russell 1000 companies with a less-than-average growth orientation. Non-U.S. Stocks: MSCI EAFE Index - a market capitalization-weighted index that measures stock market performance in 21 countries in Europe, Australasia and the Far East. Non-U.S. Growth Stocks: MSCI EAFE Growth Index - a free float-adjusted market-capitalization index that is designed to measure developed market growth equity performance in 21 countries, excluding the U.S. and Canada. Non-U.S. Value Stocks: MSCI EAFE Value Index - a free float-adjusted market-capitalization index that is designed to measure developed market value equity performance in 21 countries, excluding the U.S. and Canada. Bonds: Lehman Brothers U.S. Aggregate Bond Index - covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage passthrough securities, asset-backed securities and commercial mortgage-backed securities. High Yield Bonds: Merrill Lynch High Yield Index - tracks performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Munis: Lehman Brothers Municipal Index - a total return performance benchmark for the investment-grade, tax-exempt bond market. An investor cannot invest directly in an index, and its results are not indicative of the performance for any specific investment, including any AllianceBernstein mutual fund.

U.S. Consumer is Facing Cash Flow Crunch

American consumers appear to be in a less robust position than in the past, and there are two main reasons: rising energy costs have taken a larger bite from consumers' disposable income and rising interest rates are similarly dampening spending.

While the consumer is likely to take a step back, the other contributors to gross domestic product (GDP) are making up most of the difference. The next largest component, the corporate sector, is substantially increasing its contribution to economic growth. Corporate spending, which gained significant momentum in 2005, should remain strong in the coming year.

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International Markets Are Still Compelling

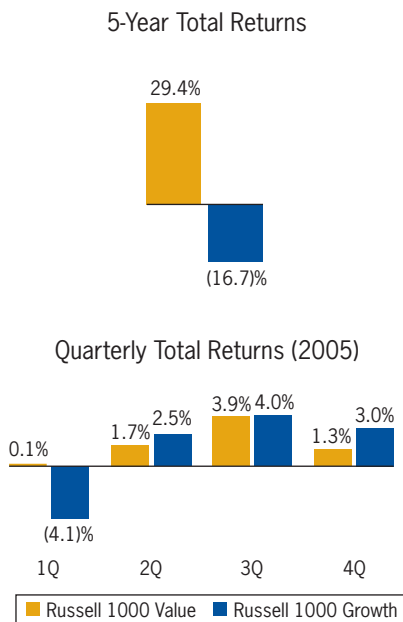
Economic growth is surprisingly strong in developed markets like Europe and Japan and remains strong in emerging markets. This impressive growth argues for a continued investment in international stocks, even after their recent outperformance.

Rebalancing into Growth Is a Strategic Imperative

For the past five years, value stocks have outperformed growth stocks by nearly 50%. (See Display 2) Even worse, since there's nothing investors hate more than

Display 2

Has the Style Cycle Turned?



As of December 30, 2005

Past performance does not guarantee future results.

Source: Russell Investment Group

None of the indices reflect fees and expenses associated with the active management of a mutual fund portfolio.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with greater-than-average growth orientation. The Russell 1000 Value Index measures the performance of those Russell 1000 companies with a less-than-average growth orientation. An investor cannot invest directly in an index, and its results are not indicative of the performance for any specific investment, including any AllianceBernstein mutual fund.

losses, is that value stocks have risen nearly 30% and growth stocks have remained in negative territory during this time period. Although the value cycle appears to be relentless, if history is a guide, leadership will eventually change and growth stocks should come back into favor.

Our investment strategy for investors is to rebalance into growth stocks, a message we've been delivering consistently for 18 months. In our view, it's a strategic imperative that investors maintain an equal weighting between value and growth styles in the equity portion of their portfolios.

Low Rewards for Risk Taking in Fixed Income

What about bonds? In today's market environment, we see little or no reward for taking on the risk of investing in longer maturity bonds. Since investors are not being compensated for maturity risk in bonds, they are seeking that compensation elsewhere. This stampede for yield has bid bond prices up, and yield spreads (which compensate investors for assuming additional risks) are very low for the higher risk areas of the credit markets. Spreads are also historically low for emerging market bonds, but here the market appears to be less cyclical.

Fortunately, there is one fixed-income asset class that offers attractive yields: municipal bonds. In addition to offering attractive overall yields, municipal bonds appear very attractive by historical standards when their yields are compared to those of Treasury bonds with comparable interest-rate sensitivity. Municipal bonds are the only fixed-income asset class, other than emerging market bonds, in which we're maintaining an overweight position,

Summary

- > Non-U.S. equities led performance in 2005
- > Global economic growth rates to normalize in 2006
- > International markets are still compelling
- > Rebalancing into growth is a strategic imperative
- > Low rewards for risk taking in fixed-income markets
- > Diversification by asset class and style remains paramount

at least for our taxable clients. As for the rest of the fixed-income market, we remain cautious.

This information reflects the views of AllianceBernstein Investments Inc., and sources believed to be reliable. No representation or warranty is made concerning the accuracy of any data compiled herein. In addition, there can be no guarantee that any projection, forecast, or opinion in this material will be realized. The views expressed herein may change at any time. ■

AllianceBernstein Investor Services

Daily Confirmation Statements No Longer Available

To help reduce fund operating expenses and assist you in consolidating your investment paperwork, we are no longer providing daily confirmation statements for investments made through an automatic investment plan (AIP). These transaction confirmations are now referenced on your quarterly account statement. If you would like to view your account activity more frequently, you can access your account via our web site at www.alliancebernstein.com.

New Service Offered

As a result of feedback received from our shareholders, we are pleased to offer you the following new service. If you are redeeming fund shares from more than one account or fund that have been established as an ACH (automated clearing house redemption to your bank) on the same day, you now have the option of receiving those proceeds in one lump sum, rather than as separate transactions. If you would like to take advantage of this service, please contact one of our Client Service Representatives at (800) 221-5672.

Fund Name Changes

On February 1, 2006, Americas Government Income Trust was renamed Global Government Income Trust and Quality Bond Portfolio was renamed Intermediate Bond Portfolio.

For a prospectus on any of the AllianceBernstein mutual funds, which includes complete information about investment objectives, policies, sales charges, expenses, risks and other matters of importance to investors, contact your investment dealer, visit our web site at www.alliancebernstein.com or call us at (800) 227-4618. You should read the prospectus carefully before you invest.

AllianceBernstein Investments Inc., is an affiliate of AllianceBernstein L.P., the manager of the funds, and is a member of the NASD.

Getting in Touch

Online Fund and Account Information

www.alliancebernstein.com
www.collegeboundfund.com

Why Asset Allocation Matters

www.therightmix.com

Account Information by Phone

AllianceBernstein Answer
(mutual funds, IRAs,
CollegeBoundfund® accounts)
(800) 251-0539

AllianceBernstein Answer
(group retirement accounts)
(800) 932-2530

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CollegeBoundfund

8:30 am–7:00 pm Eastern Standard Time
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Retirement Plans

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