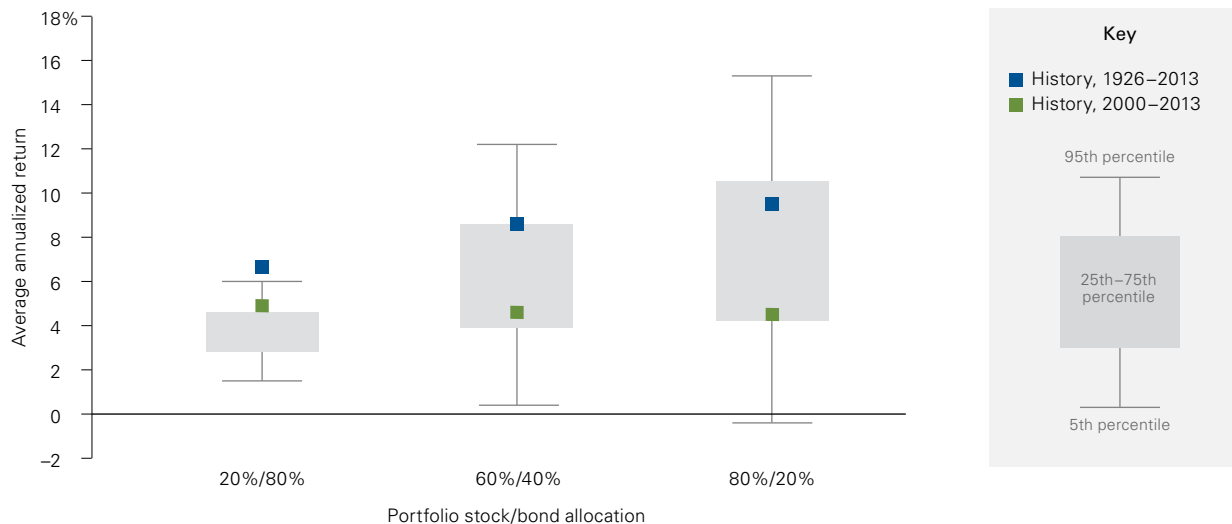


Setting realistic expectations for portfolio returns

Lower expected bond returns suggest lower returns for balanced portfolios

Range for projected nominal annualized returns over next ten years



- Current yields can be a rough indicator of bond returns over the long run. Given current low yields, total annualized returns over the next decade may be in the 1% to 2% range, offsetting stock market returns that may be closer to their historical average.
- The outcome for a bond-heavy portfolio is projected to underperform its historical average. Returns for an equity-heavy portfolio are projected to be better than the historical returns for such a portfolio from 2000 through 2013 but below historical returns over the long term.
- Financial advisors can play an important role when balancing risk and return to meet your financial objectives. Consult your advisor to learn more.

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. Percentile distributions were determined based on results from the Vanguard Capital Markets Model® (VCMM). For each portfolio allocation, 10,000 simulation paths for U.S. and international equities and bonds were combined, and the 5th, 25th-75th, and 95th percentiles of return results are shown in the box and whisker diagrams. For the exact percentile breakdowns, see the table on the back.

The equity returns represent 100% U.S. equities through 1969 and a blend of 70% U.S. equities and 30% international equities, rebalanced monthly, thereafter; bond returns represent 100% U.S. bonds through 1984 and a blend of 80% U.S. bonds and 20% international bonds, rebalanced monthly, thereafter. For U.S. bond market returns, we used Standard & Poor's High Grade Corporate Index from 1926 through 1968, Citigroup High Grade Index from 1969 through 1972, Lehman Brothers U.S. Long Credit AA Index from 1973 through 1975, and Barclays U.S. Aggregate Bond Index thereafter. For U.S. stock market returns, we used S&P 90 Index from 1926 through March 3, 1957; S&P 500 Index from March 4, 1957, through 1974; Dow Jones Wilshire 5000 Index from 1975 through April 22, 2005; and MSCI US Broad Market Index thereafter. For international stock market returns, we used MSCI World ex USA Index from 1970 through 1987 and MSCI All Country World Index ex USA thereafter. For international bond market returns, we used Citigroup World Government Bond Ex-U.S. Index from 1985 to January 1989 and Barclay Global Aggregate ex-USD Index thereafter. Please see additional information and disclaimers on the back of this brief. For more information on this topic, see the Vanguard paper *Vanguard's economic and investment outlook* (Davis, Aliaga-Diaz, Thomas, Patterson, 2014).

Percentile breakdown of the box-and-whiskers plots on reverse side

	Stock/bond allocation		
	20%/80%	60%/40%	80%/20%
Bottom 5th percentile	1.5%	0.4%	-0.4%
25th percentile	2.8	3.9	4.2
75th percentile	4.6	8.6	10.5
Top 95th percentile	6.0	12.2	15.3
Actual U.S. return, 1926–2013	6.6	8.6	9.5
Actual U.S. return, 2000–2013	4.9	4.6	4.3

For more information about Vanguard funds and ETFs, please contact your financial advisor to obtain a prospectus. Investment objectives, risks, charges, expenses, and other important information about a fund are contained in the prospectus; read and consider it carefully before investing.

All investing is subject to risk, including the possible loss of the money you invest. Bond funds are subject to the risk that an issuer will fail to make payments on time and that bond prices will decline because of rising interest rates or negative perceptions of an issuer's ability to make payments. Investments in bond funds are subject to interest rate, credit, and inflation risk. Investments in stocks and bonds issued by non-U.S. companies are subject to risks including country/regional risk and currency risk. Diversification does not ensure a profit or protect against a loss. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income.

IMPORTANT: The projections or other information generated by the Vanguard Capital Markets Model (VCMM) regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. VCMM results will vary with each use and over time.

The VCMM projections are based on a statistical analysis of historical data. Future returns may behave differently from the historical patterns captured in the VCMM. More important, the VCMM may be underestimating extreme negative scenarios unobserved in the historical period on which the model estimation is based.

The VCMM is a proprietary financial simulation tool developed and maintained by Vanguard's Investment Strategy Group and the Investment Counseling & Research group. The VCMM uses a statistical analysis of historical data for interest rates, inflation, and other risk factors for global equities, fixed income, and commodity markets to generate forward-looking distributions of expected long-term returns. The asset-return distributions shown are drawn from 10,000 VCMM simulations based on market data and other information available as of November 30, 2013.

The VCMM is grounded in the empirical view that the returns of various asset classes reflect the compensation investors receive for bearing different types of systematic risk (or beta). Using a long span of historical monthly data, the VCMM estimates a dynamic statistical relationship among global risk factors and asset returns. Based on these calculations, the model uses regression-based Monte Carlo simulation methods to project relationships in the future. By explicitly accounting for important initial market conditions when generating its return distributions, the VCMM framework departs fundamentally from more basic Monte Carlo simulation techniques found in certain financial software.



Vanguard Financial
Advisor Services™

P.O. Box 2900
Valley Forge, PA 19482-2900

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