



INVESTMENT REPORT FOR PLAN PARTICIPANTS

Rethinking Your Risk Tolerance

Most decisions you make about investments are really about risk — the amount of possible loss in value you're willing to accept in exchange for potential growth. To choose an investment, you have to be comfortable with its associated risk. But your appetite for risk doesn't necessarily stay the same the entire time you're saving for retirement.

- **Your account balance may have grown.** With greater assets at stake, you may be more reluctant to risk future losses in a declining market, especially if you are nearing retirement.

- **You may realize you'll need more retirement income than you previously estimated.** If you want to have a realistic chance of achieving your new goal, you may be willing to consider investments that will increase your overall risk.

- **You may have learned more about investing.** Greater familiarity with the securities markets may have made you more — or less — comfortable with investment risk and the volatility of the investment markets.

Key Questions

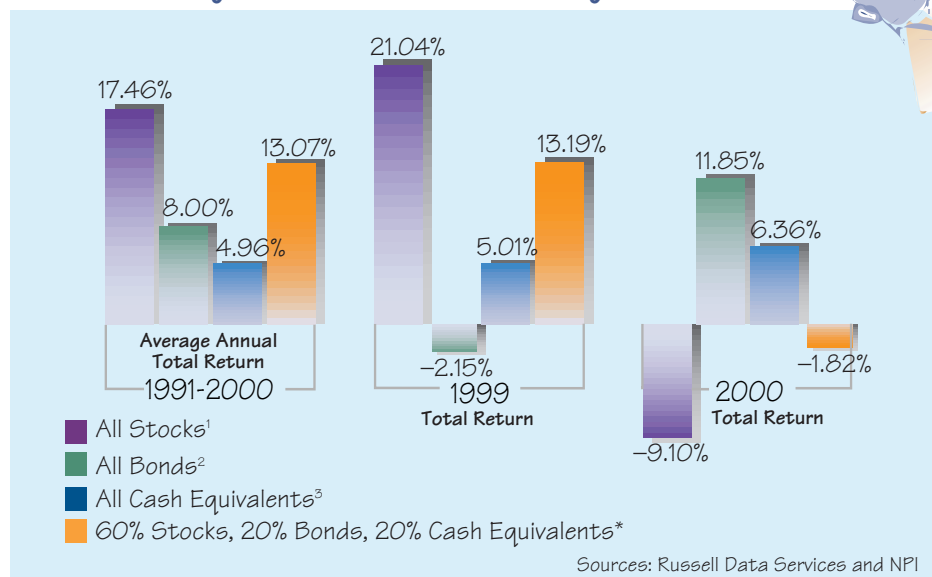
If you want to reexamine your risk tolerance, you might begin by asking yourself:

How long will it be before I'll need to draw on my investments? Do I have enough time to be able to ride out a major market downturn?

The longer the period you have to invest, the greater the chances you'll have enough time to recover from the current — and inevitable future — market declines. That might make a high-risk fund or portfolio an acceptable choice at age 35, for example, but not at age 60.

If you're seeking higher returns and are willing to accept more risk to get there, be sure you're mentally prepared to hit some bumps along the way. Your potential returns may be higher, but so are the chances that your investments' value may drop at unpredictable times. Remember, if investing for retirement is still a long-term effort for you, don't let short-term thinking about market volatility sidetrack your investment strategy.

Diversifying into Different Asset Types May Reduce Overall Volatility



Investments measured by: ¹S&P 500 Index, an unmanaged index of the stocks of 500 major corporations; ²Lehman Brothers Government/Credit Bond Index, an unmanaged index of investment grade corporate and government bonds with maturities of one year or more; ³Merrill Lynch 3-Month T-Bill Index, an unmanaged index that measures returns of three-month Treasury Bills.

*This is a sample asset mix for illustrative purposes only. Past performance does not guarantee future results. Your investment returns will be different. Investment cannot be made in an index.

Manage Your Cash To Increase Income or Savings

Do you usually get a large federal income-tax refund? A big check once a year might be good, but you may find that increasing your take-home money every payday is even better.

Overwithholding

The usual cause of a big tax refund check from the IRS is overwithholding. If you have more taxes than are necessary taken from your pay, it's easy to build up a nice surplus for yourself beyond the amount you owe on April 15. (Moreover, for 2001, the U.S. Government is giving you a tax rebate — \$600 for joint filers and \$300 for single filers — which you should receive by October.)

While a big refund check may seem like found money, you have really let the IRS use your money *interest free* for many months. Why should you wait so long for the use of your own money when you don't have to? If you've been getting large refunds, you can easily reduce the amount being withheld from your pay. Just talk to your payroll department. Less withholding will mean

more net pay every payday.

A Contribution Increase

One good way to use part or all of a net pay increase (or tax rebate) would be to contribute more money to your retirement savings plan. Even a 1% of pay increase may make a substantial difference in your balance by the time you retire. Here's a hypothetical example. Assume you start contributing 5% of a \$25,000 annual income (\$1,250 a year/\$104.17 a month) at age 25 and earn a 7% average annual investment return compounded monthly until you retire at age 65. Your account balance would grow to \$273,427. But if you contributed 6% (\$1,500 a year/\$125 a month) instead of 5%, your future balance would be \$54,675 larger (a 20% increase)!

Of course, your investment returns will vary, and your pay may not stay the same. But increasing your contribution is clearly beneficial, no matter how long you have before retirement. And if you take the increase out of your tax overwith-

holding, you probably won't even miss the money.

Use Your Extra Paydays

If you're looking for another easy source of added cash, think about taking advantage of your extra paydays. Look at a calendar. If you're paid every week, you'll notice that every third month has five paydays instead of four. An extra payday comes every sixth month if you're paid every other week.

What difference does an extra payday make? You're used to handling all your monthly obligations — rent or mortgage payments, car loan payments, credit card payments, utilities, etc. — with two or four paychecks a month. So, when a month with an extra payday comes along, you shouldn't need the extra money to make monthly payments. That means the money is available for other uses, such as special purchases and savings. It's a good idea to plan ahead so that when an extra payday comes, you'll make the best use of your extra cash.

Round and Round — the Business Cycle

Like the year's four seasons, changes in the U.S. economy follow a succession of different phases — expansion, prosperity, contraction, and recession — collectively called the *business cycle*. But unlike the seasons, no one knows when each part of a cycle will begin or how long it will last.

Expansion and Prosperity

When business and consumer spending starts to rise after a period of decline, it's *economic spring*. The expansion lowers unemployment, interest rates, and inflation. As the economy moves into its prosperous

economic summer, company profits and jobs grow strongly. Prosperity means rising confidence about employment, income, and the ability to carry debt. And that confidence extends to the stock market.

Contraction and Recession

Some time later, the economy's high summer begins to chill, and it enters a period of contraction. Fewer new jobs are created in the *economic fall*. Unemployment, inflation, and interest rates rise. Businesses find sales growth harder to achieve, and falling employment causes anxiety about jobs and the future in general.

Higher interest rates make it harder for businesses to borrow, and consumers hesitate to take on more debt. When economic contraction continues for six months, the economy is in a recession. This *economic winter* is a time of weakness in employment, industrial production, income, and sales. Generally, stocks begin to drop even before the economy starts to contract, and poor general economic conditions cause stock prices to stay low.

But economic spring eventually begins again when business activity and spending start to revive. Usually, the stock market begins its recovery even before the economy.

Danger — Don't Touch

Withdrawing from your retirement plan account before you retire could be a lot like putting your hand on a hot frying pan. You may be burned badly by the damage you'll do to your financial future.

Depending on your plan's provisions, it may be possible to withdraw money early for a necessity or to borrow from your account. And you can withdraw and use all of your retirement money if you change employers. But these are options you'd be wise to pass up.

Looking at the Costs

Tapping retirement money early

can "burn" you in two ways — out-of-pocket expenses and lost growth.

Most retirement money is tax-deferred only while it is in your plan account. After that, it's taxable income — hence, the potential out-of-pocket cost. (Loans aren't taxed.) A 10% tax penalty may also be due on the withdrawal (*distribution*). These costs don't apply if you roll over the distribution into another tax-sheltered retirement plan, such as an IRA or another employer's plan. If you are past age 59½ or if you leave your employer after age 55, no 10% penalty is assessed. A few other

exceptions are also allowed.

Lost Growth Opportunity

The long-term effect of an early withdrawal may be much worse than the out-of-pocket expenses because you give up the opportunity for future tax-deferred growth. Assume, for example, that you change jobs at age 50 and use a \$25,000 retirement plan distribution to buy a new car. If the money had stayed in your plan account instead and earned a hypothetical 7% average annual total return, it would have grown to \$71,224 by age 65!

How Ready Will You Be To Retire?

You don't have to be a financial expert to plan ahead for your retirement. But you do need to answer a few key questions. The more "yes" answers you can give to the following questions, the better prepared you'll be for your retirement.

Social Security

Do you have an estimate of your Social Security benefit? You need to determine whether the combined total of your retirement income from all sources will be enough to meet your needs. Social Security will be an important part of your retirement income — your Social Security benefit will continue as long as you live, and it will be indexed to keep pace with future inflation. While the Social Security program's long-term financial future is not certain, Congress is unlikely to leave senior Americans in the lurch.

Other Pension Money

Do you know how much income you can expect from any employer's retirement plan you may be eligible for? If you have participated in a defined benefit pension plan, you should ask the plan's administrator for an estimate

of the amount of income you can expect. As with Social Security, your age when you begin receiving benefits will affect the amount of your pension benefit.

Your Savings

Have you estimated the amount of savings you'll need to supplement your other retirement income? In other words, do you have a savings goal? Your savings will have to fill any gap between the retirement income you'll need and the amount you expect to receive from Social Security plus any employer's pension. "Savings," here, should include both the money in your tax-deferred retirement savings account and any other savings you may have.

Your Investments

Do you have an investment strategy to reach your savings goal? Compounding investment returns may account for more and more of your overall portfolio growth the longer your money is invested. Past investment performance never predicts the investment future. However, some investment types have a history of higher long-term returns — along

with higher levels of risk or potential losses — than other types. You need a strategy that balances the potential long-term returns of your investment mix with your individual tolerance for risk.

Your Retirement Plan Contributions

Are you contributing enough to your retirement savings plan to achieve your goal? Future investment returns are unpredictable. So, there's no sure way of knowing whether a certain contribution amount will do the job. But you certainly can project — using growth calculators that are readily available on the Internet or other resources — what your investment outcome may be, using any combination of contribution and investment return you want to assume.

While there's no guarantee, estimating your possible growth may help you decide whether your present contribution amount gives you a realistic chance of reaching your goal. If not, you may want to reconsider either the amount you are saving or your investment mix — or both.

Fun with Money: A Two-minute Test

Money may not be your idea of a fun subject — until you try having fun without it. Here are a few simple questions that will test your grasp of financial facts. There's no waiting for your score; you'll find the right answer after each question.

What Does Buying a Stock Mean?

- You lend the company some of your money.
- You'll have to help if the company doesn't pay its taxes or other debts.
- You own a tiny part of the company.
- Someday the company will give your money back plus interest.

Answer: You're a part owner of the company.

What Was the Average Annual Return of U.S. Stocks between 1950 and 2000?

- 8%
- 13%
- 18%
- 23%

*Answer: 13%. Going back longer — 1926 through 2000, the return was 11%.**

What Happens When You Buy a Bond?

- The value of your investment won't ever change.
- You lend the bond's issuer some of

your money, and they promise to pay it back with interest.

- Changes in interest rates won't affect your investment.
- Your investment is risk free.

Answer: You've made a loan that will pay you interest.

How Do the Returns of Stocks and Bonds Compare?

- Bonds always do better than stocks.
- Stocks always do better than bonds.
- Bonds usually beat stocks.
- Stocks usually beat bonds.

Answer: Stocks usually beat bonds, but not always. In some years (including 2000), bond returns were higher than stock returns.

What's the Best Way To Measure the Performance of an Investment Fund or Portfolio?

- Check its recent capital gains distributions.
- Compare its total return to a benchmark.
- Compare its yield to the yield of other investment types.
- Find out the amount of its income return.

Answer: Compare the total return to a comparable market benchmark over the same time period.

Good Strategy?

Do you think the following moves are good ways to build a retirement plan account balance?

- Bailing out of your investment in stocks solely because you see prices dropping
- Yes No

- Making investment switches that attempt to predict short-term changes in the market's direction
- Yes No

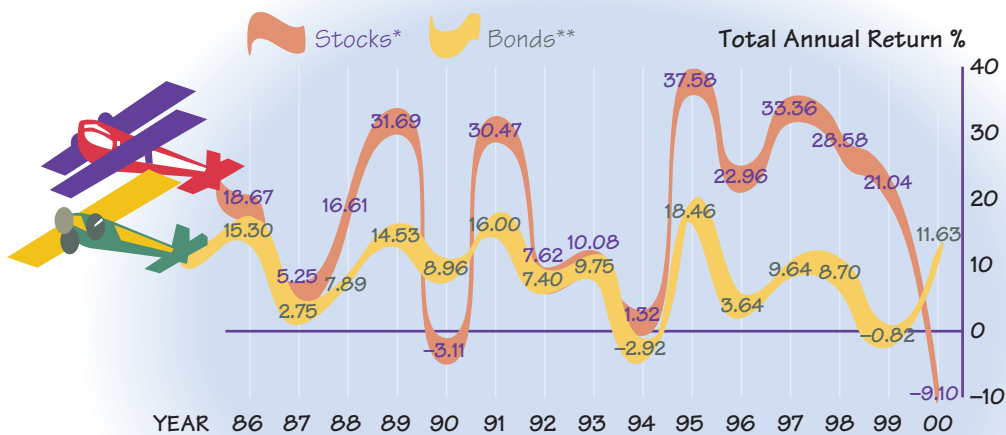
- Investing your entire account in just one type of security
- Yes No

- Expecting that investment history will repeat
- Yes No

- Periodically tracking your account growth
- Yes No

Just one of these is a smart move for a retirement plan investor — tracking growth to see how well you're moving toward your long-term goal.

Stock vs. Bond Returns over the Last 15 Years



*Stocks measured by the S&P 500 Index, an unmanaged index of the stocks of 500 major corporations.

**Bonds measured by the Lehman Brothers Aggregate Bond Index, an unmanaged index of U.S. government, corporate, and mortgage-backed securities with maturities up to 30 years.

No investment's past performance predicts its future returns.

Source: Callan Associates

What's the Advantage of Using a Dollar-cost Averaging Strategy To Invest?

- You can buy at low prices and sell at high prices.
- It guarantees a profit on your investment.
- It protects against losses.
- You may cut your average per-unit (per-share) cost.

Answer: You may lower your average per-unit cost if you regularly invest the same amount, regardless of price fluctuations, through both rising and declining markets. But there's no guarantee you'll profit and no protection against a loss.

Understanding money and investing is important to you as a retirement plan investor. The more you know, the more likely you will avoid common investment mistakes.