



INVESTMENT REPORT FOR PLAN PARTICIPANTS

# How Many Investments Do You Need?

Your employer does some of the job for you by selecting the list of investment portfolios or funds available in your retirement plan. You take over to choose the investment mix for your account. Should you invest in all, some, or just one of your plan's options?

## Different Is Good

Faced with a choice, many investors simply assume that more is better. They put some money in each available option, hoping to benefit from possible gains and spread the risk of loss.

But more may not always be better. Here's why. Yes, investing in a mix of *different* types of securities, such as stocks, bonds, and money market securities, may reduce your overall risk. Like individual stocks, different types of securities may not perform in the same way under different market conditions. But owning more than one portfolio holding *the same type of security* has little or no effect on your overall risk. There's no advantage to duplicating investments. Also, the more portfolios you own, the less any one portfolio's potential gains would increase your overall return.

## Covering the Broad Range

Just three basic choices — a stock portfolio, a bond portfolio, and a portfolio of money market securities — may be enough to cover the range of securities types *without duplication*. But your plan may offer portfolios that invest in different categories of stocks, such as large company, midsize

## Recent Performance of Four Stock Classes

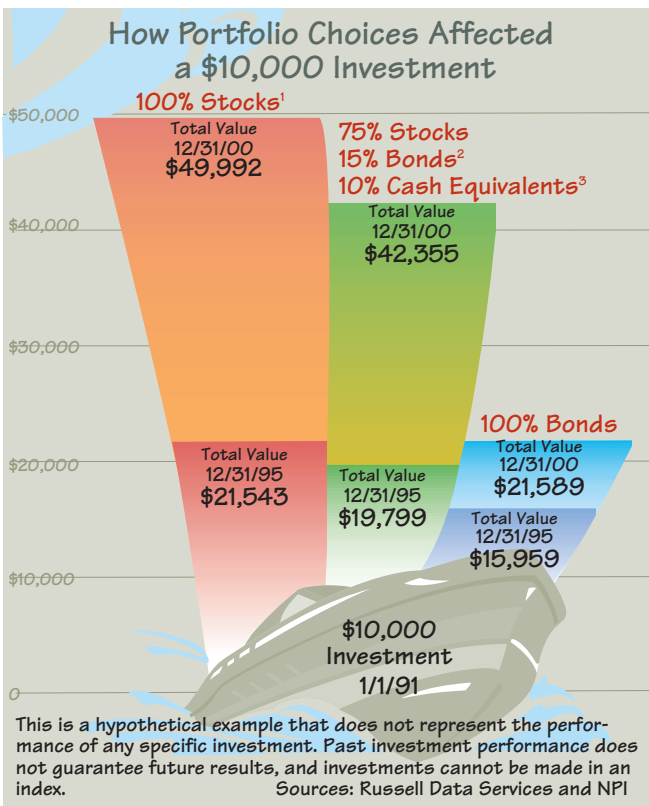
	2000 Total Return	1998-2000 Average Annual Total Return
Large Company Stocks <sup>1</sup>	- 9.10%	12.26%
Medium-size Company Stocks <sup>4</sup>	17.50%	17.10%
Small Company Stocks <sup>5</sup>	11.81%	7.45%
International Stocks <sup>6</sup>	- 13.96%	9.64%

Past investment performance does not guarantee future results, and investments cannot be made in an index.

Sources: Russell Data Services and NPI

company, small company, and international stocks, or in different types of bonds. If so, you may be able to diversify even more with a careful mix of portfolios *within* each security type, as well.

Investments measured by: <sup>1</sup>S&P 500 Stock Index, an unmanaged index of the stocks of 500 major corporations; <sup>2</sup>Lehman Brothers Government/Corporate Bond Index, an unmanaged index of investment grade corporate and government bonds with maturities of one year or more; <sup>3</sup>Merrill Lynch 3-Month T-Bill Index, an unmanaged index that measures returns of three-month Treasury Bills; <sup>4</sup>S&P MidCap 400 Index, an unmanaged index of the stocks of 400 medium-size corporations; <sup>5</sup>S&P Small Cap 600 Index, an unmanaged index of the stocks of 600 small corporations; <sup>6</sup>Morgan Stanley Capital International Europe, Australia, Far East Index, a market value-weighted average of the performance of selected securities in 20 countries.



# Keeping Your Savings Fresh

Pretzels you buy today will probably become stale if you don't eat them before the expiration date on the bag. You won't find an expiration date on any dollar bill in your wallet. But that doesn't mean your dollars will hold up indefinitely. Although your money may still look the same years from now, it probably won't buy nearly as much as it does today because of inflation.

## Price Movements

The erosion of the dollar's value — inflation — should concern anyone who saves money or is living on savings.

Inflation usually creeps along. When you buy something, you pay a little higher price than you have in the past, and that may not seem to be much of a problem — until you take a longer view.

Thirty years from now, if the average annual rate of future inflation is about 3%, as it was from 1990 through 2000, a TV costing \$500 today would sell for \$1,200. A car selling for \$20,000 this year would have a sticker price

that's more than \$48,000. And inflation raises your overall cost of living, not just the prices of TVs and cars.

If inflation continues in the future, you will need more and more income just to be able to maintain the same buying power you have right now. And you'll need more and more money in your tax-deferred retirement plan account in order to keep the real value of your balance from shrinking.

In the years to come, inflation may be higher or lower than it is now, but it is not likely to go away. The average annual rate of inflation since 1975 — as measured by the Consumer Price Index — has been close to 5%.

## Beating Inflation

No one knows what the future rate of inflation will be, and there is nothing you can do to keep inflation from eroding the real value of the dollars in your wallet and in your retirement plan account. The way to keep your retirement money fresh is through *growth*.

## Real Gains

Your retirement account investments only add real value when your returns are higher than the rate of inflation. For example, in a year when the inflation rate is 3%, you would need to earn more than a 3% investment return in order to achieve real growth. With a 4% return, your real growth would be only 1%.

## Inflation-beating Returns

Achieving enough growth to beat inflation is very difficult if you concentrate on low-risk investments, such as money market funds or portfolios, with historic returns that have been close to the inflation rate. You also need investments with the potential to earn inflation-beating returns, for example, bonds and especially stocks.

Of course, nothing is guaranteed when you invest. The tradeoff you have to accept for the chance of earning higher, inflation-beating returns is more risk of losses.

# Stock Strategies: Growth and Value

When portfolio managers describe how they choose stock investments, they often say they follow a *growth style* or a *value style*. In investing, *style* has a special meaning. It's the systematic method an investment manager uses to identify stocks with the best potential for superior returns. A manager who follows the *growth style* focuses on evaluating company profits. The goal is to identify stocks of companies that are expected to have rapid and sustainable earnings growth that should be reflected in rising stock prices. Usually, the growth category

includes the stocks of technology companies and specialty consumer companies.

In contrast, a manager who uses a *value style* tries to identify stocks with prices lower than would be expected based on the company's earnings, dividends, cash flow, and other factors. A lower-than-expected price means a stock is *undervalued*. In theory, the price of an undervalued stock will eventually rise as the market recognizes the stock's real value. The stocks usually placed in the value category include utilities and other industrial stocks. But any company's

stock may be considered a value stock if the company has strong performance, but its stock is priced below the stocks of similar companies.

## Performance Record

In some years, growth stocks have had higher returns overall than value stocks. In other years, value stocks led growth stocks. No one knows whether growth or value stocks will lead in the future. So, as a long-term investor, you may be better off if your investment mix includes both value and growth stocks, along with portfolios of other asset types.

# Don't Let Your Retirement Money Quit on You

The money in your retirement plan account will likely be available to you if you leave your present job. That will be the time to make a very important decision. Will you keep your vested balance working for your future retirement? Or will you use your retirement money for immediate needs?

You are the owner of your retirement plan contributions and any additional vested contributions from your employer. If you take a distribution when you switch jobs, you'll have to pay income taxes on it and, usually, a 10% penalty as well. That may cost a lot.

Fortunately, you can avoid the penalty and postpone the income taxes if you roll over your distribution into an IRA or another employer's tax-deferred retirement plan. You also may be able to leave your money in your present employer's plan.

The problem with taking a distribution isn't just the taxes and penalty. It's the future growth that you'll never see. Think about how much \$1,000 may grow by the time you retire — if you keep it working rather than spending the amount that's left after the taxes and penalty. No one knows the investment future.

But if, for example, you earned a 7% average annual investment return until you retire 30 years from now, you would have \$7,612 to use for retirement income.\*

Time is money with retirement plan accounts. The younger you are when you take a distribution, the more potential growth you'll give up.

\*This hypothetical example is for illustrative purposes only. This is not a prediction or guarantee of actual results. Actual results will vary from those described. This example is not intended to represent the value or performance of any specific product.

## Avoiding Financial Stress

The money in your life can easily become a big part of the stress you have to cope with every day. But it doesn't have to be that way. Here are some practical suggestions you can use to reduce worries about your finances.

### Don't Overreach Your Means

Get real about your finances. You will head straight for a highly stressful situation if you spend *as if* you have a larger income than you actually take home. And be careful of assuming that because your relatives or friends can afford something, you can, too. Even if their income seems similar to yours, their total financial situation may be very different.

You may be able to overspend on your lifestyle, but only at a high cost in stressful debt. So, look carefully at your overall financial picture before you decide to take on more obligations.

### Build a Cash Reserve

There is nothing like adequate savings to create peace of mind. The financial future becomes much less

threatening if you have money in reserve to cope with expected — and unexpected — major needs. You can build a cash reserve by making regular deposits to a savings account.

If you want to save without fail, just arrange for automatic savings deposits from your checking account or pay, just as you are already doing with your tax-deferred retirement plan contributions.

How large a reserve do you need? That's up to you, but many financial advisors think that six months' after-tax income is about the right amount for a family.

### Don't Spend on Impulse

Credit cards are easy to use and very convenient. But don't forget to keep track of the amounts you are charging on your cards. If you find that your credit card payments are taking up too much of your budget, try to make more of your purchases by using cash or a check. And, when you won't have the cash to pay for something you want to buy, think about delaying your purchase until you can better afford the item.

Don't forget that planning ahead helps prevent impulse buying. If you make a list of your needs before going out to shop, you will be much more likely to return home without unnecessary items.

### Get Real about Investment Expectations

You are sure to find investing your retirement savings or other funds is very stressful if you assume — consciously or unconsciously — that market values will move steadily upward. That is just not realistic. The very high stock market returns of the last decade were unusual by historical standards.

The market's poor performance during 2000 showed once more that large gains for investors are not automatic. Investments have bad times and good times, and you always need to be mentally prepared for a possible downturn. When prices are dropping, try to remember your long-term goals and avoid panicking.

# Going for the Gold

**A**thletes who are serious about competing always aim high. They may not win the competition, but it's the goal they put all their effort into reaching. As a retirement plan saver, you may want to take a lesson from the athletes and aim to have *more than enough* retirement money to live comfortably *for the entire time* you'll be retired. That way, you may still be okay even if *for any reason* you fall a little short of your goal.

## Set Your Goal

How can you project how much retirement income to aim for? Start by estimating how much you'll be earning by the time you expect to retire. Most likely, your living costs will be lower after you retire, so you could reduce your estimate by any cost-of-living savings you anticipate. But, if you want to aim high and go for the gold, just use the full amount in your planning.

Next, project the amount of income you'll receive from sources other than your retirement plan. Add the Social Security benefit you expect, any

## How Much Will Your Living Expenses Change after Retirement?

Expense Type	Likely Change without Considering Inflation
Food	None
Housing	None*
Real Estate Taxes	None*
Utilities	None*
Health Care	Increase
Entertainment	Increase — due to more leisure time
Clothing	Decrease — cost of dressing for work eliminated
Income Taxes	May decrease because Social Security benefits are tax exempt in full or part and total income may be lower
Transportation	May decrease because commutation costs are eliminated, but may increase if you travel more

\*Unless you move to a smaller home or a less expensive area

Source: NPI

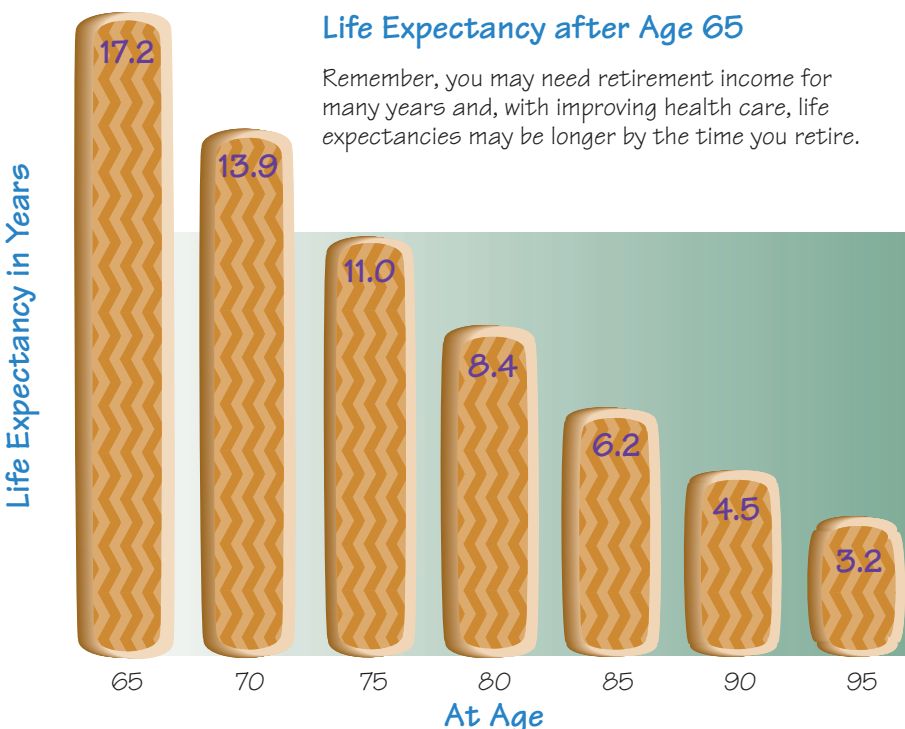
employer pension income you'll be eligible for, and any income you'll be able to draw from your non-retirement plan assets — personal savings, investments, or other assets.

## Go for It

Your retirement income goal will probably be quite a bit higher than the amount you expect to receive from the sources listed in column two. Your tax-deferred retirement savings can help

you make up the difference. But now is the time to enter the competition.

- Contribute as much as you can afford to your retirement account,
- Continue to invest every year until you retire, and
- Choose investments with the potential to achieve enough long-term growth for your needs.



### Life Expectancy after Age 65

Remember, you may need retirement income for many years and, with improving health care, life expectancies may be longer by the time you retire.



Sources: IRS and NPI