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INVESTMENT REPORT FOR PLAN PARTICIPANTS

Translating the Language of Investing

Many investing terms use common words, but they can take on special meaning within the language of investing.

Growth vs. Value Stocks

Some of your retirement plan's investment options may hold "growth" stocks. Others may hold "value" stocks. In the language of investing, "growth" and "value" classify stocks that vary greatly in earnings potential, price-to-earnings ratios, dividends, and other factors.

Growth stocks usually have a history of above-average growth in earnings and relatively low dividends. And growth stock prices are usually high in comparison to earnings. The expected high rate of growth makes investors willing to pay a higher price.

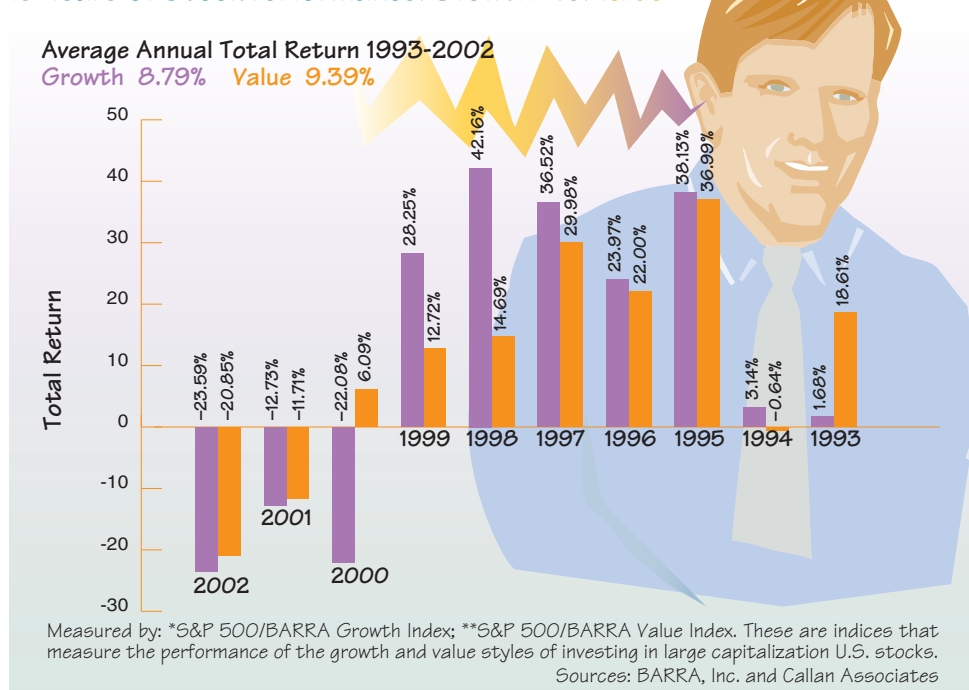
Value stocks usually pay relatively high dividends, and their prices are low compared to earnings. Value investors think these stocks are currently undervalued and expect that the markets will reflect these stocks' full value some time in the future.

Although growth stocks may seem the better choice, both stock types offer potential for growth. At times, growth stocks have outperformed value stocks. At other times, value stocks have led. However, the difference in performance over long holding periods has been small, as the chart shows.

Fixed Income — Not Fixed Value

Bonds are called "fixed-income" investments because the interest a

10 Years of Stock Performance: Growth* vs. Value**



bond pays doesn't change after it is issued. But investing in bonds always includes price risk — any bond's value may rise or fall when interest rates or other market conditions shift.

Net Asset Value = Share Price

Some investment terms just sound complicated. For example, every mutual fund* has a "net asset value" or NAV that's calculated at the end of each business day. NAV is just investment talk for the per share value of the fund's investments. If the mutual fund is a no-load fund, NAV is the price you pay when you buy a fund share and the price you receive when you sell a fund share.

The more you know about the language of investing, the easier making investment decisions may become.

*Mutual funds are sold by prospectus, which includes information on charges, expenses, and risks. For a current prospectus, please contact your plan administrator. You should read the prospectus carefully before investing.

Making Your Biggest Investment Decision

How much of your money should you invest in stocks and how much in bonds and/or cash equivalents? As a retirement investor, that may be the biggest decision you have to make.

Choosing an investment mix would be easy if you could know right now how much stocks, bonds, and cash equivalents will earn in the future. Unfortunately, the only numbers available to guide you are past returns, and they can *never* predict what any investment's future performance will be.

History Lessons

Still, history does offer some useful guidance. The long-term returns of equities (stocks) have beaten the returns of fixed-income investments (bonds) and cash equivalents. However, the short-term returns of stocks have been very volatile. Stock values have often dropped or gained sharply and quickly, and it can take a

long time for prices to recover after a drop. That means there's a high risk of earning poor returns or losing money with stock investments. Bond values are less volatile — and cash equivalents *much* less volatile — than stocks.

The more of your retirement plan account you invest in stocks, the higher its overall risk becomes. And the more you invest in bonds, cash equivalents, or other lower risk investment options, the lower the overall risk. But don't forget that investing in *different* asset types (called "diversification") can help manage risk. The overall risk of a well-diversified mix of different investment assets may be lower than investing an entire account in just one of the lower risk assets.

Also, the possibility of future inflation complicates your choice because the average returns of low-

risk investment types have generally been close to the rate of inflation. But you need inflation-beating returns to achieve real investment growth.

Your Investment Mix

How much investment risk are you comfortable with? What investment returns will be enough (together with contributions) to meet your long-term goals? You need a combination of investment options for your plan account that has the potential to deliver the needed gains without exceeding your risk tolerance.

Ultimately, creating an investment mix is a matter of balancing the potential for earnings and risk. Your plan administrator can provide more information about choosing investments for your account. No single mix is right for every investor, but there *is* one that's right for you, based on your individual goals and risk tolerance.

How To Save More

Saving more usually requires spending less, and that's not fun. But here are some easy strategies that can help you find more money to put away for retirement and other savings.

Be a smarter credit card user.

Resolve to use your cards for convenience, paying the balance each month whenever you can. And if you work to reduce the current balances on your cards, you'll cut your interest cost and free money for savings or other uses.

Save part of your raises. Money you're not used to spending is the easiest to put away for the future.

And, because of tax deferral, your retirement savings contributions will be larger than the amount of take-home pay you're giving up.

Save part of any extra income. If you receive a gift, inheritance, income-tax refund, or bonus, think about putting some of the extra money away for your long-term future.

Eat in more often. Dining at home always costs less, and you'll probably eat healthier, too.

Cut out unnecessary trips in your car. Combining errands is a double winner. You'll save both gas money and time.

Increase your insurance deductibles. Why insure amounts, year after year, that you can afford to pay out of your income or savings should you ever have a claim?

Stop smoking. Smoking is a growing expense. If you can quit, you'll free up money for other uses — and improve your health.

The best part of taking advantage of all these simple economies is the measurable increases you'll see in your savings — for big expenses you may be planning and for your retirement.

Give Your Credit Rating a Boost

The lower the interest rates on your loans, the more income you'll have available for other uses, including saving for retirement. Your credit score is the key to getting loans approved and determining the interest rate you pay. Here are four simple ways to improve your rating on the credit scoring system that most banks and mortgage lenders use.

Pay on Time

Your payment history makes up about 35% of your total credit score. So, if you're never late with your loan and credit card payments, you may

be well on your way toward a stronger credit score.

Reduce Your Current Debt

The amount you owe to all your lenders makes up about 30% of your score. The less outstanding credit you have, especially on credit cards, the better your score. But a history of good debt management scores higher than having no debt at all.

Stick with Your Lenders

The length of your credit history accounts for about 15% of your score. So, it pays to maintain your credit

relationships. Canceling unused credit cards to reduce your overall credit may work against you. That's because your score considers both the average age of all your accounts and the age of your oldest account.

Limit Applications

The rest of your credit score (20%) rates your debt mix, the number of accounts you have, and whether you have recently applied for a loan or credit card. Limiting the number of applications you fill out should help your score.

Net Worth: Your Financial Scorecard

To plan anything well, you need a clear starting point and a way to measure your progress. With personal financial planning, the best way to start may be to figure your "personal net worth." This is simply the value of your assets — everything you own — minus your liabilities — everything you owe. The result is a scorecard of the overall state of your financial life.

Start your asset list with your major financial resources — the current balance of your retirement plan account and the market value of your house. Next, list the market value of any other investments, bank account balances, and the cash value of any insurance policies. Then, estimate the value of your vehicles, appliances, and other possessions.

Your mortgage balance should head your list of liabilities, followed by any amounts you owe on auto or

home equity loans and credit cards, and any taxes you'll have to pay. Your net worth is the difference between the total amount of your assets and the total amount of your liabilities.

Check Your Progress

By periodically determining your net worth, you can measure the progress you're making toward your long-term goals, including saving enough for a comfortable retirement. You'll track the growth of your retirement savings each time you calculate your net worth. And measuring your progress gives you an opportunity to make adjustments if you think your retirement money is growing too slowly.

Measure Your Reserves

Calculating your net worth can also show you how large a margin for financial error you have. When

you list your assets and liabilities, divide them into two categories — current and long term — to determine the amount of cash you could make available in a hurry if necessary. For example, a bank savings account is a current asset that can be easily converted to cash. But selling an asset like your house usually requires a lot of time. A mortgage is a large, long-term liability, yet the short-term cash impact of each mortgage payment may be relatively low.

Examine Your Spending and Saving Patterns

A net worth calculation can also help you analyze your spending and saving patterns. You create a scorecard of where your income is going and can see where to make changes if you want to increase your net worth by saving more for short- and long-term needs.

Back to Your Investment Home Page

Your home page is your gateway to the Internet. The site you chose most likely suits your needs and interests, and you return there as necessary while online.

The “home page” of your retirement plan account is the mix of investments you chose. Some time ago, you decided on an investment mix — or asset allocation — that matched your goals and risk tolerance. And you put it in place by investing part of the contributions to your account in fund or portfolio A, part in fund or portfolio B, etc.

Shifting Asset Values

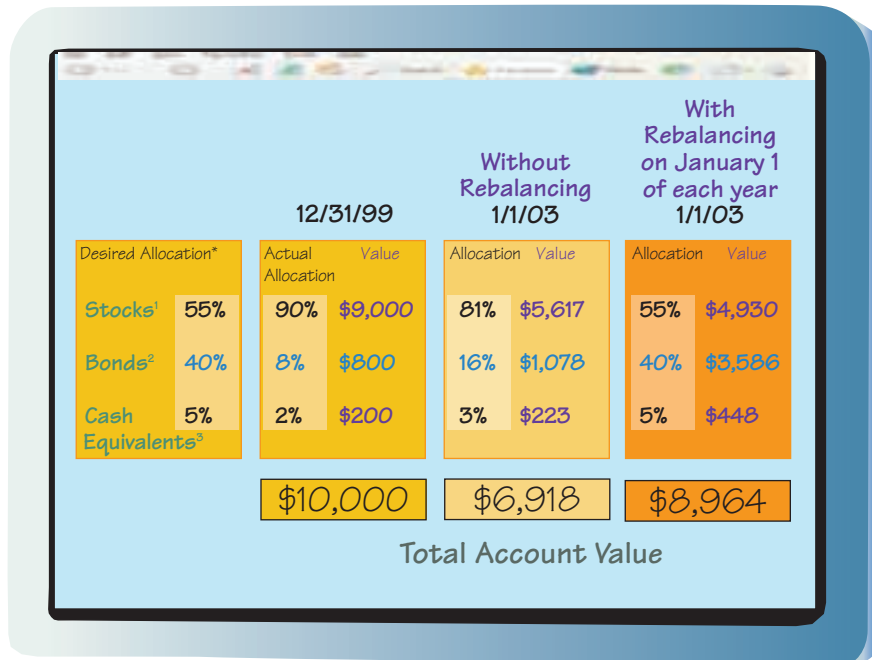
But investment values don't stand still. Sometimes, stocks outperform bonds or cash equivalents. At other times, stock values may be down and bond or cash equivalent values up. So, your plan's investment portfolios perform differently.

Variations in portfolio growth over time can cause any asset allocation to shift. Better-performing investments become a larger part of your account balance. That moves your account's asset allocation away from your original strategy, even though you haven't changed investments.

How To Rebalance Your Investments

1. Using a current account statement, calculate the percentage each investment option represents of your plan account's total value. Just divide your balance in each option by your total account balance. (Your statement may already calculate these percentages for you, often in a pie chart.)
2. Transfer amounts from the options that are over your desired allocation percentages to the options that are under your allocation percentages to restore your planned asset allocation.

The Effect of Rebalancing on Overall Growth



*This is a sample allocation. The right allocation for your account depends on your individual goals and risk tolerance and on your plan's investment choices.

Investment returns 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; ³3-Month T-Bill Index, an unmanaged index that measures returns of three-month Treasury Bills.

Past performance does not guarantee future results. Your investment returns will be different. Investment cannot be made in an index. Sources: Russell Data Services and NPI

The Risk Effect

Every investor wants growth. But when better-performing investments become a larger part of your balance, the risk level of your account may no longer match your planned strategy.

Here's a hypothetical example. Assume you have invested your account 50% in stocks and 50% in bonds and cash equivalents. After a period when stock returns were much higher than bond and cash equivalent returns, your stock allocation might increase to 70%. Because stocks are a more volatile investment type than the others, the higher percentage of stocks would greatly increase your overall risk level. What if your stock allocation dropped to 40% because of a declining stock market? Your overall investment mix would become much more conservative than you planned. Your risk

would be lower, but so would the potential for future gains.

Heading Home

If your account's investments have shifted *significantly* off plan, you may decide to return to your home page by “rebalancing” — returning to your original asset allocation. To do that, you might transfer money from the funds or portfolios that have gained the most value to those that have gained less or declined. Or, you might redirect the investment of your future contributions until your desired allocation is restored.

Periodic rebalancing (once a year, for example) to stabilize your account's asset allocation and overall risk can help protect against losses in future market downturns — and preserve your opportunity for gains during upturns.