



INVESTMENT REPORT FOR PLAN PARTICIPANTS

Going Steady To Control Price Risk

When you invest in stocks, think about “going steady” — because that’s the way to control *price risk*. Since stock prices are volatile, the per-share or per-unit value of a fund or portfolio may drop soon after you buy shares, causing a paper loss. That’s price risk. But contributing steadily to your retirement plan account can reduce your risk and help you reach your goals.

Averaging Your Costs

Each payday, your contribution

amount automatically buys shares or units in the retirement plan portfolios you’ve chosen. When a portfolio’s price is low, your contribution buys more shares than when the value is high. Investing a set amount at regular intervals evens out fluctuating market prices. This investment technique is called *dollar cost averaging*.

Declining and Rising Markets

Dollar cost averaging doesn’t guarantee you’ll make a profit or protect you against losses in a declining mar-

ket. However, you’ll end up with more shares than if you had invested everything at the beginning of the decline when prices were higher. And owning more shares may be beneficial if the market rebounds.

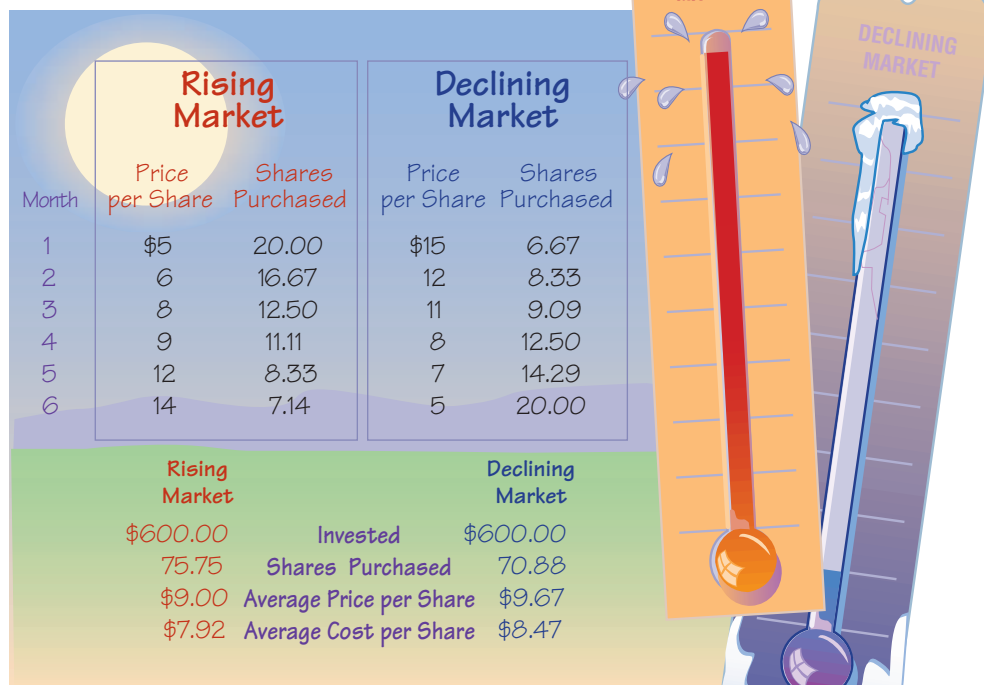
In a rising market, you would gain more if you invested all your money early on when prices were low rather than investing gradually. But that’s assuming you could correctly pick the right time to invest, which is very difficult to do *consistently*, even for professionals. With dollar cost averaging — whether prices are rising *or* falling — your average *cost* per share may be lower than the average *price* per share during the investment period.

Contributing in Good Times and Bad

Note that for dollar cost averaging to work, you need to be patient and continue contributing steadily to your plan account, during periods of both low and high prices. If you continue to invest this way, dollar cost averaging can help you effectively control the price risk of investing.

Dollar Cost Averaging in Rising and Falling Markets

\$100 Monthly Investment



These are hypothetical examples that don't represent the results of any periodic investment in any portfolio. Investment performance may differ.
Source: NPI

Let Bonds Play Their Part

An action movie needs both an incredibly brave star and a supporting cast of mean bad guys and innocent victims. Neither the star nor the supporting cast can do the job alone. Your retirement plan account needs a full cast, too — a group of *varied* investments whose roles complement each other rather than one investment type performing solo.

Returns That Zig and Zag

Bonds can play a valuable part in a long-term investor's mix of funds or portfolios. The reason is simple: Bond returns may zig when stock returns zag. In general, stock returns have usually been higher than bond returns over longer investing time frames. But in some years, bonds return more than stocks. In fact, bonds have beaten stocks about one third of the time since 1960.

Different Influences

Why do stock and bond returns go their separate ways? Because different factors affect stock and bond values. Stock valuations react to changes in company earnings prospects, the U.S. and world economies, and other factors. Bond valuations largely react to changes in interest rates, which in turn respond to the Federal Reserve's rate changes and other influences.

You can count on it: When interest rates rise, bond prices fall, and when interest rates drop, bond prices increase. That keeps the returns of previously issued bonds equivalent to the return available from comparable newly issued bonds with the same term. In contrast, no single factor has such a consistent effect on stock values.

Know Your Investment Choices

It is a good idea to compare the records of stocks and bonds, even though past investment results never guarantee future returns. Keeping part of your retirement plan savings in both stocks and bonds (if available), as well as in other investment types that your plan may offer, is a proven strategy for controlling an investment portfolio's overall risk.

Before you make a decision regarding your retirement plan investments, make sure you check the descriptions of your plan's portfolios to determine the specific asset types each portfolio holds. A *balanced* fund, for example, generally is invested partially in bonds and the rest in stocks. A *growth* or *value* fund probably invests in all stocks with no bonds. And a *fixed-income* fund may be just another name for a bond fund.

How Americans Invest for Retirement

Many Americans are missing an important opportunity that may help safeguard their retirement investments. According to a survey by Hewitt Associates,* 46% of 401(k) retirement plan participants don't take advantage of the risk-reducing strategy of *diversification*. Instead, these participants have put all their contributions into just *one* or *two* investment funds.

Stocks Dominate

Participants in tax-deferred retirement plans invest 74% of their money in stocks, according to a recent Profit

Sharing Council of America survey.**

Contribution Level

The same survey found that in the year 2000, the average amount of pay that non-highly paid participants contributed to their plan accounts was 5.3%. A different survey*** found an average contribution of 6.8% of salary.

Lessons

The data that surveys produce does not suggest that a certain investment choice or contribution amount is necessarily right or wrong for your needs. You should always base your decisions on your own circumstances

and goals. But having information about general trends regarding plan participants may be useful input as you make your own investment decisions.

* Hewitt Associates, *How Well Are Employees Saving and Investing in 401(k) Plans — 2000 Hewitt Universe Benchmarks*

** Profit Sharing/401(k) Council of America, *44th Annual Survey of Profit Sharing and 401(k) Plans* (data from 2000)

*** Employee Benefit Research Institute and the Investment Company Institute, "Contribution Behavior of 401(k) Participants," October 2001 *EBRI Issue Brief* (data from 1999)

The Perils of Chasing Performance

Does the cartoon coyote ever catch the roadrunner? Chasing the performance of a fund or portfolio that has achieved a very high return may be just as disappointing for an investor. If you choose a certain investment because of its outstanding *recent* results, you may end up sharing some of the coyote's frustration.

It's a basic investment principle that past performance does not predict future returns. And, studies of investment results have shown that top-performers one year have usually not maintained their lead in following years. So, if *short-term* performance

isn't a reliable reason to choose a portfolio, what should you look for?

Choose Consistency

Instead of focusing only on a portfolio's recent performance, take a long-term view. When you consider your plan's investment options, look for consistent *multi-year* results compared to the overall market — as measured by an index of the same type of securities.

In other words, did the portfolio's value usually rise when the market for similar investments rose? Were declines in the portfolio's value usually comparable to declines in the

overall market? Results that consistently compare well to an appropriate market index over a number of years are a good indicator that a portfolio has quality managers who may be able to perform well in the future.

Spread Your Bets

Consider choosing a mix of portfolios that invest in different types of securities with potential for growth. With your plan account invested in a diversified mix of portfolios that have had consistently good results, you can forget about chasing performance and sit back and let your investments work for you.

Get Organized To Pay Off Debt *and* Save

Like blowing up a balloon, there's a limit to how far you can stretch your income. And good uses often compete for the same dollars — for example, saving more for your long-term future and using more of your income to pay off your debts.

Here's a practical strategy for managing your cash better: *Get organized*. Start by prioritizing your debts and paying down those loans that have the highest interest rates.

Shrinking Credit Card Balances

High-interest credit card balances are usually the best place to start cutting your debt load — because you're probably paying about \$180 a year for each \$1,000 you owe. Just pick the card with the highest interest rate and start making as large a payment as you can every month. Keep paying the minimum amounts due on your other cards.

Your goal: To pay off the card with the highest interest rate as fast as possible. Then pay down the card with the next highest interest rate. Keep going until all of your balances are taken care of. While you are gradually cleaning up your debt, put yourself on a credit diet so that you don't add more debt at the same time you're paying down your other balances.

Reducing Installment Loans

With your credit cards under tighter control, you can turn your attention to student or other installment loans. These usually have much lower interest rates than credit card debt. Still, it's a good idea to pay more than the regular amount each month in order to shorten the payoff period.

Setting Up Emergency Money

As your debt shrinks, more of

your income should be available to save and invest — in both your tax-deferred retirement plan and elsewhere. One goal you might set for yourself is to build an emergency fund that consists of at least three months' income. With a fund in reserve, you'll be able to use cash instead of credit when you're faced with unexpected expenses in the future.

Saving and Investing More

Once you've trimmed your debt and built up your short-term emergency fund, you can start putting the income you were using for those essential efforts into savings for your long-term future. That's the time to tell your employer that you want to increase your tax-deferred retirement plan contribution.

Four Building Blocks of Retirement Planning

Will you have enough retirement income to live comfortably? That's the *big* question when you're thinking about your long-term future. Your tax-deferred retirement plan is certainly a plus. But the future is uncertain, and you'll improve your chances for success if you look ahead at your needs and resources. These four building blocks are the basis of retirement planning.

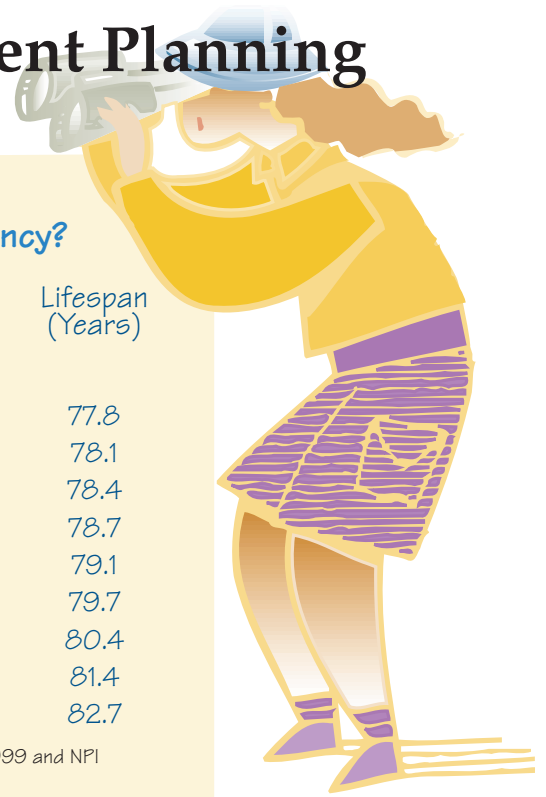
1 — Age

How old are you now? How many years remain before you expect to retire? And what's your life expectancy? The younger you are and the longer you wait to retire, the more time your retirement savings will have to grow. Whatever your age, knowing your life expectancy is important because it helps you determine how long a retirement to plan for. The chart above shows, based on mortality statistics, the average number of years of life remaining and total lifespan for persons who have reached the ages listed.

What's Your Life Expectancy?

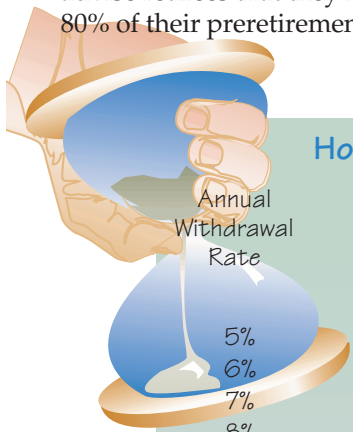
At Age	Life Expectancy (Years)	Lifespan (Years)
25	52.8	77.8
30	48.1	78.1
35	43.4	78.4
40	38.7	78.7
45	34.1	79.1
50	29.7	79.7
55	25.4	80.4
60	21.4	81.4
65	17.7	82.7

Sources: National Vital Statistics Report, 1999 and NPI



2 — Income Need

Professional planners usually advise retirees that they'll need at least 80% of their preretirement income.



How Long Retirement Savings Will Last

Annual Withdrawal Rate	Average Annual Return on Remaining Retirement Savings						
	4%	5%	6%	7%	8%	9%	10%
	Number of Years before Savings Are Gone						
5%	42	*	*	*	*	*	*
6%	29	37	*	*	*	*	*
7%	22	26	34	*	*	*	*
8%	18	21	24	31	*	*	*
9%	15	17	19	23	29	*	*
10%	14	15	16	18	21	27	*
11%	12	13	14	15	17	20	26
12%	11	12	12	13	15	17	19
13%	10	10	11	12	13	14	16

Assumption: One withdrawal each year that does not increase to keep up with inflation. Your annual return will vary from year to year. *Balance lasts indefinitely with this combination of withdrawals and earnings.

Source: NPI

How much do you think you'll be making by the time you retire? Subtract 20% — but don't forget that continuing inflation will probably increase your income needs *while* you are retired.

3 — Sources of Income

Besides your tax-deferred retirement plan, what other sources of retirement income do you have and how

large might they be? Possible sources include Social Security, an employer's pension, and your other personal savings and investments. Your retirement plan account will have to fill any gap between your expected income from other sources and your needs.

4 — Asset Goal

That brings you to the final building block of your plan and its cornerstone: How much will you need in your retirement account to generate enough income to last *throughout* your retirement? This is difficult to answer because you can only estimate the balance you'll need to provide a safe withdrawal rate. You also don't know how long you'll be retired or how large an investment return you'll earn on your remaining balance during the withdrawal period. The chart at left shows how long savings will last based on different withdrawal rates and investment returns.

With so many variables, why plan at all? Because a plan helps you see where you need to go and judge whether you are building a balance that's large enough to provide a comfortable retirement.