OnTrack

RETIREMENT PLANNERS & ADMINISTRATORS, INC.
America's Premier Full Service Retirement Plan Provider
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It DOESN'T Take Much

You work hard for your money, so it's nice to reward yourself with small, inexpensive treats. Maybe you stop for a double mocha cappuccino on the way to work or download a movie or some songs to enjoy later on. Or you might like to eat out or go to the movies on a regular basis.

It's easy to justify small rewards like these since they deliver a lot of pleasure and generally don't cost that much. But little treats start looking pretty expensive when you add up how much you spend on them in a year.

Cut Back and Save

What if you cut back to four cappuccinos a week instead of five and put the savings in your retirement plan? How much would investing $5 a week amount to over time? Or what if you ate out one less time every week and invested the $16.25 savings in your retirement plan instead? How much would that add up to if you did it consistently?

Actually, small sums invested regularly have the potential to turn into substantial amounts over time. This chart shows the results of investing extra dollars every week for a 30-year period.

The Magic of Compounding

What accounts for this type of impressive growth? In a word, compounding. Here's how compounding works: The money you contribute to your plan is invested for you. Any earnings on your plan investments are reinvested in your account. This gives you a larger pool of money for investment. Every time you contribute to your plan account, you increase the total amount you have invested and the potential benefit from compounding.

Start Small, Save Big

You don't necessarily have to earn a lot of money to lay the groundwork for a financially secure future. But you do need to be committed to making regular, steady investments over time. Cutting back on some of the little extras will help you free up some additional money for investing. Why not look for some extra money to add to *your* retirement savings plan?

Small Amounts Add Up

Every week, instead of buying:	Invest the money for 30 years and you potentially could have:
Cappuccino ($5)	$32,296
Music downloads ($7)	$45,203
Movie ticket ($10)	$64,577
Dinner out ($16.25)	$104,951

These are hypothetical examples used for illustrative purposes only. They assume an 8% average annual investment return (compounded monthly), which is not representative of any particular investment. Actual rates of return cannot be predicted and will fluctuate.

Source: NPI

Keep It POSITIVE

Achieving your financial goals is difficult if you are living from paycheck to paycheck. It's far easier to plan for the future if you have money to save and invest. When you spend less than you earn, you can control your finances rather than letting your finances control you.

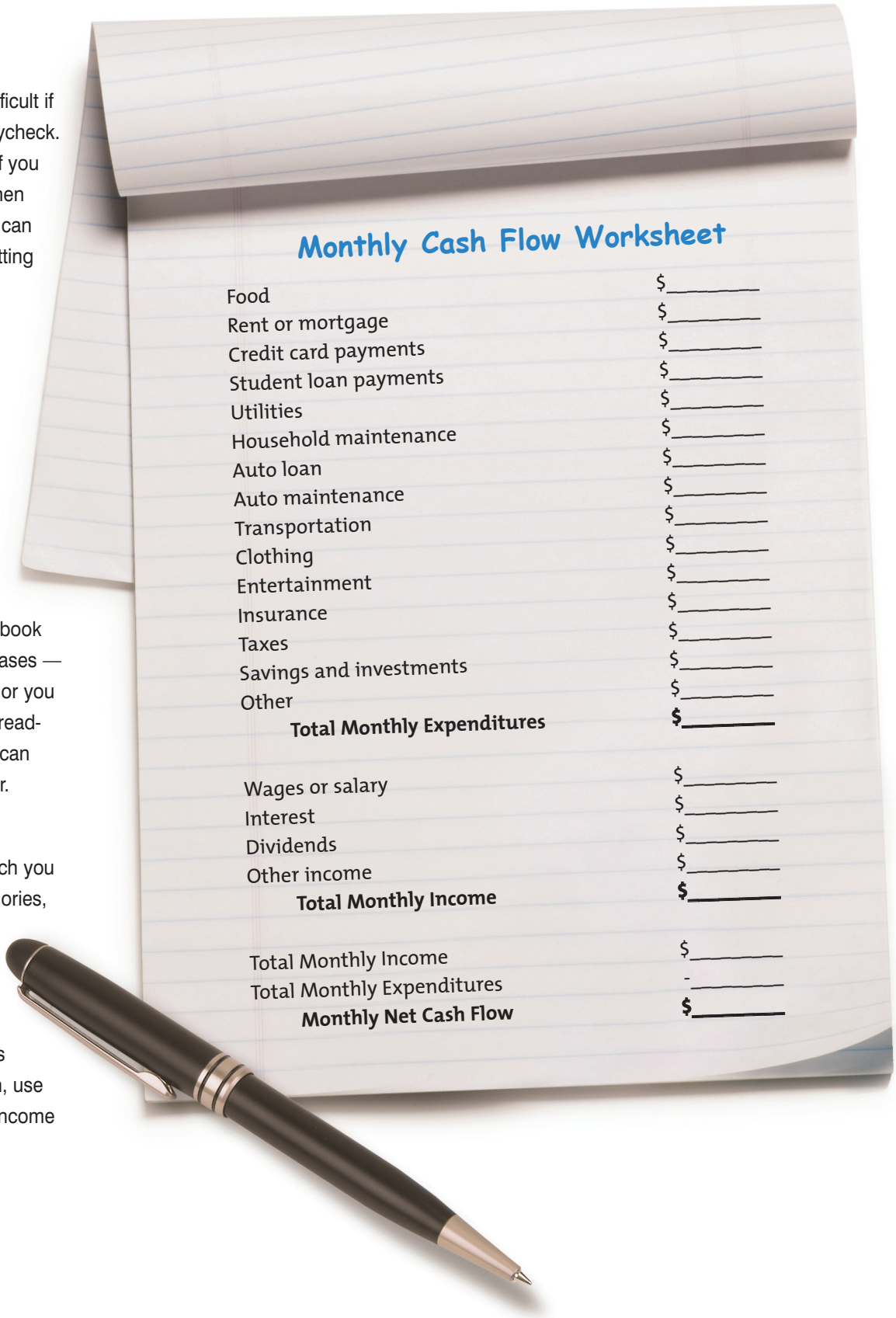
Track What You Spend

The first step to getting a better handle on your financial situation is to find out if you have a negative or positive cash flow. You can do this by tracking the money you have coming in (income) and the money that goes out (expenditures) for a month or two.

You may want to carry a small notebook with you to record your daily purchases — all of them, even the small ones — or you can keep your receipts. Using a spreadsheet or personal finance software can make tracking your spending easier.

Get Down to Specifics

The next step is to add up how much you spend each month in various categories, such as utilities, food, gas, entertainment, clothing, and so on. Calculate monthly amounts for any semiannual and annual expenses you have, such as insurance and property taxes. Then, use this worksheet to summarize your income and spending.



Monthly Cash Flow Worksheet

Food	$_____
Rent or mortgage	$_____
Credit card payments	$_____
Student loan payments	$_____
Utilities	$_____
Household maintenance	$_____
Auto loan	$_____
Auto maintenance	$_____
Transportation	$_____
Clothing	$_____
Entertainment	$_____
Insurance	$_____
Taxes	$_____
Savings and investments	$_____
Other	$_____
Total Monthly Expenditures	**$_____**
Wages or salary	$_____
Interest	$_____
Dividends	$_____
Other income	$_____
Total Monthly Income	**$_____**
Total Monthly Income	$_____
Total Monthly Expenditures	-_____
Monthly Net Cash Flow	**$_____**

Look at the Numbers

Now do the math and take a look at your cash flow. If you're spending less than you earn, you're doing a good job. You have a positive cash flow. A positive cash flow allows you to plan ahead and put extra money into savings for future financial goals. However, if you are spending everything you earn, you'll need to make some changes.

Take a look at where your money is going and identify places to cut back. Decide how much you *should* be spending in each category — those are your target amounts. Once your plan is set, continue to watch and adjust your spending to meet your goals.

Make Adjustments

Try to anticipate how changes in your personal situation will affect your budget and make the necessary adjustments. For instance, if you are planning to add a child to your family or have a child leaving home soon, you'll need to change certain budget categories. If you have a variable rate mortgage, try to anticipate the impact an increase in interest rates may have on your mortgage payments and budget.

Eliminate Debt

Interest payments on debt can consume a large portion of your income. That's why it's so important to focus on paying down any credit card balances you have. While you're whittling down your debt, avoid impulse buying and use cash rather than credit when you go shopping.

Over time, staying within your budget will help you free up money that you can use to save for your future.

Looking at VOLATILITY

Investors buy and sell billions of dollars worth of securities every trading day. Prices are constantly changing in response to many different factors — supply and demand, economic news, and even political events.

They Go Up, They Go Down

The up and down movement in security prices is known as volatility. A security is considered very volatile if its price changes sharply within short time periods. The smaller and less frequent the price changes, the less volatile the security.

Volatility is a measure of investment risk. The more volatile the investment, the greater the risk of short-term losses. However, riskier investments also have higher potential returns.

Comparing Asset Classes

Of the three major asset classes — stocks, bonds, and cash equivalents — stocks are the most volatile. Bonds are less volatile than stocks, and cash equivalents are the least volatile asset class.

Certain investments within each asset class are generally more volatile than others. Small company stocks, for example, are usually more volatile than the stocks of larger, more established companies. Foreign stocks are generally more volatile than domestic stocks.* And long-term bonds tend to be more volatile than short-term bonds.

Volatility and Your Portfolio

Volatility is often relatively short lived. You can see from the chart that stocks suffered declines in 2001 and 2002, but recovered strongly in the following three years. Of course, past performance is no guarantee of future results. But, as a retirement plan investor, you may have a better chance of reaching your goals by looking beyond short-term volatility and including investments with strong growth potential in your portfolio.

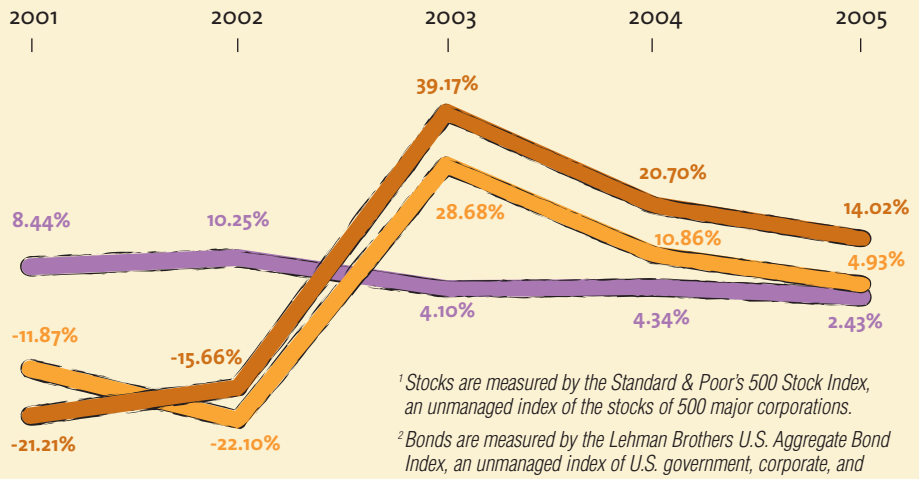
There's another lesson here. Different asset classes often respond differently to economic and political events. There will be times when bonds outperform stocks, or international stocks do better than domestic stocks. So, diversifying your portfolio by spreading your investments among the various asset classes is a good strategy for managing risk.

A Fact of Life

Volatility and the potential for investment growth go hand in hand. By accepting some volatility in your retirement plan portfolio, you'll be in a better position to achieve the long-term growth you may need to build an adequate nest egg for your future.

* The risks of investing internationally include changes in currency rates, differences in auditing and financial standards, and other risks.

Annual Total Return



[1] Stocks are measured by the Standard & Poor's 500 Stock Index, an unmanaged index of the stocks of 500 major corporations.

[2] Bonds are measured by the Lehman Brothers U.S. Aggregate Bond Index, an unmanaged index of U.S. government, corporate, and mortgage-backed securities.

[3] International stocks are measured by the MSCI EAFE Index, an index of securities from Europe, Australasia, and the Far East.

Source: Russell Data Services

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