REINVENTING Retirement
YOUR RETIREMENT PLANNING NEWSLETTER
3rd QUARTER 2005

Worldly Pursuits

International investments offer opportunities for retirement savings growth

Okay, so a quick glance at your most recent retirement plan statement, and the old portfolio looked pretty good. Not a bad investment strategy, you say to yourself. After all, you took an investment risk tolerance quiz (you did take it—right?). And, you followed the key principle of investing—diversify, diversify, diversify—right? If this sounds like you, give yourself a pat on the back!

Now take another look at your portfolio. Do you have any money in international investments? If not, don't worry—international investing is not for everyone. However, you could be missing out on some great opportunities in the rest of the world. Here's a quick primer on international investing, as well as some simple strategies for making the most of the opportunity.

Why Go Global?

International markets are very diverse, and many have significant growth potential. Several large steel, electronics and automobile companies are based overseas. In addition, because foreign markets can be influenced by different factors than U.S. markets, international markets sometimes "zig" when U.S. markets "zag". When you diversify your portfolio with international investments, you spread your risk among markets and might decrease the impact of the U.S. market's volatility. (Keep in mind, however, that some evidence suggests economic globalization is causing major markets worldwide to move more closely in synch).

The Hemispheres of Risk

Not to start out on a down note, but the first thing you need to do when considering international investing is to identify and fully understand the risks involved.

Political and economic risk: Some countries have a high risk of political or social instability, which could affect the value of investments in those markets.

Regulatory risk: Many countries lack the high standards for accounting and financial reporting we expect in the United States. This could mean information you get about an investment is incomplete or inaccurate. It also makes comparing investments hard, since they may be subject to different reporting standards.

Currency risk: When you invest in a foreign market, your investment is denominated in a foreign currency. Fluctuations in the value of that currency against the U.S. dollar could add to the volatility of your investment. For example, when the U.S. dollar strengthens against the foreign currency, the foreign investment decreases in value. As a result, even if your investment performs well, currency risk could cause it to lose value.

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Mutual Funds help you manage the risk

By their very nature, mutual funds give you instant diversification. They can free you from having to track and evaluate international stocks, and instead let you benefit from the expertise of a professional fund manager. Global mutual funds invest in the stocks of both U.S. and foreign companies (so may be less volatile than straight international funds). International mutual funds invest exclusively in companies based outside the United States (so may give you the greatest diversification if you already own many U.S. stocks or funds).

Stamping Your Passport

No journey is complete without visiting strategies to improve the performance potential of your international investments.

Regional concentration: Many mutual funds focus on a particular region, such as Europe, the Pacific Rim or Latin America. If you want to spice up your portfolio with international investments, you may look for mutual funds that invest in regions experiencing strong growth.

Emerging markets: The highest potential for growth and diversification may lie in emerging markets. Newly industrialized regions often experience significant growth, particularly as they build their economic and telecommunications infrastructure. Keep in mind, however, that emerging markets are as risky as the securities of emerging companies. They often have limited product lines, distribution channels or financial resources, and are subject to more erratic movements than the stock market in general.

Small-cap and mid-cap stocks: You don't have to wade into the highly volatile world of developing countries for added performance potential and increased diversification. Consider investing in small- and mid-sized firms within developed countries. (Keep in mind, however, that small- and mid-cap stocks involve greater risk than large-cap stocks. They often have limited product lines and financial resources.)

Some factors you should consider when deciding whether international investing is for you:

Your age: Younger investors may be able to tolerate more market volatility than investors who are closer to retirement age.

Your risk tolerance: Some people are more comfortable with risk than others. If your tolerance is low, international investing may not be for you.

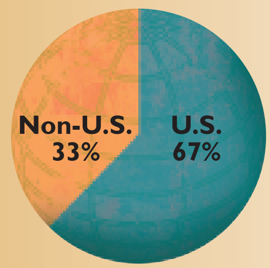
Your timeline: The longer you expect to leave your money in an investment, the less impact short-term volatility will have.

Your personal opinions: These could include your personal politics or your confidence in opportunities in foreign markets.

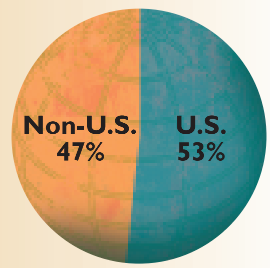
World History

Foreign markets have grown considerably in the past 30+ years. In fact, investors who only invest in the US equity markets miss out on nearly 50% of the world's total market capitalization.*

% of World Market as of December 31, 1970



% of World Market as of December 31, 2004



*Total market capitalization is the total equity value of all publicly traded companies expressed in millions of dollars. It equals shares outstanding for each company times the stock price.

Source: Morgan Stanley Capital International (MSCI). World market represented by MSCI World Index. The World Index is an unmanaged, capitalization-weighted index of stocks of developed countries. The Index is designed to measure the broad performance of equities in developed countries outside of North America. It is unavailable for investment. Past performance is no guarantee of future results.

Nestlé Crunch Time

Investors who do not maintain some exposure to non-U.S. markets may be missing an opportunity to participate in the growth potential of some of the world's leading companies—companies whose products you know and trust.

4 of the 5 largest auto companies: Toyota, Honda, DaimlerChrysler, Nissan, Ford
4 of the 5 largest household durables: LG Phillips LCD, Sony, Matsushita Electric Industrial, Sharp, Fortune
4 of the 5 largest food products companies: Nestlé, Unilever, Danone, Cadbury Schweppes, Sara Lee
3 of the 5 largest oil & gas companies: ExxonMobil, British Petroleum, Total, ChevronTexaco, Royal Dutch

Source: FactSet. Based on market capitalization as of 12/31/04. Blue denotes non-US companies.

Tough Love

Looking for a quick fix to budget challenges? There isn't one.

Meet Average Joe. Married with two high school age children, he is the sole breadwinner for his family. He feels fortunate that his wife does not have to work and can take care of their household affairs. After years of enjoying good pay and bonuses, he has recently seen his income sharply reduced as his business unit suffers through some hard times. Joe and his wife are trying to cut expenses where they can, but still feel it isn't enough.

He is thinking of withdrawing $15,000 from his retirement account to help clear up some of the family's accumulated debt. Specifically, Joe and his wife want to pay off several thousand dollars in credit card debt and retire one of their car loans to bring their expenses more in line with his monthly income. That would also free up more income for upcoming college expenses for his children.

Many retirement plan participants are faced with similar situations. And many opt to take money out of their plan, thinking that it is the perfect answer to their problem. As Doctor Phil would say, "How's that workin' out for ya?" The real truth is, the worst thing you can do with your 401(k) is to fail to contribute to it. The second worst thing is to prematurely withdraw the money you've accumulated. Here's why:

Joe's $15,000 withdrawal is subject to regular income taxes plus federal penalties that could easily consume $5,000 to $7,000 of his withdrawal. What's worse though, is that the money he withdraws won't continue to grow tax-deferred. In 25 years that $15,000 could easily grow to $100,000, assuming an 8 percent average annual return. And taking the money out as a loan from his 401(k) isn't necessarily a better option. If he loses his job (and troubles at his company make this a possibility), he may have trouble paying the loan back quickly, which typically you must do to avoid having it treated as a withdrawal.

Joe is grasping for a quick fix to a deeper problem. What he and his wife really need to do is get realistic about their situation. Stop using the credit cards as a stopgap. Start making the more painful cuts in their budget to get their spending in line with their current income and debt repayment needs. And here is where the tough love gets tougher: Joe's wife needs to consider a full or part-time job. A second income could help out tremendously. So could selling possessions they no longer need at a yard sale, a consignment shop or an online outlet such as eBay.

Are you in need of some tough love? List 10 major possessions you think you could turn into quick cash for paying down credit card debt. Research your local newspaper classifieds, consignment shops, or eBay (www.ebay.com) for approximate market values. In addition, go to the Dollar Stretcher Web site (www.stretcher.com) to find 10 significant ways you can save money each month ($15-$20 or more per idea).

Item	Market Value	Idea from www.stretcher.com	Approximate monthly savings
____________	$ ________	______________________	$ ________
____________	$ ________	______________________	$ ________
____________	$ ________	______________________	$ ________
____________	$ ________	______________________	$ ________
____________	$ ________	______________________	$ ________
____________	$ ________	______________________	$ ________
____________	$ ________	______________________	$ ________
____________	$ ________	______________________	$ ________

Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Boomers on the Brink

Issues facing participants approaching retirement

Most people facing retirement ask themselves the question: "Should I stay or should I go?" To help guide near-retirees through the process of choosing a retirement locale, the Retirement Living Information Center has launched a new service called "Great Places to Retire." Visitors to the site will find a Decision Guide that will lead them through a number of steps and ask relevant questions about what is important to them in living out the next phase of their life. The Guide is designed to help them to focus on a lifestyle that will enable them to meet their retirement objectives and will even help them decide whether they should move or not. The site currently contains reports on over 150 cities and towns in 31 states. The service costs $19.95 for an unlimited period of time.
Check out www.retirementliving.com.

Q & A

Common questions asked by retirement plan participants

Will a 401(k) loan appear on my credit report?

No. Loans from your 401(k) are not reported to the credit-reporting agencies, but if you are applying for a mortgage, lenders will ask you if you have such loans, and they will count the loan as debt. If you default on a 401(k) loan, the default will not be reported to the credit-reporting agencies and it will not negatively impact your credit rating.

Corner on the Market

Basic financial terms to know

Equity Income Fund
A mutual fund that seeks to provide stable current income by investing in securities which pay interest or dividends. Equity income funds typically invest in utility stocks and blue chip companies, such as IBM or Coca Cola.

Tools & Techniques

Resources and ideas to guide you in your retirement planning efforts

Want to know how much money you will need to save for a happy retirement? Grab a calculator and find out the answer by using the formula:

CI x {55 – (A/3) – (RA/7)}

According to new research completed in Britain, CI stands for current income, A for current age and RA the retirement age.

The formula was developed by Edmund Cannon, a senior lecturer at the University of Bristol. It is intended to give people a very rough idea of what they may need. It is easy to do because you only need three pieces of information and they are all things you know. Financial professionals say that people who make the effort to actually calculate what they will need in retirement are more successful in their retirement planning.

According to the formula, a 40-year-old employee on a salary of $50,000 and looking to retire at 65 would need savings of $1,619,000 to continue to live the kind of lifestyle he had while working. Likewise, a 30-year-old worker earning $60,000 and looking to retire at 65 would need a retirement fund worth over two million ($2,042,400) to enjoy retirement.