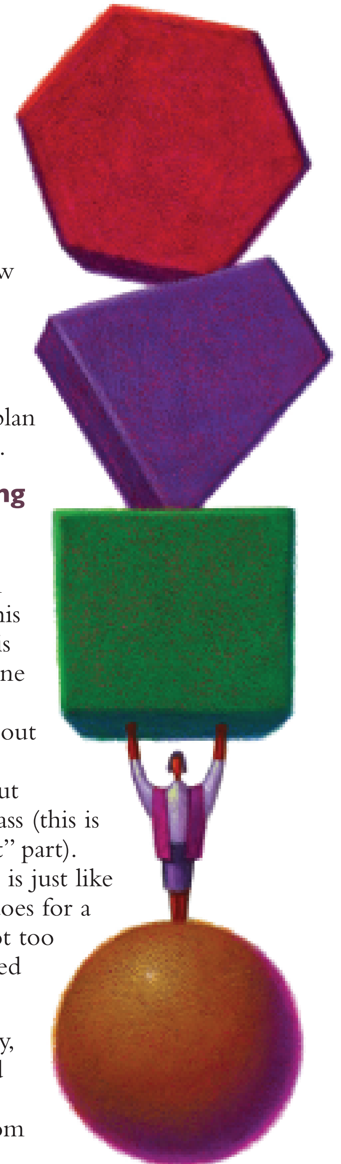
REINVENTING Retirement

3rd QUARTER 2006

YOUR RETIREMENT PLANNING NEWSLETTER

An Article about Nothing

What Seinfeld can teach us about investing



Long-time fans of the dearly departed "Seinfeld" television show (which, thanks to syndication, really doesn't feel like it has departed at all) may remember that it was often referred to as "a show about nothing." Of course, it was anything but.

In one memorable episode, Jerry Seinfeld's best friend, George Costanza, takes on the fictional identity of Art Vandelay, an "import-export specialist" who owns his own business, Vandelay Industries. What if George had enrolled in the Vandelay Industries 401(k) Plan? How could he leverage his expertise in importing and exporting to make himself a better investor?

The answer is: rebalancing. After all, rebalancing is all about importing and exporting. Don't worry, this will all become clear as you read further!

What's the deal with rebalancing?

Rebalancing simply means that you bring the mix of assets in your retirement plan account back to your original investment strategy. Let's use George, er, Art, as our example.

Art Vandelay is in his mid-30s and contributes 8 percent of his salary to the Vandelay Industries 401(k) Plan. With more than 25 years until retirement, Art chose a moderate growth investment strategy for his plan contributions. He directed 75 percent of his retirement plan contributions to stock funds, 20 percent to bond funds and 5 percent in funds that invest in cash or cash equivalent securities.

Art kept this strategy in place for one year. Over that time, the stock funds significantly outperformed the other funds in his portfolio. As a result, Art's investment portfolio shifted, and his retirement account became over-weighted in stocks. Instead of 75 percent of his assets invested in stock funds as he originally intended, now 85 percent of his account was in stocks and only 10 percent in bonds (5 percent remained in cash equivalent investments). Art's account became unbalanced because one asset class (stocks) outperformed another asset class (bonds).

Most experts agree that you should consider rebalancing your retirement account at least once a year to help keep your investment strategy on track. Even minor adjustments can change the long-term growth potential of your retirement savings.

What should Art do?

Art's 75 percent, 20 percent, 5 percent investment strategy was based on how many years he had until retirement and how comfortable he was with investment risk. Right now, Art is facing more market risk than he originally intended. If the opposite occurred and the bond or cash investments in his portfolio grew out of proportion, his savings might not achieve enough growth to reach his financial goals. In either case, the long-term growth of his retirement plan account could be compromised.

Time for a little importing and exporting

Rebalancing his retirement account is fast and easy. Art can do it from the convenience of his computer or telephone using his plan's Web site, toll-free telephone number or participant services center. He can transfer money out of the over-weighted asset class (this is the "export" part) and put it in the underweighted asset class (this is the "import" part). Heck, this is just like what he does for a living! Not too complicated at all!

Specifically, Art would transfer money from his stock funds to his bond funds to bring it back to his original 75 percent, 20 percent, 5 percent mix. He will sleep better at night knowing that his investment portfolio still reflects his wishes, and he will feel much more like he is in control of his retirement destiny. He still wonders what Kramer does for money, or why Jerry and Newman can never get along, but that's another article.

Act Now!

Offer Ends Soon.

According to the Employee Benefit Research Institute's 2006 Retirement Confidence Survey, more than half of workers (53%) report less than $25,000 in total savings and investments (excluding home and defined benefit plans). In addition, 24% of workers are very confident about their financial security in retirement. But, 22% percent of those are not currently saving for retirement, and 39% have less than $50,000 in savings.

What's going on, people? Are we simply a materialistic society that is looking to spend all our money now for immediate gratification? And willing to tap any available source—credit cards, home equity lines of credit, retirement plans, and so forth—to get it? Or is it time to get smart and recognize a good deal when you see one?

That good deal is your employer-sponsored retirement plan. But you need to act now or the offer will expire. You need to enroll in your plan if you haven't already. And if you are in the plan, you need to increase your contribution. Because before you know it, the years will have zoomed by and you won't have much socked away for the golden years—and that can be a lot of years (25 or more on average). You don't want to be down and out, living in your kid's basement, muttering, "I shoulda taken advantage of that 401(k) plan!"

Here's the real deal

Whether your retirement is just around the corner or still decades away, you can buck the trend and save more at a time when more Americans are saving less. Successful savers understand two things: discipline and focus.

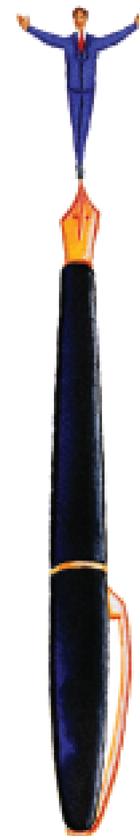
Make savings automatic. Your employer-sponsored retirement plan allows you to put your savings on autopilot. Each pay period a set amount is automatically deducted and deposited into your account. That's crucial, because you can't spend what you don't see.

Direct a portion of "extra income" to savings. When you receive additional income like a bonus, raise, tax refund, inheritance, etc., avoid the temptation to go on a spending spree. Instead, dedicate a significant portion to your savings by increasing your retirement plan contributions.

Forget that "keeping up with the Joneses" stuff. With savings rates their lowest in recent history, it's likely that some of your neighbors, friends and family are spending lavishly. Instead of trying to keep up with them, treat yourself when your finances allow and avoid dipping into savings for unnecessary purchases.

Play some catch-up. If you're approaching retirement and are concerned you haven't saved enough, your retirement plan may allow you to contribute $5,000 more to the plan, above the $15,000 maximum for 2006, if you're age 50 or older.

Put it in Writing



Putting financial goals down on paper can help you visualize success

Almost everyone has goals. They can be longer-term goals like sending your kids to college or having enough money to eventually retire. Or they can be shorter-term, such as buying a new car or taking a trip to Costa Rica. Whatever you are daydreaming about, it probably comes with a price tag. Start by writing down everything you want that costs money.

My financial goals

1. ______________________
2. ______________________
3. ______________________
4. ______________________
5. ______________________
6. ______________________
7. ______________________
8. ______________________

Sort your goals by time horizon

The decisions you make about how to save and invest will be driven in part by how long you have to reach your goals. Take the goals you just identified and sort them by time horizon.

Goals for the next year:
1. ______________________
2. ______________________

Goals for 1-3 years:
1. ______________________
2. ______________________

Goals for 3–10 years:
1. ______________________
2. ______________________

Goals for 10+ years:
1. ______________________
2. ______________________

Now, choose your three most important goals and write them down in the table below:

#1 Goal: ______ Time Horizon: ______ Price Tag: ______ Monthly savings needed: ______	**#3 Goal:** ______ Time Horizon: ______ Price Tag: ______ Monthly savings needed: ______
#2 Goal: ______ Time Horizon: ______ Price Tag: ______ Monthly savings needed: ______	**EXAMPLE: Goal:** Trip to Costa Rica Time Horizon: one year Price Tag: $2500 Monthly savings needed: about $200

Crunching the Numbers

There are many helpful calculators online to help you figure out how much you need to save. One of the best resources is at www.choosetosave.org/calculators. Once you've got a good idea of the monthly savings needed to fund your goal, you need to decide how you should invest that money. The shorter the time horizon for the goal, the safer the investment should be. Here are some general guidelines:

Goals you expect to pay for within the next year: money market funds or certificates of deposit will likely be your best bet.

Goals you expect to pay for within the next one to three years: you may want to consider a balanced mutual fund that invests no more than 50% in the stock market and the rest in bonds and cash equivalents.

Goals you expect to pay for within the next three to 10 years: you may want to look at a balanced fund that is more growth-oriented, such as 60%-65% stocks, and 35%-40% cash and bonds.

Goals that you expect to pay for more than 10 years from now: you can afford to invest even more in stocks, but your risk tolerance will dictate just how much of your portfolio you'll feel comfortable investing in stocks. As you get closer to your goal, you'll need to adjust your investment mix so that less is at risk in the stock market.

Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Boomers on the Brink

Issues facing participants approaching retirement

If you are an early boomer heading down the final stretch toward retirement, you should make sure you have an emergency fund. The years ahead could prove to be a bit bumpy—especially with higher interest rates and rising energy costs—so it is advantageous to have a financial cushion. Set your sights on saving between three and six months worth of living expenses; this includes rent or mortgage, food, utilities, debt payments and other regular expenses you can't put off even in an emergency. Remember, emergency-fund money has to be safe and accessible, so you'll want to investigate money market accounts or traditional savings accounts.

Q & A

Common questions asked by retirement plan participants

My husband and I just had our first child. What financial needs should we consider?

Review your life insurance needs and consider increasing your coverage to cover mortgage, daily living expenses and college. Update your will and name a guardian and trustee for your child. Start saving for college as early as possible. Two tax-advantaged college savings options you may want to explore include a Section 529 College Savings account or Coverdell Education Savings Account.

Tools & Techniques

Resources and ideas to guide you in your retirement planning efforts

Many Americans reach retirement age totally unprepared for the medical expenses they'll face during retirement. Health Savings Accounts (HSAs) are an excellent way to build up some money for medical expenses that will be incurred during retirement. These tax-favored accounts, which have only been available since January of 2004, can be opened by anyone with a qualifying high-deductible health insurance plan. Once you open an HSA account, you can place tax-deductible contributions into it, which grow tax-deferred like an IRA. You may withdraw money tax-free to pay for medical expenses at any time. For more information on HSAs, check out the U.S. Treasury Web site at: www.ustreas.gov/offices/public-affairs/hsa/

Quarterly Reminders

- Fall is here—as the year begins to wind down, it's a perfect time to assess your financial progress for 2006. Do you need to rebalance your retirement account? Have you increased your contribution by at least 1% this year like you promised yourself you would do? December 31 will be here before you know it!
- And speaking of financial progress—if you want to better understand rebalancing and its advantages, make sure you read "An Article About Nothing" in this newsletter. It will help you become better prepared for the future—and feel closer to the old Seinfeld gang!

Corner on the Market

Basic financial terms to know

October Effect

Impress your friends at parties this fall! Casually work in the term October Effect during a conversation. October Effect is a theory that stocks will tend to decline during the month of October. Some investors may be nervous during October since the dates of some large historical market crashes occurred during this month. Black Monday, Tuesday and Thursday all occurred in October 1929, after which came the Great Depression. In addition, the great crash of 1987 occurred on October 19th, and saw the Dow drop 22.6% in a single day. Today the October Effect is considered mainly to be a psychological expectation rather than an actual phenomenon.

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