

OnTrack

An Investing TIME LINE

Tom* is looking forward to the new year. He and his wife just retired and have already made lots of plans. They've planned out their finances, too. As long as they're careful, they should have enough savings to provide a comfortable retirement.

Tom at Twenty-five

Tom started saving for retirement at his first job. After receiving his plan's

investment choices, he decided to put most of his account into stock funds.



Although stocks carry more risk than bond or cash equivalent investments, he liked the idea that stocks have the potential for higher long-term returns. He knew that stock prices have always been volatile, but he also knew he had plenty of time for his investments to recover if stock prices fell.

Married at Thirty

When Tom got married, he and his wife agreed that saving for retirement should be a top priority. When they started a family, they cut back on nonessential spending so they could keep saving. Tom kept a significant portion of his retirement savings in stocks throughout his thirties.

Changes at Forty

Tom changed jobs in his early forties. Rather than cash out his retirement account, he rolled it over into his new employer's plan and continued to contribute. With more than 20 years still to go before retirement, Tom continued his long-term investment strategy.

Focused at Fifty

Tom and his wife started seriously planning their retirement when they reached age 50. Although they hadn't met their savings goal, Tom felt it was time to shift some of their savings into less risky investments. His wife also worked during this period and

added to their savings, which helped make up for lower investment returns.

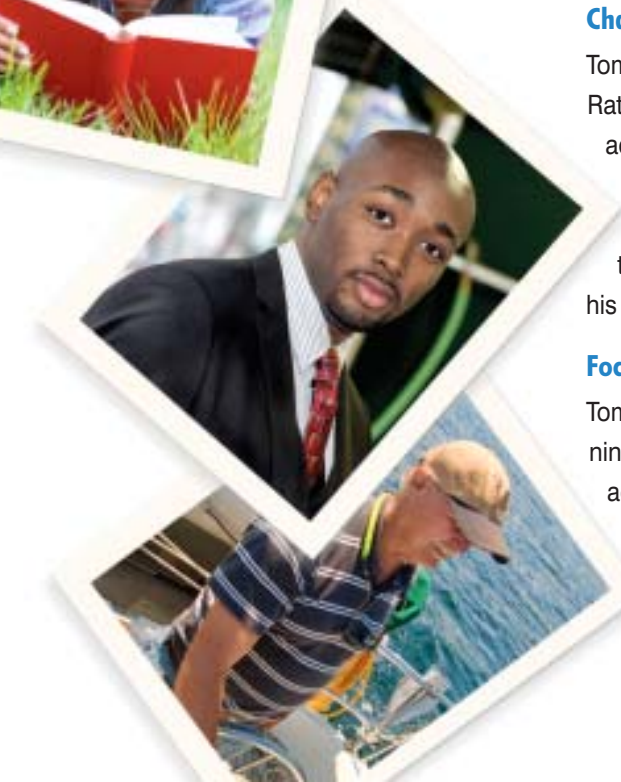
Smooth Sailing at Sixty

When they reached 60, Tom and his wife were on track to retire in a few years. They moved more of their savings into less volatile investments, since they knew they'd begin tapping into their nest egg soon. But even to this day, Tom keeps a small portion of savings in stocks to potentially achieve returns that beat inflation.

Your Time Line

Tom's early start and investment strategy helped build the savings he and his wife would need for retirement. Although your path to retirement will be different, take it from Tom: Steady contributions and a long-term outlook can help you reach your retirement goal.

** Tom is a fictional character used for illustrative purposes only.*



On a Scale of 1 to 5

What type of investor are you? If you're not sure, don't worry. Many retirement investors aren't sure how to answer that question. Here's another one you may not know the answer to: Why does it matter?

Risk Check

Understanding what type of investor you are sheds light on your attitude toward

investment risk. And that's important because all investments carry risk. Look at so-called "safe" investments, for example. While chances may be slim that they'll lose value, there is the risk that their earnings won't keep pace with inflation. Knowing how you feel about risk, along with other factors, can help guide your investment decisions.

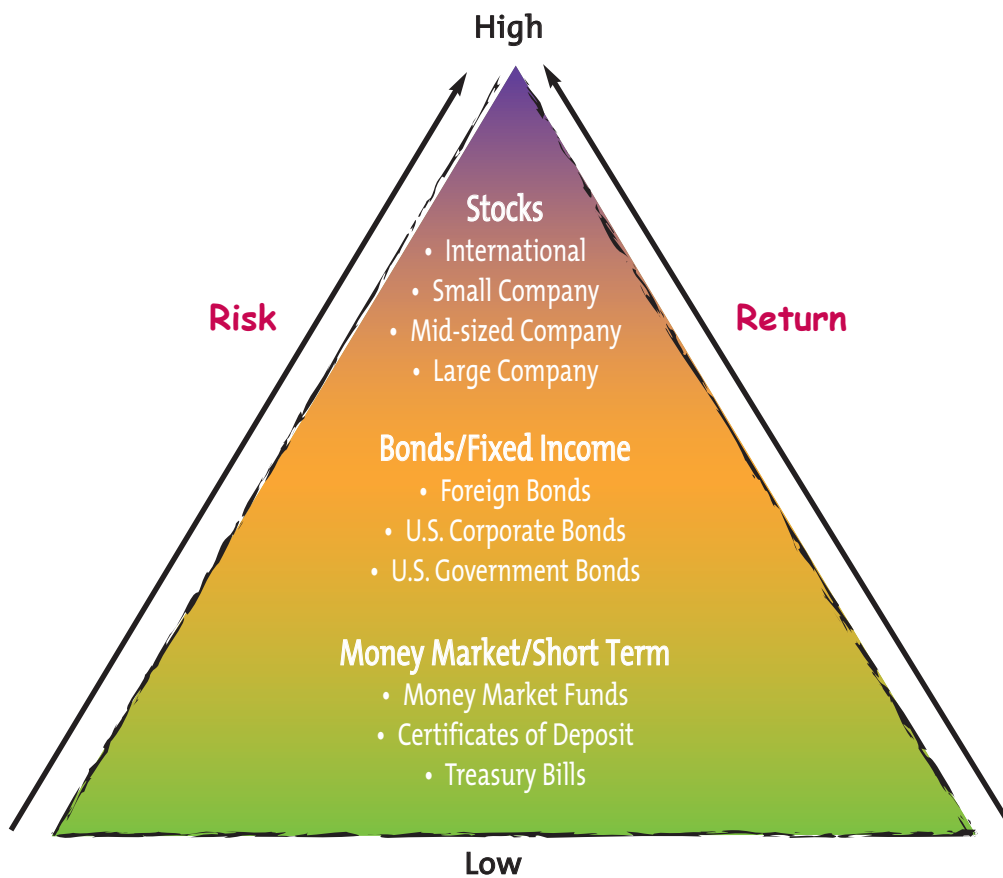
Check This Risk Factor, Too

There's another way risk fits into the picture and that's *risk capacity* — your ability to financially afford the risk you're taking. Here's an example: Your investor profile indicates that you're an aggressive investor. This is reflected in your retirement account, which is 85% invested in stocks. The only problem is that you're 65 years old and planning to retire in a year or two. If the stock market hits the skids, heavy investment losses would prevent you from being able to retire on time. Even though your risk tolerance is high, your financial capacity for risk is not.

That's Me!

There's one more thing you should know about risk tolerance: It can change. Events in your life or simply nearing retirement age can cause your feelings about investment risk to change. You may want to keep an investor profile quiz handy so you can do a risk check from time to time.

Relative Risks of Different Investments



The Higher the Risk, the Higher the Potential Return

Source: NPI

Investor, Know Thyself

Please read the following statements. Rank yourself on a scale from 1 to 5 according to how strongly you agree or disagree with each statement and circle your choice.

1 = strongly disagree

2 = moderately disagree

3 = neutral

4 = moderately agree

5 = strongly agree

Then, total the numbers circled and see where your score falls on the Investor Profile. Remember, this quiz is not meant to tell you which investments to choose. Rather, it may help you better understand your objectives and feelings about risk so you can select investments that are right for you.

1. I would not change my retirement investments if the value of my investments declined by 10%.
1 2 3 4 5
2. I am willing to risk losses to my retirement investments.
1 2 3 4 5
3. As a rule, I wouldn't use CDs or other "very safe" investments in my retirement planning.
1 2 3 4 5
4. I don't consider myself a conservative investor.
1 2 3 4 5
5. I might be willing to invest a small part of my retirement money in bonds or money market investments, but I prefer to keep most or all of my investments in stocks.
1 2 3 4 5
6. I prefer using stock funds for my retirement money, even though bond funds usually are less risky.
1 2 3 4 5
7. I prefer using investments that are likely to produce higher returns, even though these investments are riskier.
1 2 3 4 5
8. Stock funds are better investments for retirement than bonds, money market investments, or CDs.
1 2 3 4 5
9. I seek the highest potential return for the investments in my retirement plan.
1 2 3 4 5
10. In choosing retirement investments, the growth of my investments is more important to me than risk.
1 2 3 4 5

Investor Profile



10

Conservative

Conservative investors want to preserve their account balances and avoid short-term losses. A conservative investor's retirement plan account might consist mostly of fixed income and cash equivalent funds or portfolios with only a small portion of stock investments. The earnings potential of such an account is lower than it would be with a larger portion invested in stocks, but the values may be steadier, too.



30

Moderate

Moderate investors are willing to risk some short-term losses for the chance to earn higher returns, so their plan accounts might include a more evenly balanced mix of stocks, bonds, and cash equivalent options than a conservative investor's account.



40

Aggressive

Aggressive investors take on an even greater risk of short-term losses than moderate investors. The increased risk provides them with the potential for higher returns. An aggressive investor's plan account might be heavily weighted in stock investments with a much smaller amount in bonds and cash equivalents.

50

An INVESTMENT Checklist

There is a steady flow of information investors can tap: economic data, daily changes in the markets and investment values, corporate earnings reports, forecasts of where the economy is headed. Professional investors may welcome this flood of data, while others might find it to be overwhelming.

The good news is that you don't have to be a professional money manager or economist to manage your retirement account successfully. It is important, however, to understand how to choose investments that are most suitable for you. You can use this checklist as a guide.



✓ Compare Goals

Start with the basics: Identify the funds or portfolios your plan offers that have objectives that match your goals. If the investment's objectives don't match yours, keep looking.

✓ Check Performance

Past performance cannot predict how an investment will perform in the future. However, a fund or portfolio's performance history can provide helpful information by showing you how the investment fared in the past. The longer the history, the better the picture you'll have of its performance during different market conditions.

Check performance for a variety of time periods. To see how the fund or portfolio performed relative to the market, compare its performance with a comparable benchmark index for the same period. Pay special attention to performance during periods when the market declined.

✓ Avoid Duplication

Not all securities react in the same way when market conditions change, so diversifying the investments in your retirement account — investing in a variety of securities and types of securities — generally helps lower overall risk. Before you invest in a new fund or portfolio, make sure its holdings are different from your current investments to avoid duplication.

✓ Check Asset Allocation

Asset allocation refers to how you divide up your retirement account between the different types of securities or asset classes (stocks, bonds, and cash equivalents). The two primary factors that determine asset allocation are risk tolerance (how comfortable you are with risk) and time frame (how long it will be until you retire). Any time you're thinking of adding a new investment to your account, make sure it fits in with your asset allocation first.

This newsletter is designed to provide useful information about retirement plans and investing your plan account savings. It is an advertisement prepared by NPI for the use of the sender. While the information contained herein was obtained from reliable sources, it cannot be guaranteed as to completeness or accuracy. Before acting on any of the information provided, consult your professional advisor.