

# OnTrack

## What's *Your* INVESTMENT STRATEGY?

Do you enjoy choosing investments for your retirement account? Some people really get into it. If you're not one of them, don't worry. As long as you understand the investing basics, you have the tools you need to make decisions about your retirement investments.

### Pick by Performance?

Investing in funds or portfolios that performed well last year may seem like a good idea. But there's no guarantee that an investment that just had a great year will be able to repeat its stellar performance. Many things can impact investment performance, such as the state of the economy, consumer confidence levels, interest rates, the underlying companies' performance, and even domestic and foreign policy issues. Always remember: Past performance is no guarantee of future results.

When choosing a fund or portfolio, look at its *long-term* record and average annual total return, among other factors. Compare its performance to that of an appropriate benchmark index. If the fund's returns consistently measure up to an appropriate benchmark over a number of years, it's a good indication that the fund has a quality manager or management team.



### Track a Trend?

Hot investing trends and fads can be very appealing — but they can also be fickle. Just like the latest fashion, an investing trend can be super hot for a period of time . . . and then fade away. Think back to the dot-com boom. Many of the companies that fueled the boom ended up failing. And many of the investors who hopped on the bandwagon ended up with significant losses when the bubble burst. Always remember: In investing, if something seems too good to be true, it probably is.

### Keep It Simple!

Rather than chasing trends or hoping that last year's winners keep "over performing," stick to the basics. Your plan offers funds or portfolios that represent the major asset

classes — stocks, bonds, and cash equivalents. Choose a mix of investments that is appropriate for your risk tolerance, the amount of time you have to invest, and your investment objectives.

When you invest in a mix of different asset classes, you are diversifying\* your investments. This helps you manage risk and may help improve your returns. The theory behind diversification is that when one asset class (stocks, for example) loses value, another asset class (such as bonds) may deliver positive returns that can help offset or minimize those losses.

Don't feel that you have to keep switching your retirement investments around. A simple strategy is often the best: Come up with an asset mix that works for you, contribute regularly, and keep a close eye on your account.

*\* Diversification does not ensure a profit or protect against loss in a declining market.*

## Your Retirement's BEST FRIENDS

Here's a story about two good friends. They're similar in many ways: They enjoy the same hobbies, have the same taste in movies and music, and often vacation at the same place. But when it comes to saving for retirement, they're very different.

### Best Friends

Sara and Suzanne\* were hired around the same time and have been best friends ever since. Both are eligible to retire next year, but their financial situations are substantially different. Sara has built up a sizeable retirement savings account and is confident she'll be able to afford a comfortable retirement if she's careful with her money.

Suzanne, on the other hand, doesn't have nearly as much. As a result, she has already scaled back her retirement dreams because she's worried that her nest egg won't last. And she's weighing the pros and cons of working for several more years.

### How Did Sara Do It?

Did Sara pinch pennies her whole life? Did she put a lot more into her account than Suzanne? Actually, no. Sara and Suzanne each contributed the same

amount to their retirement plan accounts over the years.

Is Sara smarter about investing than Suzanne? Are better investment returns the reason for the sizeable difference in their nest eggs? No, that's not it either. Both friends earned the same average annual total returns on their retirement investments over the years.

### Take a Look

Here's why the two friends' retirement prospects are so different. Sara began saving \$150 a month when she was 25 and continued for the next 40 years. She never



## Who Saved What and When

	Sara started at age 25	Suzanne started at age 45
Monthly contribution	\$150	\$300
Number of years	40	20
Total contributed	\$72,000	\$72,000
<b>Account balance at age 65</b>	<b>\$393,722</b>	<b>\$156,278</b>

\* Sara and Suzanne are fictitious characters.

The information used in this table is hypothetical and is used for illustrative purposes only. It assumes an average annual total return of 7% (compounded monthly) and is not intended to show the performance of any particular investment. Actual returns cannot be predicted and will vary. Income taxes (and a possible penalty) will be due on accumulated amounts when received from the plan.

Source: NPI

took money out of her retirement account, even when she needed a new car, had to replace the roof on her home, or needed money to help pay her daughter's college expenses.

Suzanne wasn't as disciplined as Sara. She didn't start saving for retirement until she was 45. Once she did start, however, she socked away \$300 a month for 20 years without missing a contribution. Unfortunately, her balance never caught up with Sara's. There just wasn't time.

### The Real Reason for the Difference

Time is the real reason Sara smiles when she thinks about retiring while Suzanne stresses. Because Sara started to save so much earlier than her friend, she was able to put the power of compounding to work for a longer period of time.

Compounding is what happens when you make an initial investment and it earns income in the form of interest, dividends, or capital appreciation. You now have a bigger "pot" of money (your initial investment

plus the income it earned) invested and potentially earning more income. All things being equal, the longer you have to let investment earnings compound, the bigger your account balance may be in the end.

### Starting Now

Now that you see how powerful time and compounding can be, make them *your* retirement's best friends. It's not too late, but the clock *is* ticking. Don't wait any longer to start saving more.

## Can You Do More?



What if Sara had been able to increase her retirement plan contribution from time to time? Here's how Sara's account would look if she'd found an additional \$50 a month to contribute every so often.

### Sara's monthly contribution

From age 25–34	\$150	\$150
From age 35–44	\$150	\$200
From age 45–54	\$150	\$250
From age 55–65	\$150	\$300
<b>Account balance at age 65</b>	<b>\$393,722</b>	<b>\$489,421</b>

The information used in this table is hypothetical and is used for illustrative purposes only. It assumes an average annual total return of 7% (compounded monthly) and is not intended to show the performance of any particular investment. Actual returns cannot be predicted and will vary. Income taxes (and a possible penalty) will be due on accumulated amounts when received from the plan.

Source: NPI

## How Does YOUR Garden Grow?

Spring is here and everything is growing. Does that include your retirement savings account? Try thinking of your savings as a garden. In both cases, the goal is to promote growth and avoid doing things that might sabotage the end result. Here are some common missteps to guard against — in your garden *and* in your retirement account.

### Watering Too Sparsely

The amount you contribute can make a big difference in the growth of your account balance. Contributing too little can stunt your account's growth. Plan to increase the amount you're contributing gradually until you're saving enough to meet your goal. The cut in payroll taxes for 2011 presents a perfect opportunity to grow your account. Instead of letting the increase in take-home pay slip through your fingers, put it to work by increasing your contribution.

### Planting Too Conservatively

The stock market can be a scary place to invest, especially when the market is dropping. But if you focus only on the short-term risks of owning stock funds or portfolios, you might decide to invest your retirement account too conservatively. Over the long-term, stocks have earned returns that have beaten inflation. If too much of your account is in lower risk investments (such as cash equivalents), there may not be enough long-term growth to meet your retirement goals.

### Changing Crops Abruptly

Ups and downs are part of investing in stocks. If volatility causes your account balance to drop sharply, resist the urge to cut your losses and sell all your stock investments. Why? Because if the market eventually recovers, as it has after past declines, you'll be watching from the sidelines.

Much of the stock market's past growth has often occurred over short time periods.

If you're not invested in stocks during similar periods that might occur in the future, you may stunt your account's long-term growth.

### Pruning Unnecessarily

If you change jobs, it can be tempting to cash out your account when you leave your employer. But cashing out can be expensive. If you take a distribution and don't roll it over to an individual retirement account (IRA) or another employer's plan, the distribution generally will be taxable,\* and there may be an additional 10% early withdrawal penalty. (Exceptions apply.) You'll end up with a lot less cash than you expected. And you could jeopardize your retirement.

### Cultivating Success

A green thumb may come in handy out in the garden, but you don't need any special skills to cultivate your retirement savings. Just tend to the fundamentals — contribute early and often, choose investments that fit your goals, and review your account at least once a year.

*\* Qualified Roth distributions are not subject to federal income taxes when all tax law requirements are met.*



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