YOUR RETIREMENT SAVINGS PLAN

PlanWorks®

FALL 2008

How Might the Election Affect the Economy and Markets?

The 2008 presidential election on Nov. 4 will culminate a lengthy campaign for our nation's highest office. Many investors are wondering how the election will impact the economy and financial markets.

Past Presidential Election Cycles

Some analysts believe that since the 1940s, the stock market has followed a "presidential election cycle" in which markets do very well in the year preceding a presidential election and in the election year itself, and not as well in the first two years following an election.

In looking at the 14 four-year election cycles since 1948, during years three and four in the cycles, the S&P 500 posted annual returns of 22.3 percent and 12.6 percent, respectively. However, in years one and two, the returns dropped to 7.3 percent and 10.1 percent, respectively.[1]

The theory is that during the first half of their term, presidents are less focused on re-election and, therefore, more inclined to push for long-term economic growth policies that may result in short-term economic pain. As re-election time nears, presidents may use fiscal stimulus to help grow the economy and build voter confidence.

Not a Typical Year

So far, this election year has not followed the typical economic or stock market pattern. As of Aug. 7, the S&P 500 was down almost 14 percent since January, and the economy has been flirting with recession all year. History, however, offers some encouragement: During the 19 election years since 1928, the S&P 500 has gained an average of 7 percent between May 1 and Election Day, and the market has declined during this period only three times in the past 80 years.[2]

Of course, past market performance is no guarantee of future results. The best strategy for most investors is to commit to a regular, systematic investing program that matches your time horizon and risk tolerance.[3]

[1]*Source: NYU Stern*

[2]*Source: Investech Research*

[3]*Systematic investing does not guarantee a profit or protect against loss in a declining market.*

COLLEGE **OR RETIREMENT?**

Many Americans today must meet the challenge of saving for both retirement and their children's college educations at the same time.

Q: If you don't have the resources to save for both of these financial goals right now and need to prioritize, which should you focus on first?

A: Most financial advisors would agree that it's better to save for retirement before college if you have to choose one or the other.

REASON: Whereas everyone is responsible for his or her own financial security in retirement, there are many financial options available to help students and their families pay for college, including scholarships, grants and student loans.

ALTERNATIVE: The Roth IRA is an investment vehicle that can help you accomplish both objectives. Contributions (but not earnings) can be withdrawn from Roth IRAs at any time tax- and penalty-free to meet college expenses, while earnings can be left in the account to continue accumulating for retirement.

Planning for Your Child's Future?

Here are three investment vehicles to help you save for college:

- **Section 529 plans—** These allow tax-deferred growth and tax-free distributions for qualified education expenses. See IRS Publication 970 for more details on 529 plans.
- **Coverdell Education Savings Accounts—** You can contribute up to $2,000 per student each year to these specially designed investment trust accounts. Contributions grow tax-deferred and can be withdrawn tax-free for college tuition.
- **Custodial accounts—** UTMAs or UGMAs can be set up for the exclusive benefit of a child. You, your spouse and your children's grandparents can each contribute up to $12,000 a year. You should be aware that the account belongs to the child upon age of majority.

You should research any plan before investing, paying attention to the child's control of the assets and tax rules.

Combating Inflation

One of the biggest financial headlines this year has been the steep price hike of many consumer goods, especially food and gasoline. A result has been an uptick in the inflation rate—it rose by 4.1 percent during the 12 months prior to February 2008, compared to a 2.8 percent annual increase this decade.[1]

In the short term, higher inflation means paying more at the grocery store and gas station. But the long-term effects of inflation on the purchasing power of your retirement portfolio can be even more damaging.

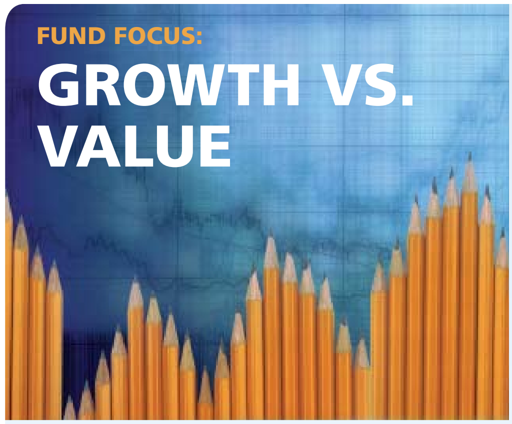
For example, let's conservatively assume a 3 percent inflation rate for the next 25 years. At this rate, everything you buy in 2033 will cost you *twice* as much as it does today. Think about it: A shopping cart full of groceries that costs $150 now will cost $300 in 25 years, an automobile that costs $25,000 now will cost $50,000, and a home that costs $300,000 now will cost $600,000.

Therefore, it's critical that your portfolio's growth stay ahead of the inflation rate to ensure that your nest egg is sufficient to meet your day-to-day living expenses in retirement. For most people, this means including an appropriate mix of equities. While riskier in the short term, stocks have outperformed bonds and cash equivalents over the long term, returning an average of 11.8 percent each year between 1986 and 2006.[2]

How much should you keep in stocks? Since every investor has his or her own time horizon and risk tolerance, there's no single formula that will work for everyone. We encourage you to work with your financial advisor for assistance in constructing your portfolio.

[1]Source: Bureau of Labor Statistics
[2]As measured by the S&P 500® Index. Past performance is no guarantee of future results.

FUND FOCUS:
GROWTH VS. VALUE



THERE ARE TWO BROAD SCHOOLS OF THOUGHT when it comes to purchasing stocks, and these have resulted in two primary investing styles: growth and value. Understanding these styles may help you identify the right stocks and mutual funds to meet your investment objectives.

GROWTH: HIGHER POTENTIAL AND RISK

A growth stock or mutual fund consists primarily of shares of companies that are believed to be growing at an above-average rate when compared to its industry or the overall market. Growth stocks commonly offer higher potential for price appreciation but usually at above-average risk. The companies in a growth portfolio are generally in an expansion phase and are not expected to pay out dividends, but rather reinvest earnings in the company.

VALUE: LOWER PRICE

Conversely, value stocks and mutual funds consist primarily of shares of companies that are considered undervalued. Valuation is determined by looking at such components as a company's price-to-earnings (or P/E) ratio, price-to-sales ratio and price-to-book value.

Typically, value stocks are companies that are priced lower than similar companies in the same industry. These stocks may have fallen out of favor because the market is reacting to a negative event or bad news. Investors in value stocks believe these companies have sound business models and, therefore, may rebound once investors regain confidence. Generally, value-oriented stocks are seen as long-term investment opportunities that may pay higher dividends than growth stocks. The risks in value investing are that it may take time for the company to recover its stock price, or it may never recover.

Which strategy shows the better returns depends, in part, upon the periods over which they are compared. In general, growth stocks and mutual funds perform better when the economy and market are advancing, while value stocks and funds tend to do better during economic slowdowns and market downturns.

Including a mix of both growth and value stocks and funds is usually the best way to diversify your portfolio and achieve your investment goals.

Should You Buy a Hybrid?

If it seems like the shape and sound of vehicles on the highway is changing, it's not your imagination. More than 1 million hybrids have been sold worldwide by Toyota alone, and the demand for hybrid cars is outpacing the supply.

These vehicles, which run on both an electric motor and a gasoline engine, typically cost several thousand dollars more than conventional cars. So is a hybrid worth the investment? Let's compare a hybrid that gets 46 miles per gallon to a non-hybrid that gets 31 mpg. If both cars are driven 15,000 miles a year, this would require 326 gallons of fuel in the hybrid and 485 gallons in the non-hybrid. At $4 a gallon, the annual hybrid fuel savings would be $636. If the hybrid costs $3,000 more than a similarly equipped non-hybrid, it would take almost five years to break even with fuel savings.

But there are other long-term benefits. According to the *Kelley Blue Book*, the Toyota Prius holds its value better at trade-in than some non-hybrid Honda models. Also, some lenders, insurers and even employers offer incentives or discounts to hybrid owners.

***In making your decision,** consider how long you will keep the vehicle, standard maintenance costs and, of course, the environmental effect: Each gallon of gas saved reduces carbon dioxide emissions by about19 pounds.