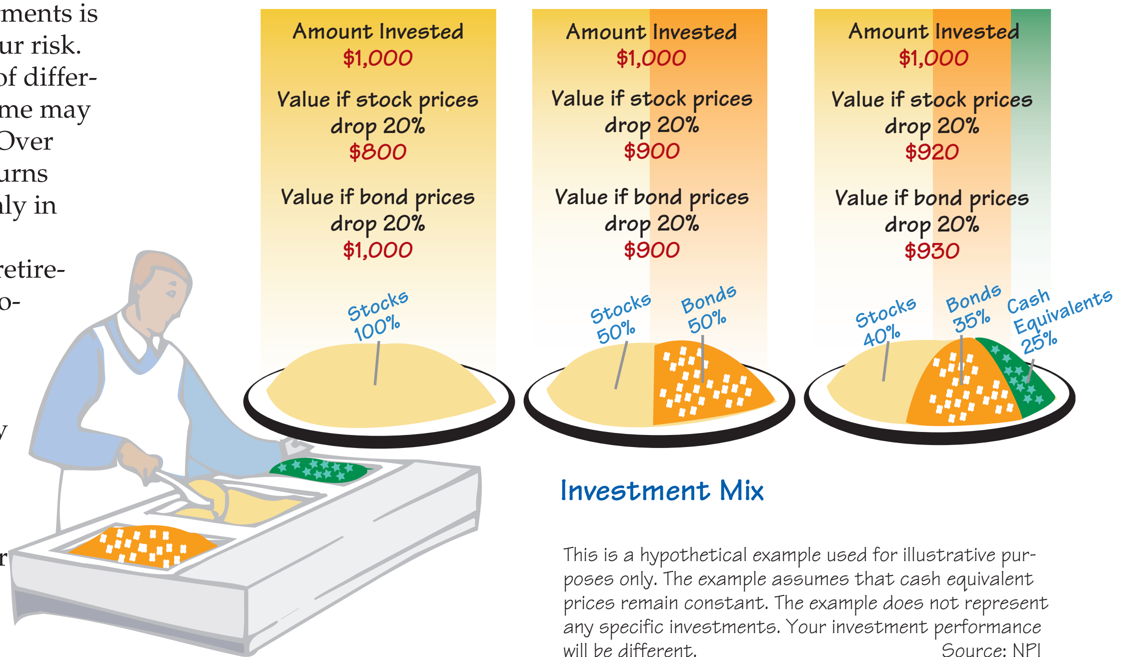
Fall 2004

INVESTMENT REPORT FOR PLAN PARTICIPANTS

Getting Diversification Right

Diversifying your investments is all about managing your risk. When you own a mix of different investments, gains from some may help offset losses from others. Over time, you may earn greater returns than you could by investing only in low-risk investments.

The funds offered by your retirement savings plan provide automatic diversification. That's because each fund invests in a mix of different securities. But being fully diversified typically calls for more variety than any one fund or portfolio can provide. Following these three guidelines can help you further diversify your plan account.



This is a hypothetical example used for illustrative purposes only. The example assumes that cash equivalent prices remain constant. The example does not represent any specific investments. Your investment performance will be different. Source: NPI

Spread Out

Instead of investing your entire account in stocks, bonds, or cash equivalents, consider selecting funds that own *different* types of investments. When stocks aren't performing well, bonds may be up. When bonds are falling, stocks may be rising. By spreading out your investments, you spread your risk.

Add Variety

You can increase diversification even more by investing in *different* market segments within the same investment type. For example, you might choose one fund that invests in large company stocks and another that invests in medium-size or small company stocks. That increases diversification because market segments may perform differently at different times.

Avoid Repeats

When you select your funds, watch out for duplication. For example, say your plan has two stock funds that have the same objectives and investment style. The funds are likely to perform similarly under the same market conditions. They may even have some of the same holdings. So, investing in both funds probably won't add much diversification to your account.

Diversification doesn't ensure positive investment returns or eliminate the possibility of losses. But, by getting diversification right, you'll be better prepared to weather market declines and achieve your long-term investing goals.

A Recipe for Savings Success

A recipe for retirement savings has two main ingredients — contributions and investment returns. But the secret to success could be in the baking.

Contributions come first because they're the ingredient that makes future growth possible. Adding in investment returns may help your balance rise nicely. But for best results, you should allow plenty of time.

Cook's Secret

Why is time so important? It's all because of compounding.

The process starts when your plan reinvests the returns that your investments earn in more fund shares or portfolio units. Then, your account has the potential to grow faster because you have more invested. Continuing this cycle of compounding returns for many years helps boost your account balance.

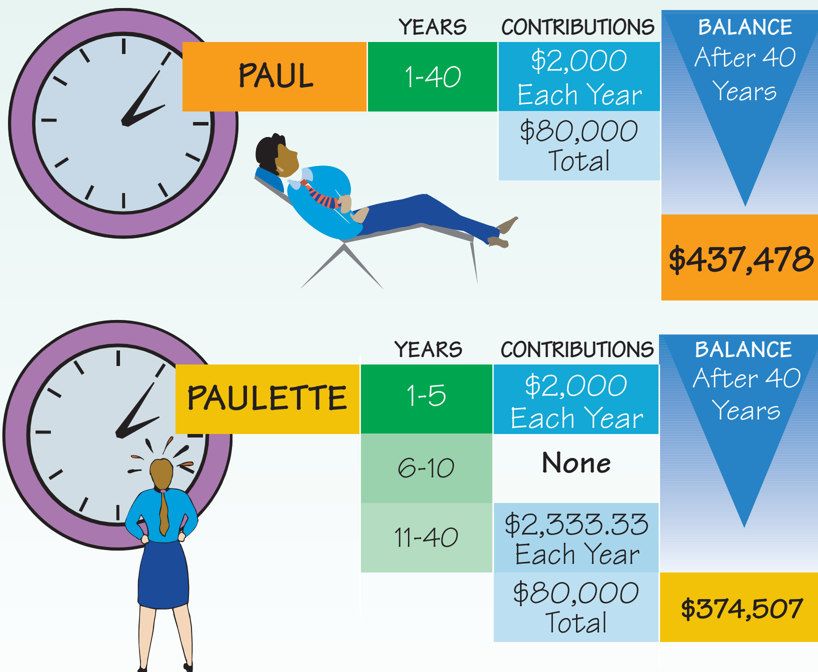
Combining Contributions, Investment Returns, AND TIME

	Contributions	Investment Returns	Total Balance
10 Years	$18,000	$7,963	$25,963
20 Years	$36,000	$42,139	$78,139
30 Years	$54,000	$128,996	$182,996
40 Years	$72,000	$321,722	$393,722

Assumes a $150 monthly investment and a hypothetical 7% annual return compounded monthly. Your investment returns, contributions, and balance may be different. Source: NPI

Don't Take Time Off from Saving

Paul and Paulette contributed the same total amount, but Paul ended up with **$62,971** more because he never took time off from saving.



This is a hypothetical example that assumes contributions are made monthly and investments earn a 7% average annual total return compounded monthly. Your contributions, investment returns, and balances will be different. Source: NPI

Reaching Your Goal

When you use the power of compounding, you may be able to reach your savings goal with lower contributions. For example, let's say your goal is to build a $200,000 balance in your retirement plan account and your investments earn a hypothetical 7% average annual total return.

If you save over 20 years, you'll need to contribute $384 a month (a total of $92,160 in contributions) to achieve your $200,000 goal. You could reach the same $200,000 goal by contributing just $164 a month *for 30 years* (a total of $59,040 in contributions). Ten years more time saves you $33,120 of contributions!

Keep Saving

Here's another secret: It's hard to make up for lost time. If you stop saving, you could pay a high price, even if you later start contributing more to your account to try and make up for the years you didn't save (see chart).

So, what's the best recipe for reaching your retirement savings goal? Combine contributions and investment returns with plenty of time. And don't stop saving.

This newsletter is designed to provide useful information about retirement plans and investing your plan account savings. While the investment performance 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. 7/6/04 FX2004-0702-0091/H Copyright 2004 by NPI.