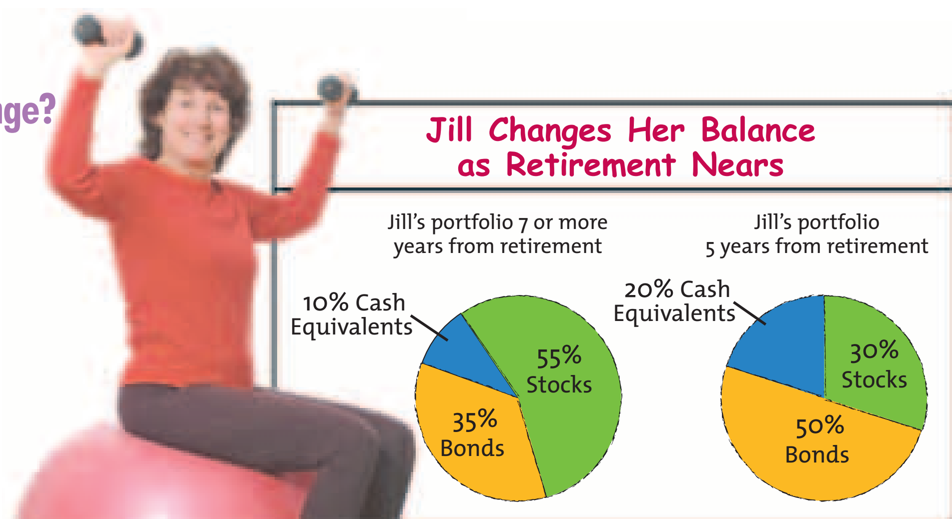
OnTrack

Stay the Course or Make a Change?



This example is hypothetical and is used for illustrative purposes only. The proper asset allocation for your situation may differ. In applying any asset allocation model to your situation, you should consider your other assets, income, and investments (for example, your home equity, IRA investments, savings accounts, and other retirement accounts) in addition to the balance in this plan.

Investing for retirement is a long-term goal. But that doesn't mean you should select your investments and forget about them. While it's usually not smart to constantly switch your investment lineup, making changes is perfectly acceptable under certain conditions. Here are some situations that may call for changes.

When You're Nearing Retirement

If your retirement plan account is heavily invested in stocks as you approach retirement, it may be time to adjust your investment strategy. You may want to consider moving some of your money out of stocks and into less risky investments, such as bond and cash equivalent investments.

This approach can help lower your risk exposure and help protect your account from large losses should the stock market tumble. Unlike younger participants, you probably can't afford to take on too much investment risk since your short investment horizon doesn't allow you much time to ride out any downturns.

Shifting from a growth strategy to one that seeks to preserve some of the gains you have made is a reasonable approach as you near retirement. But don't ignore stocks completely. Consider keeping a percentage of your assets invested in stocks because of their long-term growth potential.

When You're Concerned About Volatility

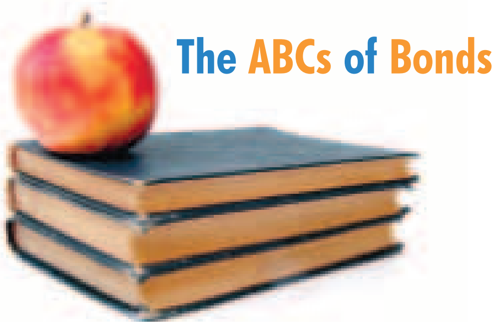
The prices of securities rise and fall all the time. This is known as market volatility. While such movement is part and parcel of investing, there are times when the markets are particularly volatile for extended periods.

Experts recommend that retirement plan investors try to keep a long-term perspective during periods of volatility and resist the temptation to make a lot of changes to their investments. However, if you find that major market declines are keeping you awake at night, then it may make sense to adjust your investment mix so you're more comfortable with its level of risk.

When Your Allocation Changes

Over time, changes in an investment market — up or down — can alter the makeup of a portfolio, even one that was carefully allocated among different asset classes. If, for example, stocks have been performing well, the percentage of stocks in your account may grow beyond your intended allocation — and beyond your risk comfort level.

Rebalancing allows you to reestablish the percentages you originally allocated to stocks, bonds, and cash equivalent investments. One way to rebalance is to transfer money among investments. Alternatively, you can invest new contributions in the underrepresented asset class or classes until you achieve the allocation you want.



The ABCs of Bonds

The list of investment choices offered by retirement plans usually includes at least one bond fund or portfolio. Adding bonds to an investment mix provides diversification. And sometimes, bonds deliver higher returns than stocks do.

Bond Fund Basics

Bonds are issued by corporations and by federal and state governments and their agencies to raise money for a variety of purposes, such as building new factories, expanding operations, or constructing roads and bridges. The issuer pays the investor interest while the bond is outstanding and returns the bond's face value upon maturity. A bond fund or portfolio holds many individual bonds.

Some bond funds and portfolios specialize in buying and holding bonds issued by corporations, others focus on government bonds. There are also funds and portfolios that specialize in holding short-, mid-, or long-term bonds.

Bond Performance

When the stock market is volatile or declining in value, bonds may provide some stability since they often increase in value when stock prices fall. You can see from the chart that bonds performed well during the early part of this decade when stocks declined significantly.

Bond Risks

Bond investors may encounter three different types of risk.

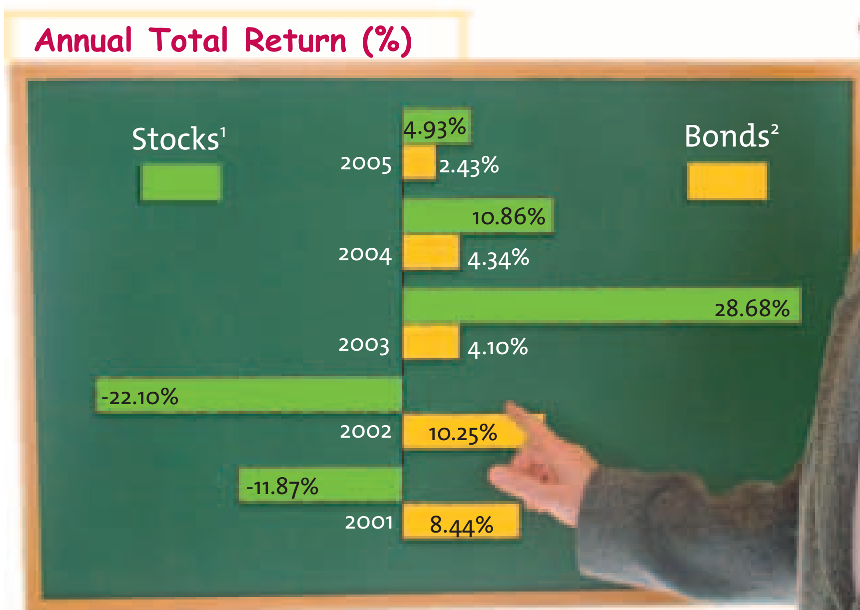
Interest-rate Risk. As interest rates move up and down, bond prices change. When rates rise, newly issued bonds generally pay a higher rate of return than similar, older bonds. As a result, the market price of existing bonds goes down because there is less demand for them. The opposite generally happens when interest rates fall.

Maturity Risk. Owning long-term bonds is riskier than owning short-term bonds since the future performance of the financial markets is impossible to predict. Issuers of long-term bonds generally compensate for the extra risk by offering higher yields.

Credit Risk. Some bond issuers are in better financial shape than others. The risk that an issuer will not be able to pay the interest on its bonds or repay the principal when the bonds mature is known as credit risk.

Would investing in bonds make sense for you? It's certainly worth considering. Just be sure to research your options before you invest.

Annual Total Return (%)



[1]Stocks are measured by the Standard & Poor's 500 Index, an unmanaged index of the stocks of 500 major corporations.
[2]Bonds are measured by the Lehman Brothers U.S. Aggregate Bond Index, an unmanaged index of U.S. government, corporate, and mortgage-backed securities.
Source: Russell Data Services

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.

9/27/06 FX2006-0926-0051/E Copyright 2006 by NPI.