CITY OF AUSTIN

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FINANCIAL Footnotes

A retirement planning newsletter brought to you by Great-West Retirement Services®

The Right Mix

Attempt to maximize growth while minimizing portfolio risk.

Asset allocation means determining the right mix of stocks, bonds and cash equivalents to help you prepare for a comfortable retirement. It may also help to reduce risk in your investment portfolio.

Create a Timeline

Although your primary goal is retirement, your financial objectives probably fall into three categories: growth, income and protecting your investments from risk. While you're working, you may seek growth; as retirement approaches, your focus may shift to income generation and risk avoidance.

Pick and Choose

Only you know your risk tolerance, but experts agree your allocation should gradually become more conservative as you age. For example, while a mix of 80% stock funds and 20% bond funds might be fine when you're younger, at retirement age you might want to preserve your assets and generate income while continuing to seek growth. Consider adjusting your investment allocation over your working years to gradually get more conservative as retirement approaches. When you retire, depending on your risk tolerance, you may have a more conservative mix of 40% stock funds and 60% spread among bond funds and cash equivalents.

Rebalance to Stay on Track

Once you've chosen an allocation, review it periodically to make sure your savings are on track. You may need to rebalance if personal circumstances change, or if market performance has caused certain asset classes to become overweighted in your portfolio.[1] For example, if the stock market has gone up while the bond market has stayed flat, you may need to sell a portion of your stock funds and re-invest the proceeds in bond funds to maintain your original mix.

Finally, remember that no single asset allocation is right for every investor. Yours should reflect your risk tolerance, time horizon and retirement goals.

1. Rebalancing neither ensures profit nor protects against loss in declining markets. Investors should consider their financial ability to continue a rebalancing plan during periods of fluctuating price levels.

Your Finances: Why We're All So Interested

SEE REVERSE

Investment Overlap

How diversified is your investment portfolio?

If you own several different funds, you may think you are diversified. But what if *all* of your funds hold stock in one company—say, General Widget? That's **overlap**—when you own the same stock or bond in more than one fund. The more overlap you have, the less you benefit from diversification. Check for overlap by reading your funds' periodic reports to see the stocks or bonds each individual fund owns.

For a fast take on overlap, check out the top-10 holdings of each of your funds. If most of your funds own the same few stocks or bonds, consider selling and directing the proceeds into funds that hold different stocks or bonds. That way, your portfolio can benefit from diversification.

Investments in Harmony

Make sure your savings are working together.

Think of a symphony orchestra: All the musicians play together. But it doesn't just happen by chance. The instruments must be positioned so the sounds blend: violins up front, brass in the middle and percussion in the rear. You aren't conducting a symphony, but you are coordinating something complex—your retirement savings. So you, too, must position all the components with great care. You have the savings you built through your workplace plan. Perhaps you own an Individual Retirement Account (IRA), or hold other assets outside of your tax-deferred savings accounts, like mutual funds, stocks, bonds or a certificate of deposit (CD).[2] Maybe your spouse or companion has savings and investments of his or her own, too.

To keep your assets working harmoniously, consider all of them together before making changes to your portfolio. Be sure to include your partner's investments before determining your household diversification and asset allocation strategies. Then, you might begin taking withdrawals from tax-deferred accounts like your employer-sponsored retirement plan or IRA (if you have one). You may even consider withdrawing money from a Roth IRA if you have the option.

The better your investments fit together, the better your chance of orchestrating a beautiful retirement.

2. Certificates of deposit are insured and offer a fixed rate of return, whereas both the principal and yield of bonds and stocks will fluctuate with market conditions.

For questions related to your account or investments, contact:

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Your Finances

Why We're All So Interested

Interest rates impact all your investments.

Interest rates are often called the cost of money. Actually, they're the price paid to *borrow* or *lend* money for a specified period of time. When you open a savings account, for example, or buy a certificate of deposit[2], the bank is borrowing your money and paying you for the use of it. The bank then lends your money to other banks and consumers and makes a profit by charging them a higher rate of interest than it is paying you.

What Goes Up Must Come Down

You probably have noticed that the interest rates on loans advertised by banks constantly change, and sometimes they go up or down quite rapidly.

Rising interest rates drive bond prices down, and falling rates drive them up.

Why do they fluctuate so much? One important reason is inflation. When inflation is high (or expected to be high), banks and lenders know that they eventually will be paid back with dollars that are worth less than the ones they loaned out. Let's say you have $1, and the annual inflation rate is 10%. A year from now, you'll need $1.10 to equal your original $1. So banks insist on higher interest rates to compensate them for the decline in their money's purchasing power.

Interest rates also move up or down when inflation expectations remain constant. That's because when the economy is doing well, businesses can find more opportunities to use your money profitably, and they are willing to pay a higher rate of interest for it.

Another powerful force is the Federal Reserve (the Fed), which sets national monetary policy and supervises banking operations nationwide. When the Fed fears that the economy is expanding so fast that inflation may increase, it tries to cool things off by pushing short-term interest rates higher so that businesses and individuals won't want to borrow as much money. In contrast, when the economy is contracting, the Fed lowers interest rates to stimulate borrowing and spending. When consumers begin borrowing and spending more money, the entire economy benefits.

Interest Rates and Asset Allocation

Keep in mind how changes in interest rates can affect different types of investments. Many stocks move in the opposite direction from interest rates as businesses pay more for loans and raw materials, their earnings are reduced and stock prices generally decline. Furthermore, interest rate changes have a more predictable impact on at least one interest-generating investment vehicle: bonds.

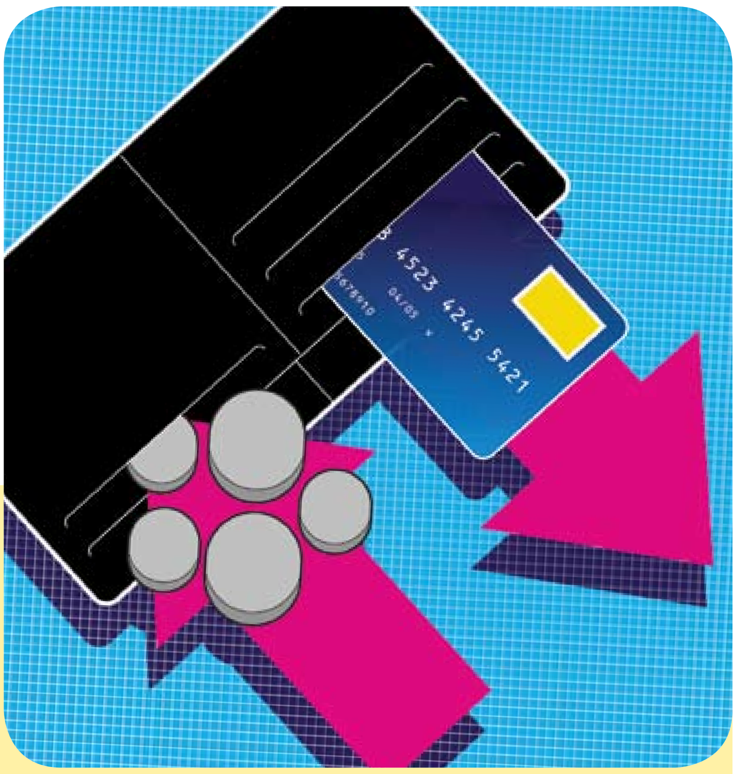
As a general rule, rising interest rates drive bond prices down, and falling rates drive them up. The reason: On the day a bondholder decides to sell his or her bond, current market interest rates for bonds of similar maturities will determine the price paid to redeem the bond. The bond's value will be lower when interest rates are higher than the bond's interest rate, and higher when interest rates are lower. Usually, the more years from maturity (repayment of the bond), the bigger the price change.

When you decide how to allocate the money in your retirement plan, you are basically choosing among:

1. Lending your money out in different ways (bond funds, cash equivalents, etc.)
2. Investing in earning and/or growth potential (stock funds)
3. A mix of the two

Now that you know how interest rates can impact your investments, think carefully about your asset allocation. Do your savings have the growth potential to stay ahead of inflation? The answer is very much in your interest.

2. Certificates of deposit are insured and offer a fixed rate of return, whereas both the principal and yield of bonds and stocks will fluctuate with market conditions.



Do I Need to Consolidate?

One bill vs. several—what is right for you?

Credit cards, student loans, car payments, mortgages. If you feel like you're always paying a different bill, you may be a candidate for loan consolidation. You've got lots of options to choose from, whether it's taking a personal loan from your bank or credit union or rolling your credit card balances to a lower interest rate credit card. The key is to reduce your interest rates—not just your monthly out-of-pocket costs.

These days, debt can be cheap and some credit card companies are charging single-digit interest rates for their best customers. So if you're paying upward of 18% on several credit cards, consolidating your debt could save you a lot of money. Online debt consolidation calculators can help you figure out just how much. Find one at a financial Web site like **smartmoney.com**.[3] Enter the current balance on your loans along with the interest rate charged, and you'll see how consolidation could affect your overall interest rate payments.

Of course, if you take this opportunity to reduce your principal payments, your new low-interest rate loan could end up costing you more than the old one. Extending the loan payoff timeframe could have the same effect. Additionally, if you are considering combining your credit card debt onto another credit card read over all the details of the balance transfer carefully, as many credit cards charge a balance transfer fee that can be as high as 5% of the balance transferred. Please remember to always read the "fine print" disclosures when considering consolidating your debt, whether with a credit card or a conventional loan.

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