Perspectives
FOURTH QUARTER 2010

Adjusting Your Asset Allocation

When you first began contributing to the Colorado PERA 457 Plan, you were given the opportunity to determine your asset allocation—the percentage of your retirement plan contributions to invest in stock funds, bond funds, and cash equivalent investments. Your asset allocation strategy is not just about percentages; it should reflect your life stage, your comfort with risk, and your overall financial goals.

Every year, take the time to review your allocations to make sure they are still in line with your original targets—and still suit your needs. In many cases, you'll be able to stand pat. But if a change is warranted, here are questions you should ask yourself, with answers that will help you take appropriate action.

Do I need to rebalance?

Sometimes market moves can shift your allocations away from their original targets. If you notice a change of more than 5 percent from your preferred allocations, consider rebalancing, or resetting your allocations back to their original targets.[1]

For example, a participant may have targeted an allocation of 70 percent in stock funds, 25 percent in bond funds, and 5 percent in cash investments. If due to market declines, the stock allocation has fallen to 65 percent, the participant's portfolio may lack the desired growth potential. It may be appropriate to direct new contributions to stock funds or shift savings out of an asset class (bonds or cash or both) that has grown too large into stocks.

Has my life changed?

Anything that substantially affects your income, expenses, or financial goals may be a good reason to rethink your strategy. If, for example, you get married and your spouse also has a workplace retirement plan, you should consider how the two plans work together. Check for any redundancies in the investments you've each chosen, and see if your long-term investment goals match.

Do my investments match my life stage?

Your age is the most important factor because it determines your time horizon: how many years before you retire and how many years you'll need to rely on your savings in retirement.

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1 Rebalancing and diversification of an investment portfolio do not ensure a profit and do not protect against loss in declining markets.

2011 Contribution Limits – Same as 2010

The IRS recently announced that the 2011 contribution limits for 457 plans will remain the same and will not increase. In 2011, the maximum amount you may contribute to your 457 plan is 100 percent of your includable compensation as defined by the Internal Revenue Code or $16,500, whichever is less.

The additional age 50 catch-up contribution remains at $5,500 in 2011 as well, which means you can contribute up to a maximum of $22,000 to your 457 plan if you are age 50 or older during the 2011 calendar year. In addition to the limits above, a special catch-up limit of $33,000 may be available to those participants nearing retirement. For more information, contact your local education counselor at 303-737-7710.

Asset Allocation

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1. **The early years: Can I afford to take more risk?**
   Younger investors, like those between their 20s and 40s, have several decades before they need to withdraw their money for retirement. Generally, your priority at this stage should be to maximize growth.

   Stocks have historically offered the greatest potential for long-term growth compared with other asset classes, although past performance does not guarantee or predict future results. You might consider holding as much as 80 percent or more of your portfolio in stock funds and 20 percent in bond funds. Occasionally, the value of your stock investments may decline. However, your greatest advantage is time. Over many years, the potential growth of your stock funds, combined with your continued contributions, may make up for those declines while helping to offset the impact of inflation.[3]

2. **Mid-life: Time to dial down?**
   By your 50s, you may have accumulated substantial assets but have less time to make up for losses. It's still important to maximize growth in order to offset the longer-term risk of inflation. Shifting a portion of your savings out of stock funds and into bond and cash funds can help you manage your risk of short-term losses, while maintaining a good measure of growth potential. You might choose to hold less than 70 percent in stock funds, with 25 percent or more in bond funds and 5 percent in cash equivalent investments.[3]

3. **Retirement: How can I make my savings last?**
   As you approach retirement, you want to protect your savings from sudden declines, so it may make sense to reduce your stock fund assets in favor of bond funds. You might consider an allocation of 40 percent in stock funds, 40 percent in bond funds, and 20 percent in cash equivalent investments. You may not want to abandon stock funds, though. You'll always need some growth, whether to maintain your lifestyle or leave a legacy for your heirs.

3 Representatives of GWFS Equities, Inc. are not registered investment advisers and cannot offer financial, legal or tax advice. Please consult with your financial planner, attorney and/or tax adviser as needed.

KeyTalk® Enhancements Coming Soon

During the first quarter of 2011, KeyTalk will be enhanced with speech recognition capabilities. Along with this new functionality, other highlights include the ability to request a statement or forms. The enhancements will be phased in beginning February 2011, with the rollout completed by the end of March 2011. The KeyTalk number for the Colorado PERA 457 Plan, 1-800-838-0457[2], will remain the same.

2 Access to KeyTalk may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons.

How Inflation Hurts Your Cash

Some investors may think of cash as the ultimate safe investment. But cash is not risk-free. Investors who keep most of their assets in cash face the risk of inflation.

Inflation, or the rise in the prices of goods and services, reduces the purchasing power of cash over time. Even at 3 percent per year—the average rate since 1926—inflation may slash the purchasing power of $1,000 to $543 over 20 years.[4]

For investors who are focused on saving for retirement, protecting your investments from the long-term effects of inflation could be in your best interest.

You can soften inflation's bite by maintaining a well-balanced portfolio that invests in stock funds and bond funds in addition to cash equivalent investments. For example, from January 1, 1926, to December 31, 2009, cash equivalent investments, such as money market funds, gained just 3.7 percent, while bonds averaged annual returns of 5.4 percent, and stocks returned 9.8 percent.[5]

Remember, one of your best defenses against inflation is a well-diversified portfolio.[1]

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at $1 per share, it is possible to lose money by investing in the fund.

4 Bureau of Labor Statistics (bls.gov)

5 Morningstar, Inc., Ibbotson® SBBI® 2010 Classic Yearbook. Stock return is based on the Standard & Poor's 500 Index. Bond return is based on the Long-Term Government Bond Index. Cash return is based on the 30-day Treasury bill. Past performance is not a guarantee of future results.

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