Commonwealth of Pennsylvania
Deferred Compensation Program

The Keystone News

Spring 2006

Upcoming Fund Change

The Commonwealth of Pennsylvania State Employees' Retirement Board (SERB) was recently notified that the investment manager, BGI, will be eliminating the U. S. Tactical Asset Allocation (TAA) fund from the Deferred Compensation Program as of June 30, 2006. After a thorough review process, it was decided that a 60/40 Balanced Fund will replace the TAA fund. The 60/40 Balanced Fund is comprised of core index funds already used in the Program (60% S&P 500 Index Fund and 40% Aggregate Bond Index Fund) with quarterly rebalancing. This rebalancing is much like the current menu of the Profile Funds.

Future contribution allocations and existing account balances within the TAA fund will automatically be moved to the 60/40 Balanced Fund if you do not change the allocation or move accumulated money prior to June 16, 2006. You may initiate these changes by visiting the Plan website at **www.sers457.com** or by calling the automated phone system, KeyTalk, at **(866) 737-7457**. Please watch for a future mailing and refer to the website for more details related to the fund change.

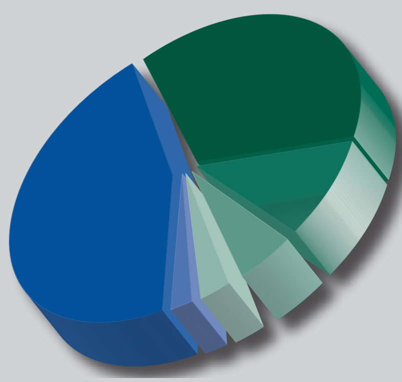
Asset Allocation vs. Diversification

Commonly confused, yet markedly different

Q: What is the difference between asset allocation and diversification?

A: Asset allocation is the first step in deciding the right mix of asset classes for your investments—one that balances risk and reward against your long- and short-term goals. For example, you may allocate 60% of your retirement savings to stock funds and 40% to fixed-income funds.

The next step is to decide what funds to choose within each asset class. This process is called diversification. In the example above, you decided to allocate 60% of your retirement savings to stock funds. You diversify by selecting several different types of stock funds. The more diversified your portfolio is, the less likely any one investment choice can hurt you with a poor performance.



A portfolio should be diversified at two levels: among asset categories and within asset categories. So in addition to allocating your investments among stocks, bonds, cash equivalents, and possibly other asset categories, you may also want to consider spreading out your investments within each asset category. The key is to identify investments in segments of each asset category that may perform differently under the same market conditions.

The Stock Market: A Primer

Understanding how Wall Street works

When you buy a stock, you become an owner of the company, entitled to a share of its distributed profits. People buy stock because they believe the value of their shares will increase in the future. If profits go up, share value usually goes up, so someone is likely to pay a higher price for that stock and you can sell at a gain. If the company's profits don't go up, you probably would have to sell at a loss to get someone to buy the stock from you.

Buying Stock

Say you decide to buy 100 shares of stock in (hypothetical) company X. You place your order with a stockbroker, who forwards it to a trader working with that broker on the floor of the New York Stock Exchange (NYSE). The trader goes to the post where company X is traded. (Each of the 2,800 companies listed on the NYSE trades at a post.) There, a specialist (a person whose job is to match orders to buy with orders to sell) brings together the trader looking to buy company X stock with a trader looking to sell company X stock. The trade is completed at a price acceptable to both parties and you own 100 shares of company X.

Stock Trading

Transactions like this happen thousands of times a day on the floor of the NYSE. Stock trading is still done face to face on most major stock exchanges of the world, but an increasing amount is being done by computer. The NASDAQ Stock Market (founded by the National Association of Securities Dealers, but now independently operated) trades by computer. The NYSE is the world's biggest stock exchange, but NASDAQ, where many of today's high tech stocks trade, is a close second.

You may not own individual stocks, but instead invest in mutual funds that own stocks. The trade proceeds the same way, whether you or the manager of your mutual fund do the trading. The reason for buying or selling stocks is the same, too: Both you and the mutual fund manager are hoping for the best possible return on your money.

Source: The New York Stock Exchange

Have Questions? Need Information?

Web site: www.sers457.com (TDD: 800-766-4952)

KeyTalk®: (866) SERS457 (866-737-7457)

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

Please Note: This newsletter does not constitute investment or financial planning advice.

We'd like to hear from you. Please send your questions/comments to Great-West Retirement Services Marketing, P.O. Box 1700, Denver, CO 80201, or fax (303) 737-3693.

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