City of Mesa 457 Deferred Compensation Plan

Fall 2010

The Landscape of Your Retirement

Questions?

Please visit the website at **www.mesadcp.com.***

Your local Great-West Retirement Services® representative, Scott Taylor, is also available to answer your questions.

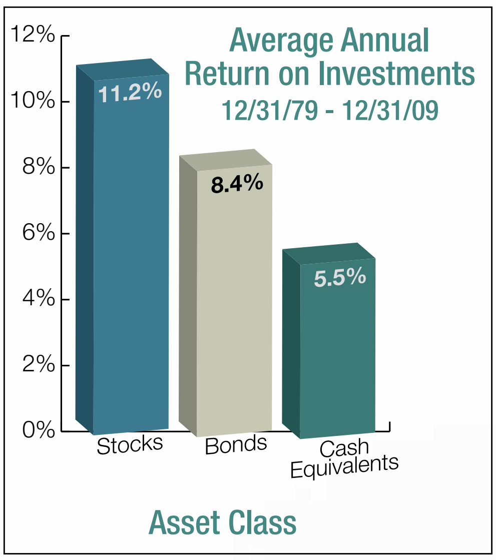
Local direct phone:
(480) 921-2885
Toll free:
(800) 933-9808
(voice mail only)

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

The Big Three

Get Your Arms Around These Key Investing Concepts

When you make investment decisions, such as how much of your City of Mesa 457 Deferred Compensation Plan account to invest in stock funds, bond funds and/or cash investments, there are three important concepts you should consider: volatility, market timing and rebalancing. Understanding each of these can help you make educated decisions that will give you the best chance of reaching your long-term savings goals.



1 *Volatility*

Volatility is a measure of how sharply an investment's value can rise or fall over a given period of time. Since the fall of 2008, investors have experienced first-hand, sometimes painfully, how volatile the stock market can be.

Compared with stocks, bonds are viewed as more stable over the short term because they pay a stated rate of interest over a set period. Cash investments, such as the Stable Value Fund*, are perceived as relatively safer because their principal value rarely changes.

Longer term, the picture is very different for the three asset classes. Historically, the longer stocks are held in a portfolio, the less volatile their performance. Since 1926, stocks have never lost ground over any 20-year period. And over the past 30 years, stocks have realized an 11.2% annualized return, outperforming bonds (8.4%) and cash (5.5%).[1] *Past performance is not a guarantee or prediction of future results.*

The upshot: The more time you have before you need to withdraw your money—10 years or longer—the greater the percentage of your assets you may consider investing in stocks.

2 *Market Timing*

Trying to out-guess the market—thinking you know which way the stock market is about to move and buying or selling accordingly—is called market timing. However, there's no evidence anyone can time the market with precision. Further, there are regulations in place that discourage and prevent investors from timing the market with short-term trading of mutual funds. Some investments may even impose redemption fees, and/or transfer restrictions, on certain transfers, redemptions or exchanges if assets are held for less than the period stated in the fund's prospectus or other disclosure documents.

During a market downturn, it may be tempting to cash out of stocks and jump back into the market later when times are better. However, a recent study by market research firm DALBAR, Inc. found that the average investor dramatically lags the broad market, primarily because he chooses the wrong times to jump into and out of stocks.[2] For the 20 years ended December 31, 2009, DALBAR reports that equity fund investors earned an average annual return of just 3.2%, compared with 8.2% for the S&P 500® Index.[3] With this in mind, you may stand to earn potentially stronger returns over the long run if you simply stay invested, rather than try to time the market.

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3 Rebalancing[4]

When the market shifts, the way your investments are allocated—or divided—among stocks, bonds and cash can change. Rebalancing means adjusting your portfolio to achieve the asset mix that's appropriate for your time horizon and comfort with risk.

Rebalancing may help manage risk by preventing overexposure to a single asset class. After a prolonged market downturn, for example, an unbalanced portfolio may be top-heavy in bonds. If you have too little invested in stocks, you won't benefit fully from any rebound—potentially making your portfolio more conservative than you intended and reducing its long-term returns. The solution: Periodically compare your portfolio's target asset allocation—the mix you originally established—with its current allocation. You may need to rebalance. To increase a stock allocation, consider redirecting contributions from bond funds to stock funds until your ideal allocation is restored. Your City of Mesa 457 Deferred Compensation Plan offers an automatic rebalancing feature, available on request.

** An investment in the Stable Value Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.*

The Goodness of Giving

Get a Tax Break While Helping Others

The days grow shorter as the year winds down—and so do opportunities to trim your income tax bill. One way to save on taxes—while also doing some good for others—is by making donations to charity. Depending on the donation and the charity, nearly all of what you contribute can be deducted from your federal income taxes.[5]

Choosing a Charity

You can't just make a donation to anyone and claim a deduction. It only counts as a charitable deduction for tax purposes if the recipient's status as a charity meets Internal Revenue Service requirements. A qualified charity has a 501(c)(3) designation.[6] Check it out before you donate.

You'll need a written acknowledgement from the charity of any donation over $250.[7] To be safe, keep canceled checks or credit-card statements supporting all donations, no matter how small.

Suggestion: Take the amount of tax savings from your charitable deduction and add it to a retirement savings account, such as your City of Mesa 457 Deferred Compensation Plan. Over time you may find that doing good for others has another feel-good payoff.

Heads-up on Risk

Keep your 457 Plan growing

As an investor, you have likely encountered three types of risk: market, interest-rate and inflation. How can you minimize their impact on your deferred compensation account?

Market risk: Diversify[8]

You're probably most familiar with this risk: the chance that your investments (particularly stocks) can lose value because of a decline in the market. However, by diversifying—owning a mixture of stock and bond funds (including funds that invest in a mix of U.S. and international stocks, if offered), as well as cash investments—you may increase your chances of having at least one investment performing well at any given time.

Interest-rate risk: Include short-term bonds

Bonds, particularly long-term bonds, are vulnerable to interest-rate risk: the possibility that currently low interest rates could rise. Generally, when rates rise, bond prices fall. Your best defense (in combination with stock funds and cash investments): a short-term bond fund, because interest rates are less likely to substantially change in the short term.

Inflation risk: Minimize cash

Over time, cash investments can lose their purchasing power. This likelihood that the value of your money won't keep up with the prices of goods and services is called inflation risk. For a while now, inflation has hovered at its lowest level in decades, but you shouldn't disregard its potential long-term effects. Consider keeping only assets you'll need within a couple of years in cash (i.e., a Stable Value Fund*).

**An investment in the Stable Value Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.*

1 Ibbotson Associates is a subsidiary of Morningstar, Inc. Stock return is based on the S&P 500. Bond return is based on the Intermediate-Term Government Bond Index. Cash return is based on the 30-day Treasury bill. Returns represent the 30-year period through December 31, 2009.

2 DALBAR, Inc., "2010 Quantitative Analysis of Investor Behavior." The average investor refers to the universe of all mutual fund investors whose actions and financial results are restated to represent a single investor. Equity funds refer to U.S. registered funds, which invest in U.S. and foreign equities and hold some bonds and cash.

3 S&P 500® Index is a registered trademark of Standard & Poor's Financial Services LLC, and is an unmanaged index considered indicative of the domestic Large-Cap equity market. A benchmark index is not actively managed, does not have a defined investment objective, and does not incur fees or expenses. Therefore, performance of a fund will generally be less than its benchmark index. You cannot invest directly in a benchmark index.

4 Rebalancing does not ensure a profit and does not protect against loss in declining markets.

5 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.

6 A charitable deduction is not available if you take the standard deduction.

7 irs.gov

8 Diversification of an investment portfolio does not ensure a profit and does not protect against loss in declining markets.

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