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City of Los Angeles Quarterly Newsletter **October 2010**

## "BUT HOW MUCH DOES THIS COST?"

### Introducing a Powerful New Fund Expense Calculator

Imagine going to the grocery store to buy a loaf of bread and seeing a price tag that says "Expense Ratio: 0.50%." Your question to the sales clerk would probably be, "But how much does it cost?"

This situation is similar to what participants encounter when purchasing shares in investment funds, where fees are quoted in percentage terms. Investment fees are taken out of the fund "in the background," meaning you don't see them as explicit dollar charges against your account. This doesn't mean you and other investors in the fund aren't paying them—you are.

Translating those percentages into dollars based on the size of your investment (and determining your true cost in dollars) requires doing some math. To make this easier for you, the Plan is pleased to introduce a new, robust portfolio expense calculator. This calculator, available in the Tools section on the website at [www.cityofla457.com](http://www.cityofla457.com), provides a hypothetical estimate of expenses and fees associated with your City of Los Angeles Deferred Compensation Plan's various investment options.

Investment Allocation	Folio	Investment Option	Share Price	Expense Ratio (%)	Fund Assets	Expense (dollars)	Share Assets	Expense (dollars)	Share Assets	Expense (dollars)	Total Estimated Annual Portfolio Expense
100.00%	10A	Aggressive Portfolio	0.14	0.14%	\$14,717.34	\$20.60		\$20.60			\$20.60
	10A	Conservative Portfolio	0.11	0.11%							
	10A	Income Portfolio	0.12	0.12%							
	10A	Low Aggressive Portfolio	0.17	0.17%							
	10A	Low Conservative Portfolio	0.09	0.09%							
<b>Total (100%)</b>						<b>\$20.60</b>		<b>\$20.60</b>			<b>\$20.60</b>
											<b>\$20.60</b>

To use the calculator, you simply enter in the percentage of total account balance or dollar amount you want allocated from each specified investment option. Once the amount adds up to 100% or your account balance total, click Calculate and you will be able

FOR ILLUSTRATIVE PURPOSES ONLY

to estimate the portfolio expenses of your chosen investment options.

Review or explore your Plan's investment options today by using the portfolio expense calculator on the website. It's a useful way to approximate your current or future portfolio expenses and answer, in dollars, the question: "But how much does it cost?"

## 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.<sup>14</sup>

### 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.<sup>15</sup> Check it out before you donate.

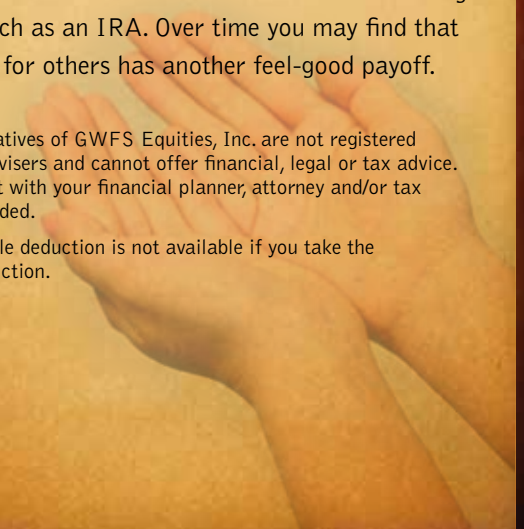
You'll need a written acknowledgement from the charity of any donation over \$250.<sup>16</sup> To be safe, keep canceled checks or credit-card statements supporting all donations, no matter how small.

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

<sup>14</sup> 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.

<sup>15</sup> A charitable deduction is not available if you take the standard deduction.

<sup>16</sup> [irs.gov](http://irs.gov)



## THE BIG THREE Get Your Arms Around These Key Investing Concepts

When you make investment decisions, such as how much of your City of Los Angeles 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 firsthand, 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 money market funds, 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%).<sup>17</sup> 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.

*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.*

### **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.<sup>18</sup> 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.<sup>19</sup> 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.

### **3** REBALANCING<sup>20</sup>

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.

The rebalancing feature is available at [www.cityofla457.com](http://www.cityofla457.com).<sup>†</sup> After logging in to your account, click on the Change Account tab and then on the Rebalancer link.

17 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.

18 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.

19 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.

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

GWFS Equities, Inc. is not affiliated with Ibbotson Associates, Morningstar, Inc. or DALBAR, Inc.



# NOW SHOWING

## MASTER YOUR MIX

### Review Your Asset Allocation

Does your investment strategy still fit your retirement savings goals and your comfort with risk? Check out the way your assets are divided, or allocated, in your City of Los Angeles Deferred Compensation Plan account between stocks, bonds and cash equivalents. Each category represents a percentage of your total assets. Let's say you have \$100,000 saved. If you hold \$50,000 in stock funds, \$40,000 in bond funds and \$10,000 in a money market fund, your asset allocation is 50%/40%/10%.

### DOES YOUR MIX FIT YOUR NEEDS?

Consider your true time horizon: your life expectancy, not just your retirement date, because you may live another 20 to 30 years after you retire. Also consider your comfort with risk (see "Heads-up on Risk").

### MAKE A CHANGE

If you still have 10 to 15 years before taking retirement withdrawals and want to benefit from the long-term growth potential of stocks, you might decide that a 75%/20%/5% allocation is more appropriate. To get there, you could shift five percentage points from cash and 20 from bonds, and boost stocks by 25. Then make new contributions based on the 75%/20%/5% formula. Every year, if market movements alter that allocation, consider rebalancing by shifting back to your initial target. You can usually do this on your workplace benefits website.

FOR ILLUSTRATIVE PURPOSES ONLY. Asset allocation and rebalancing can help you achieve diversification in your workplace retirement account, but they do not ensure a profit or protect against loss during volatile markets.

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.

## HEADS-UP ON RISK

### Keep Your Retirement Plan Account 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 City of Los Angeles Deferred Compensation Plan account?

#### MARKET RISK: DIVERSIFY<sup>21</sup>

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), 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 money market fund).

*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.*

<sup>21</sup> Diversification of an investment portfolio does not ensure a profit and does not protect against loss in declining markets.





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**HAVE QUESTIONS?  
NEED INFORMATION?**

For information about the Plan and/or access to your account, contact Great-West Retirement Services® in any of the following ways.

Website: [www.cityofla457.com](http://www.cityofla457.com)†  
KeyTalk®: (888) 457-9460†

**CITY HALL**

200 N. Spring Street, Room 867  
Office hours: 8:30 a.m. to 5:00 p.m.

**DWP**

JFB Main Office Building  
111 N. Hope Street, Level A area  
Office hours: First and third Tuesday of each month, usually from 8:00 a.m. to 4:00 p.m.

City Hall office is closed on alternate Fridays (through June 2011).

For information about the Board, decisions made by the Plan and investment selection, contact:

**NATASHA GAMEROZ**  
(213) 978-1617

The Board's Website:  
<http://www.lacity.org/per/deferredcomp/DeferredComp.htm>

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

**SEMINAR: PROTECTING YOUR RETIREMENT SAVINGS—  
A GUIDE TO YOUR POST-RETIREMENT OPTIONS**

Often, employees and retirees are approached by brokers who are offering to manage their investments post-retirement. This seminar provides a little insight into how you can protect the assets you've worked so hard to accumulate.

LOCATION	DATE	TIME
Department of Water and Power John Ferraro Building (JFB) Auditorium 111 N. Hope Street, Los Angeles	November 16, 2010	10:00 a.m.
Playa Vista Library, Meeting Room 6400 Playa Vista Dr., Los Angeles	November 17, 2010	10:15 a.m.
City Hall, Room 1070, 10th Floor 200 N. Spring Street, Los Angeles	December 1, 2010	10:00 a.m. 1:00 p.m.
Harbor Department, Board Room 425 Palos Verdes Street, San Pedro	December 9, 2010	10:00 a.m.
Los Angeles World Airports HR Room 131 7303 World Way West, Los Angeles	December 16, 2010	11:30 a.m.

**NATIONAL SAVE FOR RETIREMENT WEEK**

**October 17-23, 2010**

This week may have come and gone, but it's never too late to start saving for retirement.

Visit [www.cityofla457.com](http://www.cityofla457.com) today to access the following:



- **Virtual Learning**—View online presentations and materials on topics such as planning for retirement
- **Planning Tools**—Determine how much to save and how contributing more affects your pay

You are the key to your future. Unlock the potential of your City of Los Angeles Deferred Compensation Plan by taking advantage of the variety of tools that are available to help you construct a savings strategy that may be the foundation of your future.



# CITY OF LOS ANGELES PREMIERE DEFERRED COMPENSATION PLAN

## INVESTMENT OPTION RETURNS AS OF SEPTEMBER 30, 2010

Current performance may be lower or higher than performance data shown. Performance data quoted represents past performance and is not a guarantee or a prediction of future results. For performance data current to the most recent month-end, please visit [www.cityofla457.com](http://www.cityofla457.com). The investment return and principal value of an investment will fluctuate so that, when redeemed, shares/units may be worth more or less than their original cost.

Please consider the investment objectives, risks, fees and expenses carefully before investing. For this and other important information, you may obtain prospectuses for mutual funds, any applicable annuity contract and the annuity's underlying funds and/or disclosure documents from your registered representative. For prospectuses on Self-Directed Brokerage, contact Schwab PCRA at (888) 393-7272. Read them carefully before investing.

Average Annualized Returns as of September 30, 2010<sup>1</sup>

Variable Investment Options	YTD	1 Year	3 Years	5 Years	10 Yrs/Since Inception	Expense Ratio <sup>2</sup>	Inception Date
<b>Bond: Active<sup>3</sup></b>							
PIMCO Total Return Fund <sup>4</sup>	9.84%	10.93%	10.85%	8.36%	7.93%	0.47%	5/11/87
Benchmark Index: Barclays Capital Aggregate Bond <sup>5</sup>	7.94%	8.16%	7.42%	6.20%	6.41%		
<b>Bond: Index<sup>3</sup></b>							
Vanguard Total Bond Market Index Inst.Plus <sup>4,6</sup>	N/A	8.07%	7.40%	6.16%	6.14%	0.05%	2/5/10
Benchmark Index: Barclays Capital Aggregate Bond <sup>5</sup>	7.94%	8.16%	7.42%	6.20%	6.41%		
<b>Large-Cap Stock: Active</b>							
Hartford Capital Appreciation HLS - CI IA <sup>4</sup>	3.11%	10.19%	-6.79%	3.34%	4.44%	0.68%	4/2/84
Benchmark Index: S&P 500 <sup>5</sup>	3.89%	10.16%	-7.16%	0.64%	-0.43%		
American Funds Investment Company of Amer A <sup>4</sup>	1.97%	8.68%	-6.79%	1.25%	2.40%	0.66%	1/2/34
Benchmark Index: Russell 1000 <sup>5</sup> Value <sup>5</sup>	4.49%	8.90%	-9.39%	-0.48%	2.59%		
American Funds Growth Fund of America A <sup>4</sup>	1.83%	7.79%	-6.72%	1.53%	0.82%	0.76%	11/30/73
Benchmark Index: Russell 1000 <sup>5</sup> Growth <sup>5</sup>	4.36%	12.65%	-4.36%	2.06%	-3.44%		
<b>Large-Cap Stock: Index</b>							
Vanguard Institutional Index Plus Fund <sup>4</sup>	3.90%	10.19%	-7.08%	0.69%	-0.38%	0.02%	7/7/97
Benchmark Index: S&P 500 <sup>5</sup>	3.89%	10.16%	-7.16%	0.64%	-0.43%		
<b>Mid-Cap Stock: Index<sup>7</sup></b>							
Vanguard Mid Cap Index Institutional <sup>4</sup>	10.63%	17.91%	-4.37%	2.43%	5.20%	0.08%	5/21/98
Benchmark Index: MSCI <sup>5</sup> US Mid Cap 450 <sup>5</sup>	10.65%	18.00%	-4.40%	2.40%	3.99%		
<b>Mid-Cap Stock: Active<sup>7</sup></b>							
Lazard Mid Cap Institutional <sup>4</sup>	10.81%	17.89%	-4.69%	1.59%	6.57%	0.91%	11/3/97
Benchmark Index: Russell Midcap <sup>5</sup>	10.97%	17.54%	-4.16%	2.60%	4.86%		
<b>Small-Cap Stock: Index<sup>8</sup></b>							
SSgA Russell Small Cap Index NL Fund - S <sup>5</sup>	9.00%	13.12%	-4.49%	1.30%	3.61%	0.06%	8/1/99
Benchmark Index: Russell 2000 <sup>5</sup>	9.12%	13.35%	-4.29%	1.60%	4.00%		
<b>International Stock: Active<sup>9</sup></b>							
Fidelity Diversified International Fund <sup>4</sup>	1.29%	4.67%	-10.03%	1.80%	4.81%	1.01%	12/27/91
Benchmark Index: MSCI <sup>5</sup> EAFE <sup>5</sup>	1.07%	3.27%	-9.51%	1.97%	2.56%		
<b>International Stock: Index<sup>9</sup></b>							
DWS EAFE Equity Index Institutional Fund <sup>4,5</sup>	1.35%	3.17%	-9.68%	1.90%	2.05%	0.52%	1/24/96
Benchmark Index: MSCI <sup>5</sup> EAFE <sup>5</sup>	1.07%	3.27%	-9.51%	1.97%	2.56%		
<b>Profile Portfolios<sup>10,11</sup></b>							
Ultra-Conservative	5.79%	6.92%	N/A	N/A	4.58%	0.09%	1/8/08
Conservative	6.17%	8.02%	2.40%	4.60%	5.08%	0.11%	5/1/02
Moderate	5.97%	9.15%	-0.79%	3.58%	4.76%	0.12%	5/1/02
Aggressive	6.10%	9.87%	-3.63%	2.56%	4.38%	0.14%	5/1/02
Ultra-Aggressive	6.21%	10.56%	N/A	N/A	-4.17%	0.17%	1/8/08
<b>Stable Value Option</b>							
Deferred Compensation Stable Value Fund <sup>6,12</sup>	2.73%	3.74%	4.33%	4.47%	4.79%	0.09%	9/1/85
<b>FDIC Insured Savings Option</b>							
FDIC-Insured Savings Account	0.31%	0.42%	N/A	N/A	0.42%	N/A	9/28/09
<b>Self-Directed Brokerage Option<sup>13</sup></b>							
Schwab Personal Choice Retirement Account <sup>®</sup> (PCRA) Self-Directed Brokerage Option							

# CITY OF LOS ANGELES PREMIERE DEFERRED COMPENSATION PLAN

## Benchmark Indices

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Barclays Capital Aggregate Bond	An unmanaged index considered indicative of the broad fixed income market in general (formerly the Lehman Brothers Aggregate Bond Index).
MSCI® EAFE®	The MSCI® EAFE® Index is a trademark of Morgan Stanley Capital International Inc., and is an unmanaged index considered indicative of foreign equity markets in general.
MSCI® US Mid Cap 450	The MSCI® US Mid Cap 450 Index represents the universe of medium-capitalization companies in the U.S. equity market. MSCI® is a trademark of Morgan Stanley Capital International Inc.
Russell 2000®	The Russell 2000® is a trademark of the Frank Russell Company and measures the performance of the smallest 2,000 companies in the Russell 3000 Index (the 3,000 largest U.S. companies by market capitalization), representing about 7% of the Russell 3000 total market capitalization.
Russell Midcap®	The Russell Midcap® is a trademark of the Frank Russell Company and measures the performance of approximately 800 of the smallest securities in the Russell 1000® Index. The Russell Midcap Index represents approximately 31% of the total market capitalization of the Russell 1000 companies.
Russell 1000® Value	The Russell 1000® Value Index is a trademark of the Frank Russell Company and is considered indicative of the domestic large-cap equity value market.
Russell 1000® Growth	The Russell 1000® Growth Index is a trademark of the Frank Russell Company and is considered indicative of the domestic large-cap equity growth market.
Standard & Poor's 500®	The S&P 500® Index is a registered trademark of Standard & Poor's Financial Services LLC, and consists of 500 stocks chosen for market size, liquidity and industry group representation. It is one of the most widely used benchmarks of U.S. equity performance and is considered indicative of the domestic large-cap equity market.

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## DISCLOSURES

<sup>1</sup> The average annual and calendar year returns for the funds reflect actual total returns for each fund, net of fund operating expenses. Any administrative fees or expenses charged will reduce the overall rate of return.

<sup>2</sup> Actual fund expense ratio may be less if the fund currently offers a waiver or reimbursement of a portion of this expense.

<sup>3</sup> A bond fund's yield, share price and total return change daily and are based on changes in interest rates, market conditions, economic and political news, and the quality and maturity of its investments. In general, bond prices fall when interest rates rise and vice versa.

<sup>4</sup> Transfer restrictions may apply. Check the Fund Fact Sheet for further information.

<sup>5</sup> 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.

<sup>6</sup> Mutual fund investment option.

<sup>7</sup> Equity securities of medium-sized companies may be more volatile than securities of larger, more established companies.

<sup>8</sup> Equity securities of small-sized companies may be more volatile than securities of larger, more established companies.

<sup>9</sup> Foreign investments involve special risks, including currency fluctuations and political developments.

<sup>10</sup> The Profiles include investment options directly available to your Plan. For more information about the Profiles, including the eligible underlying portfolios, review the Fund Data Sheets or contact your registered representative.

<sup>11</sup> Asset allocation funds may be subject to a fund operating expense at the fund level, as well as a prorated fund operating expense for each underlying fund in which they invest.

<sup>12</sup> Formerly the Galliard Stable Value Fund.

<sup>13</sup> Participants choosing the Schwab PCRA Self-Directed Account will be charged an additional annual administrative fee of \$50. These securities are not offered through GWFS Equities, Inc.

### Transfer Restrictions

Transfers out of the Deferred Compensation Stable Value Fund must be invested in a variable investment option for a minimum of 90 days prior to investing any funds in the FDIC-Insured Savings Account. Transfers may not be made directly from the Deferred Compensation Stable Value Fund to the FDIC-Insured Savings Account.

### Securities (except Schwab PCRA), when offered, are offered through GWFS Equities, Inc., a wholly owned subsidiary of Great-West Life & Annuity Insurance Company.

Great-West Retirement Services® refers to products and services provided by Great-West Life & Annuity Insurance Company and its subsidiaries and affiliates. Core investment options are through separately managed accounts and mutual funds. GWFS Equities, Inc., or one or more of its affiliates, may receive a fee from the investment option provider for providing certain recordkeeping, distribution and administrative services. Securities available through Schwab Personal Choice Retirement Account® (PCRA) are offered through Charles Schwab & Co., Inc. (Member SIPC), a registered broker-dealer. Additional information can be obtained by calling (888) 393-7272. Charles Schwab & Co., Inc. and GWFS Equities, Inc. are separate and unaffiliated. Great-West Retirement Services® and KeyTalk® are registered trademarks of Great-West Life & Annuity Insurance Company. Not intended for plan sponsors whose situs is in New York. ©2010 Great-West Life & Annuity Insurance Company. All rights reserved. Form# CB1003N (10/10) PT112997