MoneyTalks

Wisconsin Deferred Compensation Program

Got the Subprime Jitters?

Reviewing Risk in Your WDC Investments

Anyone who watches the nightly news or scans the morning paper knows the words "subprime mortgage." What was once hailed as a creative mortgage solution for homebuyers is now seen as the foundation for a wide range of financial woes. In addition to the growing tide of foreclosures for a number of unfortunate borrowers, the effects of the subprime mortgage crisis have rippled throughout financial markets. As a participant in the WDC, you might be wondering how the subprime crisis could affect your retirement planning strategy and your investment choices.

How do defaults on risky mortgages affect other investments? It's a complicated situation, but simply put, many subprime mortgages were packaged together in investments known as "mortgage-backed securities." Some investment funds bought these securities to use the income from principal and interest payments on mortgages as a revenue source. When a large number of homebuyers default on their mortgages, the revenue stream from mortgage-backed securities can decline—which hurts the value of the investment funds that own the securities.[3]

Reviewing Investment Risk

In an uncertain economy, some investors purposefully steer clear of risky investments. If this is you as well, the WDC has several options to consider. Go to **www.wdc457.org**, click on the *Fund Overview* selection, and you will quickly see where each investment option falls on a "Potential Risk/Return" meter. You can also review the prospectus for each investment option for an in-depth discussion of its associated risk—including any mortgage-related investments that the fund holds. ***Please consider the investment objectives, risks, fees and expenses carefully before investing. For this and other important information you may obtain mutual fund prospectuses and disclosure documents from your registered representative. Read them carefully before investing.***

Remember, while too much risk may be a bad thing, too little risk can also be damaging to your long-term retirement savings goals. As a general rule, investments with higher return potential are higher in risk, while less risky investments come with potential for lower return. Just because risky subprime mortgages dominate the news headlines, it doesn't mean that completely avoiding investment risk is a smart retirement planning strategy.

Regardless of your situation, the investment fundamentals still apply. You'll want a well-diversified portfolio made up of investments from different asset classes (such as stocks, bonds and cash equivalents), so you can stay on track to your retirement income goals. Please keep in mind that diversification of an investment portfolio does not ensure a profit and does not protect against loss in declining markets.

If you have any questions, you can reach a WDC representative by calling (877) 457-WDCP (9327) or by e-mailing wdcprogram@gwrs.com.[2]

FDIC Insured Bank Option: M&I Bank has declared an annualized interest rate of 2.20% for the second quarter 2008.

2 Representatives of GWFS Equities, Inc. and the State of Wisconsin Deferred Compensation Program 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.

3 See http://www.sec.gov/answers/mortgagesecurities.htm for a definition of mortgage-backed securities and http://www.slate.com/id/2186801/ for a discussion of their role in the subprime crisis.

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