*Money*Talks

Wisconsin Deferred Compensation (WDC) Program

The Big Three

Get Your Arms Around These Key Investing Concepts

When you make investment decisions, such as how much of your WDC account to invest in stock funds bond funds, and/or cash investments, there are three important concepts you should understand: 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 in the short term. Since the investment decline of 2008, investors have experienced firsthand, sometimes painfully, how volatile the stock market can be.

Compared with stocks, bonds are considered 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* or stable value funds, are perceived as relatively safer because their principal value rarely changes.

However, volatility measures only short-term risk. Longer term, the picture is very different for the three asset classes. Historically, the longer a stock is held in a portfolio, the less volatile its 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, however.*

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 want to 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 is no evidence anyone can time the market with precision. Further, there are regulations in place that discourage and prevent investors from attempting to time the market by short-term trading of mutual funds. Some investments also 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

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FDIC Insured Bank Option: M&I Bank has declared an annualized interest rate of 0.48% for the third quarter 2010.

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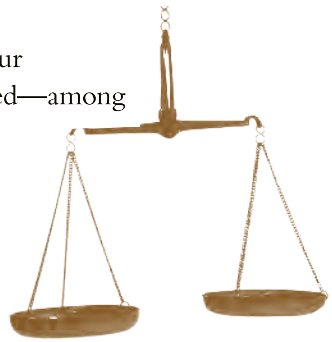
firm DALBAR, Inc. found that, on average, investors dramatically lag behind the target indices, primarily because they choose the wrong times to jump into and out of stocks.[2] For the 20 years ended December 31, 2009, DALBAR reports that investors earned an average annual return of just 3.2%, compared with 8.2% for the S&P 500® Index.[3] With this in mind, you may earn potentially stronger returns over the long run if you simply stay invested, rather than try to time the market.

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 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. You can rebalance your account on the WDC website. After you log in, click on "Change Account," then "Rebalancer." You can set up this feature to automatically rebalance your account, as well. ■

** 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.*

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."
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.

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

The Goodness of Giving

Get a Tax Break While Helping Others

The days get 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.[1]

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.[2] Check it out before you donate. One place to check is **www.charitywatch.org**.[3]

You'll need a written acknowledgement from the charity of any donation over $250.[4] 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. ■

1 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.
2 A charitable deduction is not available if you take the standard deduction.
3 Great-West Retirement Services® is not responsible for, nor does it endorse the content contained in the additional websites provided. These websites are for general education and information only and are provided as a benefit to the users of the sites.
4 irs.gov

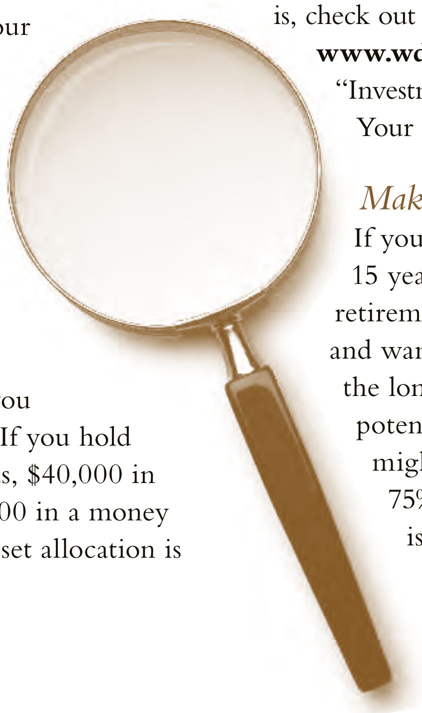
National Save for Retirement Week

October 17-23 is National Save for Retirement Week. The U.S. House of Representatives passed the bill establishing National Save for Retirement Week to increase awareness among Americans about the importance of saving and investing for retirement. October is a good time to review your WDC account: Make sure your beneficiary designation is current, your asset allocation is where you want it to be, and your contribution amount is on track with your savings goals. ■

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 WDC retirement 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—because you may live another 20 to 30 years after you retire. Also consider your comfort with risk. If you aren't sure what your risk tolerance is, check out the quiz online at **www.wdc457.org**. Click on "Investments" and "Choosing Your Investment Path."

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 set this up to occur automatically with your WDC account. To get started, call the WDC at (877) 457-9327 or log in to the WDC 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.

Heads up on Risk

Keep your WDC savings 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 WDC retirement account?

Market risk: Diversify[1]

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 or money market fund*). ■

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

Timing Social Security

You can start taking Social Security benefits as early as age 62. However, it might be in your best interest to wait.

The 8% Advantage

For each year you delay taking your Social Security benefit between your full retirement age and age 70, your Social Security benefit amount increases between 6% and 8%.[1] Say you reached your full retirement age of 66 in 2010, for example, and your monthly Social Security benefit is $1,000. If you delay taking your Social Security benefit until age 70, it will increase by 8% to $1,320 (not including any possible cost of living increases).[2] That could bode well for the continued growth of your WDC retirement savings: The larger Social Security benefit may allow you to reduce the size of your WDC withdrawals after age 70. ■

1 Your official retirement age is based on the year in which you were born. See "Retirement Benefits by Year of Birth" at ssa.gov/retire2/agereduction.htm.

2 "When Should You Take Your Social Security Retirement Benefits?" elderlawanswers.com. (To retrieve this article, go to elderlawanswers.com and type in the title in the search window.)

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2010 Survey

Thank you for your responses! We received approximately 3,000 responses and are still tabulating the results. We will analyze the data and report back to you in the near future. Your feedback is invaluable to making positive changes for the WDC Program. ■

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