Focusing Your Future

BPA-HARBRIDGE
BENEFIT PLANS ADMINISTRATORS℠ Daily Valuation Plans
CONSULTING GROUP℠ Actuaries & Advisors

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Time for a Tune-up?

Has this ever happened to you? Only two more hours and another hundred miles until you reach your vacation destination . . . and your car's "check engine" light comes on. If only you'd scheduled that tune-up earlier! Now, fast-forward to a day when retirement is getting close. Will the "check investments" light be on in your retirement account?

Making time for regular tune-ups now will help keep your retirement account on the right road. Here are some key things to check.

Your Investment Performance

How have your investments performed recently? Don't panic if they haven't kept up with your expectations. Short-term losses can be a normal part of investing. But what about performance over longer time periods? If an investment's returns have been consistently and significantly lower than a market index that tracks the same type of investment, it could be time to consider making a change.

Your Investment Mix

Review how your account is divided up among the plan's investment choices. Do the percentages you have invested in the different asset classes still match your original asset allocation? If you have a lot more — or less — in one asset class than you originally planned, you may want to rebalance your investments.

Has your retirement plan added any new investment choices? If new options are available, look at them carefully to see if they may be appropriate for your portfolio.

Your Time Horizon

If retirement is still a long way off, including a significant allocation of stock investments in your portfolio can help you get more mileage since stocks have historically earned higher returns than less risky asset types, such as bond and cash equivalent investments. (Past performance doesn't guarantee future results.)

On the other hand, if you're nearing retirement, you may want to consider downshifting into more conservative investments to reduce your exposure to risk. You may want to keep *some* stock investments in your portfolio — even after you retire — since they have the potential to produce inflation-beating returns.

Your Speed

Check your overall progress to see if your investments are on track and your long-term goals are within reach. If you're worried that you might fall short, now is the time to make the necessary adjustments — not later.

Bring on the Bonds?

When you're investing for retirement, you want a portfolio that will help you achieve your long-term financial objectives. You also want to protect your portfolio from excessive stock market risk. Since bond investments could help you achieve both of these goals, they're worth a second look.

Understanding Bonds

Bonds are basically loans from investors to bond issuers for a set period of time. Corporations often issue bonds to raise money for expansion and other capital needs. The federal government and other governmental entities issue bonds to pay for day-to-day operations and special projects. Each bond has a set maturity date, i.e., the date the issuer agrees to return the bond's face value to the investor. While a bond is outstanding, the issuer pays the investor interest on the loan, usually semiannually.

Bond prices vary depending on current market interest rates and other factors. When interest rates rise, the prices of existing bonds with lower interest rates typically fall. Conversely, when interest rates drop, the prices on existing bonds with higher rates tend to rise. Because they are more sensitive to interest rate changes, long-term bonds tend to be riskier — and pay higher interest rates — than shorter term bonds.

The Stock and Bond Relationship

To understand how bonds can help protect a portfolio, you need to understand the relationship between stocks and bonds. Stock and bond investments often react differently to changes in interest rates and shifts in the investment markets. A look at past performance shows that bonds have tended to perform well during years that stocks have performed poorly — and vice versa. By including both stock and bond investments in your portfolio, losses in one investment type may be offset by gains in the other.

Keep in mind, however, that past performance is no guarantee of future results. It's possible that both the stock and bond markets could be up or down at the same time. Plus, diversification does not ensure a profit or protect against loss in a declining market.

10 Years of Stock and Bond Returns

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Stocks*	33.40%	28.58%	21.04%	-9.11%	-11.87%	-22.10%	28.68%	10.86%	4.93%	15.78%
Bonds**	9.64%	8.70%	-0.82%	11.63%	8.44%	10.25%	4.10%	4.34%	2.43%	4.33%

* Stocks are measured by the Standard & Poor's 500 Index, an unmanaged index of the stocks of 500 major corporations.
** Bonds are measured by the Lehman Brothers U.S. Aggregate Index, an unmanaged index of U.S. government, corporate, and mortgage-backed securities.

Source: Russell Data Services