



What a quarter!! A lot has happened since March and you may be wondering what you need to do to maximize the benefits of your 401(k) plan. Remember, you can always give us a call or drop us an e-mail.

Asset Class Highlight : High Yield Bonds

What do you think of when you hear the word "Bond"? Most people would probably answer "James Bond" but now might be a good time to get to know another type of bond - High Yield Bonds. Most 401(k) plans offer at least one High Yield bond fund.

So what exactly is a bond? I like to tell people that there are essentially two types of Investors in the world - Owners and Loaners... (continued on page 2)

Age Minus 10: An introduction *

It is hard enough to pick your 401(k) investments when you first enroll in your plan but how in the world can someone be expected to pick the proper allocation? Generally, everyone should consider having a well rounded portfolio. However, these allocations may need to be changed over time as your needs, goals or suitability changes. One area that should be common to all portfolios is the conservative portion. (continued on page 2)

Avoiding Big Mistakes: Don't Give Up

This section is set aside to highlight something that I have seen in the last quarter. I have talked to several participants that have decided to stop making contributions to the plan until the market strengthens. One said to me "I am sick of throwing good money after bad".

When it comes to saving for retirement, there is no time to give up. If you wait to time the markets you may find yourself sitting on the sidelines too long and miss out on some growth. In fact, many experts say that you may want to be increasing contributions while prices are down. With steady investing known as "dollar cost averaging," a given sum buys more shares when prices are lower than when they are high, helping to reduce the per-share cost as a holding accumulates. Over time, an investor is likely to do better this way than by trying to judge the best moments to move money in or out of the market.

However, before making any changes to your contributions you should look at your overall needs and goals. For those with longer time horizons, a long term dollar cost averaging approach may be suitable. For those with shorter time horizons or immediate need for funds you may have more of a preservation of capital or principal need. For more information or guidance please consult your financial advisor.

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Keep Contributing

Let's face it. Things have been scary in 401(k) land for a while. Many people received their 6th straight down quarterly statement in April. Is it time to stop contributing or add more?

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Cont—High Yield Bonds

A bond investor is a lender. When you buy a bond you are loaning your money to an entity. The bond comes with an intent to pay you back in the future with interest. The most common bond in the world is the U.S. Treasury Bond. When you buy a U.S. Treasury Bond, you are effectively loaning your money to the U.S. Government and they intend to pay you back sometime in the future with interest. If you loan money to a municipality, we would call it a municipal bond. When you loan it to a corporation, we call it a corporate bond.

High Yield sounds good, but what does it mean? Usually the interest rate you receive on bond investments take into account two variables; the length of the loan and the credit quality of the borrower. High Yield bonds pay higher interest rates because the credit quality of the underlying borrower has been brought into question.

Why would anyone want to invest in low credit quality loans or “junk bond” (also known as high yield bonds)? Well, just like stocks, these investments have been badly beaten down over the past 18 months and many analysts think they may be able to rebound. The investment thesis for High Yield bonds is that these investments could see a “double play”. If the economy improves the bonds may appreciate in value on top of the higher interest rates you receive.

What can go wrong? In short: a lot. High-yield bonds are subject to greater risk of loss of principal and interest, including default risk, than higher-rated bonds. The prices of these bonds may be volatile, and they are generally only suitable for aggressive investors. So if the economy worsens and the investors fear that companies will not be able to repay the money borrowed, they will sell these bonds. That will drive down the price of high yield bond funds, like the kind in most 401(k) plans.

Cont—Age Minus 10

When considering how much to allocate toward conservative investments here is general guideline to consider. You could calculate the amount that you ought to have in conservative investment choices by taking your age and subtracting 10. For instance, I am 40 years old. My age minus 10 number is 30. If I were using the “Age minus 10” system, I might consider allocating 30% of my portfolio in conservative options like money market, short term government bond funds or conservative pre-made portfolios. The remainder would stay invested in your other chosen areas.

Then, each year, you could revisit your investment allocation and adjust it according to the Age minus 10 system. If the markets stayed perfectly flat, you would need 1% more in conservative funds since you are 1 year older. (continued Page 3)

Each quarter for the next year, I will cover some general guidelines and use examples to help you better understand your 401(k) and investment options.

*Please note that Age Minus 10 is a general guideline and not intended to be a recommendation or specific advice. All investors must consider their own financial situation or goals before making any decisions or allocations. You should contact your financial advisor for further guidance.

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