QUARTERLY RETIREMENT REVIEW

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DEALING WITH THE STOCK MARKET DOWNTURN

Stock market downturns are a natural part of the free market system. They have occurred throughout history and will, in all probability, continue to do so. In fact, since 1929 there have been no less than 26 bear markets, 15 of which have occurred in the last 50 years. While these painful markets eventually ended, knowing that the pain is going to end may not be enough to reassure you during the downturn. The sharp, sudden downturns may later be recognized as part of a cycle that included years of slow and steady upward progress, but that usually offers very little comfort during the downturn.

WHAT SHOULD YOU CONSIDER DOING NOW?

It is important that investors not react impulsively during turbulent markets. Such reactions, based primarily on emotions, have the ability of taking on a life of their own and can lead to costly investment mistakes. Emotions may not be your friend when it comes to making big decisions about your retirement savings. When pursuing long-term goals, investors have always been better served with proper perspective, planning and patience.

A LITTLE HISTORY

Historically, economic recessions and bear markets have been relatively brief in duration. Since World War II, economic expansions have, on average, lasted five times longer than recessions, and bull markets have lasted twice as long as bear markets. In addition, cyclical downturns in the past have been connected to credit excesses. This time, of course, is no different. The table below might give you some idea of the time required for a reasonable return to more normal stock market conditions:

Some Classic Bubbles of the Past

Asset Bubble	Date of Peak	Percentage Increase	Duration to Peak (in years)
Railroad Index	April 1872	116%	14.4
S&P Composite Index	September 1929	192	3.4
Bowling and Vending Stocks	1961 - 1962	1,114	2.0
Conglomerates	1968	402	3.9
Nifty 50 Companies	December 1972	163	2.5
Gold	January 1980	482	3.0
Nikkei 225	December 1989	301	5.4
Biotechnology	January 1992	430	1.2
Nasdaq	March 2000	255	1.4

Source: International Strategy & Investment Group

STAY FOCUSED

You know, of course, that you cannot control the events that surround investing, however, you can control your responses to them. It is always wise to know what is happening in the economy and market and why, but keeping a level head is also important. These difficult periods do not necessarily bring everything to a halt. Even during the worst of times, people still go about their lives, raising families, working hard, and planning for the future.

RESTORING RETIREMENT VALUE

Last year, more than a third of Americans received federal income tax refunds, with the average refund over $2,200. While some people use their refunds to invest for education or retirement, others spend that money to pay down credit card debt or to buy big-ticket items or vacations.

Most financial experts would argue that long-term financial goals take precedence, but if investing your entire refund strikes you as unrealistic, there is a simple way to have the best of both worlds. Try designating one-half of each year's refund as an additional contribution to one of your retirement accounts. It may appear to you that the amount is not substantial, however, over the long run, this approach can translate into a meaningful increase in your retirement assets when it comes time to retire.

Consider the following example: Over the course of 20 years, a taxpayer invests half of his or her federal income tax refunds each year. For purposes of this example, let's assume the investor receives the average refund of $2,200 and saves $1,100. Let's also assume that the refund increases 3% per year, on par with historical inflation, and that the investment earns a total return of 8% per year, compounded annually. At the end of the 20-year period, the investor would have accumulated over $54,000.*

Keep in mind that receiving a refund is contingent upon such factors as income, marital status, deductions and the latest tax code changes, so please don't consider invested tax returns as your central resource in your retirement planning. This small strategy also allows for a little indulgence at tax time, as well as offering a shot in the arm to your long-term retirement needs.

** This example is for illustrative purposes only and does not reflect the results of any particular investment, which will fluctuate with market conditions. The above scenario assumes an investor pays 25% in taxes each year on earnings (the typical mutual fund investor falls into the 25% tax bracket) and does not include exemptions, itemized deductions, Social Security and state taxes. Your tax rate may vary. Use of this tax rate will tend to understate the results of the taxable investment in cases where long-term capital gains and qualified dividends, which currently are taxed at lower rates than ordinary income, are a component of investment returns, as is the case for investments with significant equity holdings.*

COMPELLING VALUATIONS

Many leading blue chip companies, as well as many small-cap stocks are, in our opinion, offering compelling valuations that should make them rewarding investments for patient Plan participants. See the table below:

Valuations of Large-, Mid-, and Small-Cap Stocks
Median Price/Earnings (P/E) Ratio as of Dec. 31, 2008

			% Below Historical Average Valuation	
	Growth Stocks	Value Stocks	Growth Stocks	Value Stocks
Royal Blues*	15.3x	7.7x	- 38%	- 24%
Large-Cap	17.8	8.8	- 30	- 23
Mid-Cap	20.5	8.0	- 24	- 27
Small-Cap	24.8	7.5	- 22	- 29

Large-cap growth stocks are considered undervalued relative to mid- and small-cap stocks, and all stock categories are cheap relative to their historical averages based on median P/E ratios since 1969.

* Royal Blue Growth consists of 33 mega-cap high P/E stocks and Royal Blue Value consists of 33 mega-cap low P/E stocks.

Source: The Leuthold Group

As reflected in the table on page 2, the median price/earnings ratio for large, mid-, and small-cap stocks is substantially below their 1969 historical averages. Even though we may seem to be in uncharted waters, the stock market appears to be attractive, but the real question is, how deep is the valley?

ALL IS NOT DOOM AND GLOOM

Yes, there is another side to the story. Although it might seem to Plan participants that the losses their Retirement Plans have suffered have sunk any chance for a reasonable retirement, there is hope.

No one can predict with any certainty exactly what the potential market returns might be for 2009 and, thereafter, it may be useful to consider the possibility of higher than average stock returns in the five years immediately following last year's and this year's losses. By this we mean that the returns from stocks may be greater than 10% per year.

The Impact of a Market Crash on Retirement Income Prospects

In the first year of retirement, portfolio losses can significantly reduce the chances of new retirees sustaining their assets over a 30-year retirement. But if retirees hold theory withdrawals constant - not taking annual inflation adjustments - they can gain back a large degree of retirement security. And if stock market returns for the five years after a bear market are in line with prior rebounds from similar valuation levels (assume a 15% gross average annualized return for stocks), new retirees' chances of not running out of money improve.

This study assumes a retiree started with a $1 million portfolio invested 55% in equities and 45% in bonds, with a planned initial withdrawal amount of $40,000 - increased 3% each year thereafter. This strategy provides for a 90% likelihood of not running out of assets over a 30-year retirement.

The portfolio value drops 30% in the first year to $700,000. The retiree continues with the planned withdrawal amount of $40,000.

Likelihood That Retiree Will not Run Out of Money

Portfolio	Increasing Withdrawals 3% Annually for Inflation	Holding Annual Withdrawals Constant for Next Five Years
55% Stock / 45% Bond	**40%**	**60%**
Same Portfolio With Greater Equity Returns	**56**	**74**
Switch 100% to Bonds in Second Year	**7**	**29**

The overall odds of sustaining withdrawals represents the percentage of 10,000 simulations in which the investor does not run out of money during a 30-year retirement. For simulations, a gross return of 10% is used for stocks with annual fees of 1.211%. In the second scenario in the table, the assumed gross return for stocks in the second through sixth years is 15% and 10% thereafter. A gross return of 6.5% is used for bonds, with annual fees of 0.726%.

Source: T.Rowe Price

YOU NEED A PLAN

FUND YOUR RETIREMENT FIRST:

The cornerstone of any good financial plan is to start investing for retirement immediately. Contribute to your employer's 401(k) plan and your IRA. Your goal should be to make contributions of at least 15% of your pretax income. If you can's contribute that amount, then budget for increases of 2% each year until you reach the 15% target.

CONSIDER OTHER FINANCIAL GOALS:

Build an emergency fund of three to six months' worth of household expenses in a money market account. This will help keep you from having to use a credit card during an unforeseen event, such as a change in employment.

REVIEW YOUR MORTGAGE OPTIONS:

The most appropriate type of loan will depend on your personal circumstances, but if you are planning to stay in your home for a long period of time, a fixed-rate mortgage might be the preferred option. Your principal and interest payments will not change over the life of the loan thereby avoiding unwanted financial surprises.

CREATE A DEBT REDUCTION PLAN:

When looking at your overall financial situation, you should take into account any outstanding debt, and develop a plan to pay it off. Start with high-interest, revolving lines of credit, such as credit cards. Call the credit card companies and ask them to reduce your interest rates. Consider taking out a home equity loan or line of credit to pay off your higher-interest debt. Home equity loans tend to have lower interest rates than other types of consumer debt and, in some cases, the interest on such a loan is tax-deductible.

By investing for the future during your working years and working constantly to reduce debt your chances of obtaining the kind of retirement you have always dreamed of are greatly enhanced.

NOTES

Has anything changed?

S.L. Reed & Company can help:

- 401(k) Rollover from Previous Employer
- Rollover IRA out of a Retirement Plan
- Traditional or ROTH IRA
- Taxable Accounts
- Ready to Retire?

Additionally, we can work with you on:

- Managed Accounts

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