

Basic Investing Principles

*Realize
your
dream*



U T A H R E T I R E M E N T S Y S T E M S



TAKE CONTROL.

MAKE A PLAN.

REALIZE YOUR DREAM.

*S*O M E D A Y you will
have complete control of your life.
No boss. No meetings. No deadlines.

*S*O M E D A Y you will put away
your alarm clock and pick up
a golf club, a tennis racquet,
or your grandchildren.

*S*O M E D A Y, instead of going
to work, you will go to the mountains,
the oceans, or around the world.

*S*O M E D A Y you will be free
because today you chose to prepare.

This book will explain what you need to get started and why you should start now, regardless of your salary. It will also introduce you to investment tools such as your 401(k) or 457 plan that can help you realize your retirement dream.

Sam, age 45
POLICE OFFICER

Barbara, age 42
SCHOOL LIBRARIAN



“S O M E D A Y we’re going to open the children’s bookstore Barb’s been dreaming about ever since our youngest child started school. When I retire, I’ll be counting on retirement savings to tide us over until the store starts making money. More importantly, though, we’ll finally be able to spend some time together.”

Retirement is a time of great expectations—a time to realize dreams imagined years before.

But at some point we’ll all ask ourselves, “Will I have the means to fulfill my retirement dreams? Will my State retirement and Social Security be enough?”

Not likely. You see, neither your State retirement plan nor Social Security—even when combined—were designed to sustain your current standard of living. And then there’s inflation—your retirement dollar’s worst enemy. For when you retire, your income stays about the same while the price of everything else keeps rising. Even cost-of-living increases will struggle to offset this relentless tide of inflation.

THE RISING TIDE OF INFLATION
Average retail price tags in the years shown.

	2003	2025
MILK	\$2.79	\$5.64
MOVIE TICKETS	\$7.50	\$15.16
ECONOMY CAR	\$18,000	\$36,379

Since 1982, inflation has averaged 3.25% annually. Assuming this “low” rate continues, in 22 years, your money will buy only half of what it buys today.

Invest in the life you want

The good news is that it’s possible to have the retirement you dream of—by investing wisely. And we’d love to help you get there. Before we mention your investment options available through URS, let’s talk a little about the basics of investing.

The advantage of investing while you're young

In retirement planning, *when* you start investing is no less important than *how much* you invest. Indeed, the power of time over money gives you an advantage if you start investing as soon as you start working.

If you invest \$75 dollars every month starting at age 25 and receive an 8% annual rate of return, by age 65 you would have earned \$261,826. Now assume you invest the same \$75 dollars every month but you wait to start until you're 35. At age 65, you'd have only \$111,777. The difference is compounding interest. And time is the key. The earlier you start and the more you invest in the beginning, the harder compounding will work for you.

A few investment basics

Cash, bonds, and stocks are three basic types of investment tools you can use to realize your dream.

Stocks

When you buy stock, you own a small part of the company that issued it. Units of stock are aptly called shares because investors share in the success or failure of the company. Stocks can pay investors in two ways. First, if a company prospers, the value of its stock may increase and shareholders can sell their stock, profiting from the difference. Second, a company can distribute profits to shareholders in the form of dividends.

Stocks fall into three basic categories:

LARGE CAPITALIZATION STOCKS

(also called blue chip stocks) come from large, well-known corporations. The consistent demand for their business makes these companies more stable and attractive to investors. And because most of them are part of established industries, they tend to pay dividends—a good source of income.

Bonds/Fixed Income

A bond is a type of loan you make that promises to pay you regular interest plus the “face value” of the bond (your principal) at the end of a specific period of time (called a maturity date). Bonds can be bought or sold before they mature, and they have a market value that usually seesaws with federal reserve interest rates.

SMALL CAPITALIZATION STOCKS

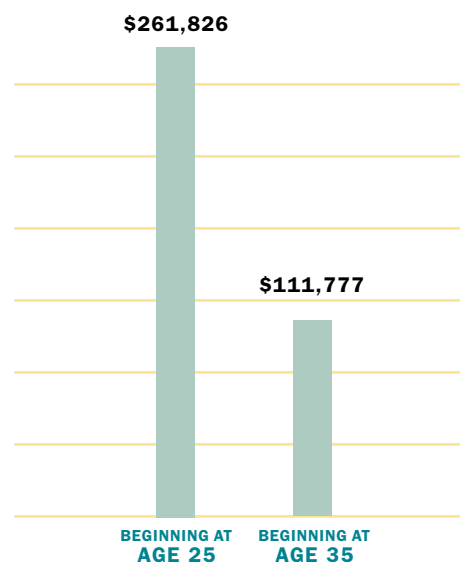
are issued by small, innovative, and generally fast-growing companies to raise cash for expansion. Because they're smaller, their stocks have more potential for growth. But competition and uncertain markets make their ventures riskier and more volatile than blue chip stock.

INTERNATIONAL STOCKS

represent companies which are headquartered outside the United States. In fact, these companies represent some 60% of the world's stock opportunities, although foreign currency, economic, and political factors may result in higher risk to the investor.

THE POWER OF COMPOUND INTEREST

Total earnings at age 65
on a \$75 per month investment.
(Assumes an average annual return of 8%.)



More than twice the accumulation in just 10 years.

Maria, age 25
SCHOOL TEACHER




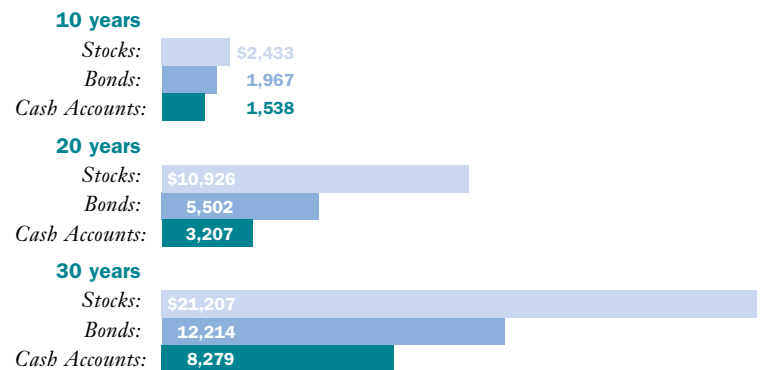
“S O M E D A Y I’m going to visit all 50 states on one big roadtrip. Of course, I might have to fly to Hawaii. I’d mostly like to camp out or stay in little bed and breakfasts. There are so many natural and historic landmarks like Old Faithful in Yellowstone and Mt. Rushmore in South Dakota that I’m not sure how long it’ll take, but I guess it won’t really matter.”

Historical performance of stocks, bonds, and savings accounts

When you can’t foresee the future, it can help to look at history. Of course, when you’re talking about investments, past performance is never guaranteed to continue and should only serve as a guideline. Looking at the past 10, 20, and 30 years, though, there’s a clear pattern of performance among stocks, bonds, and cash accounts.

Historical Results:

 \$1,000 invested in stocks, bonds, and cash accounts.



As you can see, stocks gave the best growth during each of these time periods. And the longer the period, the more dramatic the difference. But before you decide to put all your retirement money in stocks, be sure you understand the risks.

Risk vs. Return

As an investor, you should always be aware of the relationship between risk and return. The two are directly tied together. The more return you expect from an investment, the more risk you must be willing to assume. No investment is completely risk-free. But as a general rule, stocks are more risky than bonds and offer the potential for higher returns. There are also varying degrees of risk within stocks and bonds. Cash investments are typically safer than either stocks or bonds but have a significant risk of their own—inflation.

Strategies for controlling risk

Diversify your portfolio

Your portfolio is the total of your investments. Diversifying it simply means dividing up your nest egg into more than one basket. Diversification is practiced by professional financial managers to soften the ups and downs of investments. How you allocate *your* investments depends on how much time you have and how much risk you can comfortably bear.

Invest consistently for the long-term

Like diversifying, investing regularly and remaining invested also reduces risk by averaging out the ups and downs of more volatile investments. Don't try to "time the market" by jumping in and out of this or that fund hoping to hit just the right days. Since you can't predict the future, you run the risk of buying or selling at exactly the wrong time.

Instead, by investing a predetermined amount on a regular basis, you can benefit from what's called dollar cost averaging. This strategy ensures that you'll automatically buy fewer shares when prices are high and more shares when prices are low. Over time you'll actually pay less for your shares. 401(k)/457 plans make it easy to take advantage of dollar cost averaging because you can invest through automatic payroll deductions.

Modify your portfolio with time

Time has much to do with how you choose to invest. A younger investor who is many years from retirement can afford to ride the ups and downs of more aggressive investments for their potentially greater returns.

On the other hand, someone with just a few years to retirement won't want to be caught in a down market just when retirement savings are needed. Instead, shifting to more predictable investments is a way to conserve one's capital before retirement.

The Risk of Trying to Avoid Risk



Investments such as FDIC insured savings accounts may seem risk-free, but they don't compensate for inflation very well. If inflation continues at the average 3.25% and your account pays 5% interest, your real earnings for the period would only equal 1.75%.



The URS 401(k) & 457 Plans

The public employee 401(k) and 457 plans offer you many different funds from some of the most respected investment managers. The variety gives you more control by allowing you to choose the investments that meet your goals with a comfortable level of risk. Each fund employs a different investment strategy. By investing in more than one fund, you can diversify your portfolio further.

Rod, age 56
ACCOUNTANT



“S O M E D A Y I’m going to restore the two classic cars I’m working on in the garage right now, a ’48 Buick soft top and a ’63 ‘vette. Trouble is, they’ve been there for years and now my family cars are starting to rust. Boy, it’ll be nice to watch the paint dry on those old beauties. Someday.”

The URS Horizon Funds are designed to automatically diversify your funds according to the time you have until you withdraw your funds.

Invest in managed funds

Managed, or mutual, funds let investors pool money to invest in stocks, bonds, commodities, gold, and other securities—all under the direction of a professional investment manager. Whether by type of holdings or its objectives, the very nature of a mutual fund allows investors to diversify their portfolios.

Get ahead now and later with pretax investing

Investing money from your paycheck before you pay taxes on it gives you a better return both now and in the future. First, investing before taxes are taken out reduces your taxable income—and your taxes. Consequently, what you would have paid in taxes goes into your investment instead. Second, your invested money grows faster because taxes on it are deferred until you withdraw it. Your public employee 401(k) and 457 programs are excellent pretax investment plans.

Let Utah Retirement Systems help

To help you calculate how much, or how little, you need to save with each paycheck, Utah Retirement Systems has prepared a Savings Workbook that’s easy to understand and use.

Furthermore, you’re entitled to educational materials, counseling, seminars, and help by phone, all free of charge. For any of these services, for

prospectuses, for literature on 401(k) or 457 plan investment options, or for a copy of your URS Savings Workbook, call (801) 366-7720 or (800) 688-401k. Or, visit our web site at www.urs.org.

Why 401(k) and 457 plans are your best starting option

401(k) and 457 plans combine several of the best strategies into one simple investment tool. Look at these advantages:

Easy paycheck deduction

The money you choose to contribute to these plans is automatically deducted from your paycheck. This makes your investing almost unconscious and definitely less painful. You know the old saying, “out of sight, out of mind.”

Pretax investing

Because your contributions are withheld from your paycheck before taxes are considered, you pay less tax. If, for instance, you're in a 20% tax bracket, for every dollar you invest, your paycheck would only be reduced by 80¢. Plus, you won't pay taxes on your contributions and earnings until you begin withdrawing them.

Consistent investing

Automatic deduction from your paycheck also gives you the consistency you need to benefit from dollar cost averaging. And the longer you contribute, the more compound interest your contributions will earn.

Investment diversity

401(k) and 457 plans offer several investment options which help you diversify your portfolio and your risk.

Investment flexibility

You can participate in any combination of 11 different investment options to put you in control of your financial future.

Loans

If your employer participates in the URS Loan Program, you may be able to borrow money from your 401(k) or 457 account. Some restrictions apply.

Free financial counseling

Seminars and investment information are provided free to public employees.

What's the Difference Between 401(k) and 457 Plans?

As a result of recent law changes, these plans have become very similar with just a few remaining differences:

401(k)— If you are 59 1/2 years of age or older, you can make withdrawals even if you are still employed. After you leave your employment, there is a 10% early withdrawal penalty if funds are drawn prior to age 59 1/2 unless you work into the year you turn 55.

457— Regardless of your age, 457 funds generally cannot be withdrawn until you terminate your employment. Upon withdrawal, however, there are no early withdrawal penalties. Previously, the 457 plan was somewhat restrictive when it came to withdrawing your funds. This is no longer the case. Withdrawals from 457 plans are just as flexible as 401(k) plans.



Where Do You Go From Here?

Now that you've learned the basics, you're ready to start planning.

For more information, call (801) 366-7720 or (800) 688-401k. You can also visit us online at www.urs.org.

Glossary of Investment Terms

Annuity

A financial tool to accumulate assets (money) with a promise to pay a steady income in the future. Your Utah Retirement Systems defined benefit pension plan is such an annuity. Personal annuities are also sold by insurance companies.

Asset

Anything having commercial or exchange value that is owned by an institution or individual. Investment assets can include stocks, bonds, cash, commodities, currencies, fixed income contracts, mutual funds, precious metals, real estate, and many others.

Bond

In buying a bond, an investor is lending money to a corporation or government in expectation of repayment at a fixed rate of interest over a set number of years.

“Cap”

Large cap, mid cap, and small cap refer to the financial size (capitalization) of the companies included in the investment.

Capital Appreciation

The increase in an asset's value. Gains before sale of an asset are often called “paper profits.” An increase (or loss) is realized only when the asset is sold.

Compounding

When interest earned on an investment remains in the account, further interest can be earned on both the initial investment and upon the added interest. This also applies to dividends from stocks or mutual funds that are reinvested.

Defined Benefit Plan

(e.g. URS pension plan)

A retirement plan organized to receive contributions and pay a lifetime monthly benefit when the participant retires. The amount of this benefit is defined by a formula of service and salary and will not end or be reduced as long as the participant survives.

Defined Contribution Plan

(e.g. URS 401(k)/457 Plans)

A retirement plan organized to receive contributions in amounts defined by the participant who also decides how they are invested. Upon withdrawal, the participant decides the amount and frequency of payout. It's possible for funds to run out while the participant survives.

Diversification

Spreading assets among several types of investments including stocks, bonds, mutual funds, or others to reduce risk.

Dividend

Payout, usually quarterly, of some of a corporation's earnings to owners of its stock. Some stocks are more desirable for their high dividends than for capital appreciation. Mutual funds may pay out dividends or reinvest them into the portfolio.

Dollar Cost Averaging

A strategy for building assets by investing a predetermined sum at regular intervals. A dollar thus buys more shares/units when the price is low and fewer when the price is high.

Equity

The term used to express ownership interest in a company. (See “stock”.)

Fixed Income

A security that pays a fixed rate of return over a set term. Usually refers to bonds, guaranteed investment contracts, even certificates of deposit.

Guaranteed Investment Contract (GIC)

A contract between an insurance company and an investor that includes a specific rate of return on the investment over the life of the contract. GICs are a conservative investment with stable returns.

Inflation

Prices rise when too much money in the economy tries to buy too few goods. Higher prices mean that a dollar buys less each year. Stocks react negatively to rising inflation.

Income

Interest, dividends, rents, etc. from bonds, stocks, real estate, and other investments.

Index

A handy benchmark to measure how well an investment is performing. The Dow Jones Industrial Average and Standard & Poor's 500 Index are two widely used stock indexes.

Interest

Money paid by a borrower as compensation for the use of borrowed money. This amount is generally expressed as an annual percentage of the principal or invested amount.

Investment Grade

Bonds rated AAA to Baa by Moody's Investors Service, Inc., or BBB and higher by Standard & Poor's Corp. are deemed to be "investment grade."

Investment Objective

The stated purpose of an investment. Capital growth, current income, tax-deferment, risk reduction, etc. are typical. Personal objectives may be college savings, retirement, or other goals.

Investment Strategy

A plan to fulfill an objective by selecting investments that produce appropriate returns at acceptable risk, and identifying alternative investments in anticipation of market changes.

Liquidity

Ease with which an asset can be converted to cash. Real estate is less liquid than a bank account.

Maturity Date

The date on which the principal amount of a security (such as a bond) becomes due and payable to the holder.

Mutual Fund

Allows investors to pool money to invest in stocks, bonds, gold, and other securities. Rather than buying individual stocks or bonds, investors buy "units" of the fund itself. Diversification and professional investment management are among a mutual fund's strengths. Each fund will vary according to its holdings, objectives, and performance.

Portfolio

The total investment holdings of an individual or a fund.

Principal

The amount you invested.

Rebalancing

Because investment options have different rates of return, the dollar balance of each grows differently. Some investors want to keep the dollar balance in each investment option at a fairly constant proportion of the total portfolio. This is done by rebalancing. Rebalancing is the process of buying or selling some of each investment option to bring it back in line with its target percentage of the total portfolio. The Horizon Funds (which are made up of six URS investment options) are automatically rebalanced quarterly, when target ranges are exceeded.

Security

An asset (usually intangible) such as a share of stock, a bond, or life insurance.

Short-term

Investments usually held for under five years, although long-term and short-term have no firm boundaries. May include Treasury notes, CDs, money market accounts, etc.

Stock

A security that represents an ownership share in a corporation. Stockholders participate in the company's financial direction for better or worse; also known as "equities."

Tax Deferral

Postponing payment of income taxes on pretax retirement contributions and any earnings on them until the money is withdrawn.

Total Return

The sum of all dividends, interest, and capital gains from point to point in time. Usually expressed as a percent, but also as the growth of, say, \$1000 over 10 years.

Volatility

The height and depth between which an investment's value may fluctuate and how frequently. Volatility is a chief element of risk. Investments with greater potential returns are usually more volatile and therefore more risky.

Yield

The annualized rate at which your investment earns income. Usually refers to fixed income. Not the same as total return. A bond may continue to yield 8% even as its value drops.

