401(k) INVESTMENT DECISIONS PAC

INVESTING IS ROCKET SCIENCE? NOT EVEN CLOSE...

Do you have money you need to invest but feel stuck, because you don't know what to do? Are you avoiding investing because you're worried you'll make an expensive mistake? If this sounds like you, you're not alone—the vast majority of people with money to invest are confronted with these same worries and concerns.

The way to get "unstuck" is simple and straight-forward:

First, you need to know what kind of investor you are, and

Second, you need a step-by-step plan

The truth is, intelligent investing is not rocket science, despite what the vast majority of financial advisors and stockbrokers would have you believe. They need to justify their fees and commissions, so they use terminologies and concepts that complicate, confuse and obfuscate a process that is really quite simple and straight-forward.

The "secrets" to successful investing are not really secrets at all, but rather three timeless principles:

+ Know what kind of investor you are

Do you need an investing "partner" by your side, or do you need to chart your own course?

+ Diversify your investments

Do you appreciate the advantages of mutual funds and index funds over individual stocks and bonds?

+ Aim for success in the long-term

Do you know the statistical success rate of short-term investors? It's truly dismal; the odds are clearly stacked against short-term investing.

PRINCIPLE 1: Choose Investments That Fit Your Goals and Temperament -- and Those of Your Plan's Potential Participants

Stock and bond net asset values (share prices) fluctuate. Some fluctuate more frequently and more diversely than others. While this doesn't bother certain investors -- ones, perhaps, with plenty of time before retirement, ones used to the ups and downs of investing, ones with other sources of emergency money -- many investors prefer to avoid extreme volatility. As mentioned above, "growth" funds *tend to be more volatile than "income and growth" funds, which tend to be more volatile than "income" funds, which tend to be more volatile than money market funds.*

Investment returns should also factor into your decision. Compare investment returns to those of direct competitors' -- not to those from a different class of funds. You can compare returns of competing investments using any of several online services, including Standard & Poor (www.ratings.standardpoor.com), Morningstar (www.morningstar.com), Personal Fund's Online Fee

Calculator (www.personalfund.com), Mutual Fund Investor's Center (www.mfea.com), SmartMoney Mutual Funds Research (www.smartmoney.com).

Don't be fooled by "cumulative total returns" showing how much an investment has grown or shrunk over several years. A large cumulative return when translated into average annual returns may not be large at all. For instance, a stock fund with a cumulative return of 101% over 12 years equates to an average annual return of only 6% compounded; such may or may not be competitive with competitors' funds or with the benchmark index.

Mutual funds, even no-load funds, are not free, nor, in general, are fees they charge closely regulated. The fees can vary widely from fund to fund (though competition, of course, does keep things in check to a degree). Each fund family sets its fees. The fees are spelled out within the investment prospectuses.

Mutual fund fees to look for include...

Expense Ratio

This is money deducted from a fund's earnings and assets to pay for annual operating expenses, including investment advisory fees, legal and accounting services, postage, printing, etc.

12b-1 Fees and Sales Charges

These pay the fund's marketing and distribution expenses and are incorporated into the expense ratio. Some include a sales charge to compensate sales personnel.

Trading Costs

The cost of trading securities, including charges such as brokerage commissions, are not included in the fund's expense ratio but do reduce the returns investors receive.

Most entities that provide and support 401k plan investments - mutual fund managers, fund distributors, asset custodians, asset trustees, investment brokers and advisors, plan administrators and record-keepers - earn at least a portion of their compensation from asset-based fees deducted from plan assets.

We at Pension Systems Corporation, however, are the exception to the norm: We do not earn any compensation -- directly or indirectly -- from our clients' 401k plan assets. In cases where rebates are offered on investments, we have the rebates returned to our clients or directly applied to reducing our clients' costs. Our published prices, available online for all to see, are the only net compensation we collect.

We do not accept any rebates or revenue sharing of fees deducted from our clients' plan assets unless those fees can be returned to the clients' plans or used by Pension Systems Corporation to offset plan expenses.

Asset-based fees are an unavoidable fact of life if your company uses mutual funds or self-directed *brokerage accounts for its 401k. The cost of these asset-based fees should be factored in when determining the true, overall cost of your 401k -- and the cost savings of 401k Easy returning such fees to clients when possible should be factored into our products' affordability.*

For more information on asset-based fees we recommend reading Study of 401(k) Plan Fees and Expenses by the US Department of Pension Welfare and Benefits.

PRINCIPLE 2. : Diversification

The most common -- and detrimental -- mistake made in choosing plan (and personal) investments is to base a decision on an investment's performance history, particularly its recent performance history. Investment performance is cyclical: a mutual fund that's blazing hot today may be as cold as ice tomorrow, and vice versa. Past performance is no guarantee of future results. It should be considered as only one indicator of an investment's suitability.

A better approach is to let your objective be your primary guiding light. For choosing your company's 401k plan investments, your objective is to select a spectrum of investments that will prove appealing and satisfying to your employees' diverse investment needs. The spectrum, not fund-by-fund performance, is your quarry.

To achieve a suitable spectrum of investment options, select one, two or three mutual fund families, then choose a cross-section of funds from within each family. Mutual fund companies compete for investment dollars by trying to out-perform each other. Your employees can benefit from this competition with access to even a single reputable fund family; access to a second or third family grants added choice and flexibility. By listing a cross-section of investments within each family group, your employees will be able to find investments that suit their investing temperaments and needs, now and down the road.

At minimum, your plan needs to offer investments geared toward the following:

Preservation of Principal

Money market funds are the default choice for "safe" investments. Remember, though, that they are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Income

For a steady stream of income, your plan will need funds that invest in bonds. Like stocks, bonds experience fluctuating share prices, though generally to a lesser degree.

Income and Growth

Balanced funds, also known as "lifestyle funds," invest in combinations of stocks and bonds. Balanced funds that hold a greater percentage of stocks over bonds are more volatile and potentially more profitable. Those that hold a greater percentage of bonds over stocks, on the other hand, are more stable but less likely to return big investment gains.

Growth

Stock funds (domestic or foreign) offer the greatest potential for long-term gain, but they also come with the highest risk: they're more volatile and have the greatest potential for posting investment losses.

PRINCIPLE 3: Use a Long-Term Horizon When Selecting Your Investments Provider

401k investments are long-term investment vehicles. They're not designed (nor intended) for short-term results. Look towards fund companies that will stand up to the test of time.

The public image of the fund families you select for your company 401k plan will affect its popularity among your employees. As with other consumer products, mutual funds (and the companies that produce them) come in various shapes and sizes, with reputations and brand-name recognition to match.

Remember to consider...

Is the mutual fund company forthright?

If the company doesn't frankly discuss the potential drawbacks of an investment along with its attributes, go elsewhere.

Does the company follow a disciplined approach to investing?

Some companies do not ensure that their fund managers stick to the investment strategy described in the prospectus. Even the fund's portfolio name may be misleading; it may not reasonably represent the interlaying of stocks and bonds in the portfolio.

Does the company promote the recent fund performances?

You need to know how a fund has performed over the past three, five, ten years. Its performance during the last 24 months is inconsequential.

Does the company put experienced managers in charge?

How many years of experience does the manager have? What's his/her track record? Some companies allow relatively new managers to gain experience with their smaller funds.

ASSET ALLOCATION QUESTIONNAIRE

The following will help you (and your financial advisor) determine which type of investment portfolio could best suit your investment needs and risk profile. Circle your response to each question, then jot down the corresponding number in the box to the question's right. When you finish answering all the questions, add up the numbers in the boxes, then refer to the key at the bottom of the page to see what portfolio mix most closely parallels your responses.

1. How old are you?
   - a) under 35 (10)
   - b) 35–45 (6)
   - c) 46–55 (4)
   - d) 56–75 (2)
   - e) over 75 (0)

2. What percentage of your compensation are you considering investing at this time?
   - a) 1%–3% (8)
   - b) 4%–8% (6)
   - c) 9%–12% (4)
   - d) 13%–15% (2)

3. How long do you anticipate keeping this money invested?
   - a) less than 3 years (0)
   - b) 3–7 years (2)
   - c) 8–12 years (6)
   - d) more than 12 years (10)

4. Which of the following best describes your goals in allocating your funds within the 401(k)?
   - a) major purchase (house, car, etc.) (2)
   - b) college education (child, grandchild) (4)
   - c) retirement living expenses (6)
   - d) retirement home/travel, estate (8)

5. Excluding what you are considering allocating into the 401(k)? what percentage of your investable assets are currently in stocks?
   - a) less than 25% (2)
   - b) 26%–50% (4)
   - c) more than 50% (8)

6. Which of the following best describes your feelings about investing? (choose only one)
   - a) "I'm very comfortable investing in stocks and feel their long-term historical returns more than offset their short-term price volatility." (10)
   - b) "I'm somewhat comfortable investing in stocks and can accept some price volatility in returns over time." (6)
   - c) "I'm neither nervous nor comfortable with stocks; I just need some advice about what to do with my investments." (4)
   - d) "I am nervous about investing in stocks, but I can't justify investing all my money in bonds or money market funds at today's low interest rates." (0)

7. How knowledgeable do you consider yourself when it comes to economic issues and personal finances?
   - a) very knowledgeable (regularly read *The Wall Street Journal*, *Barron's*, etc.) (6)
   - b) somewhat knowledgeable (regularly read the business section of the local paper, Money magazine, etc.) (4)
   - c) unknowledgeable/uninterested (don't read about economics, personal finance) (2)

Now add up the numbers in the boxes and enter your total here:

If your total is 30 or less, a Conservative Portfolio might best suit your needs; if your total is 31-45, a Balanced Portfolio might best suit your needs; if your total is 46 or greater, a Growth Portfolio might best suit your needs. The following page offers information on each of these portfolio types.

PLEASE REMEMBER... Every individual's financial needs are more complex than the scope of the seven above questions. This survey should be used as a guide, not a steadfast interpretation.

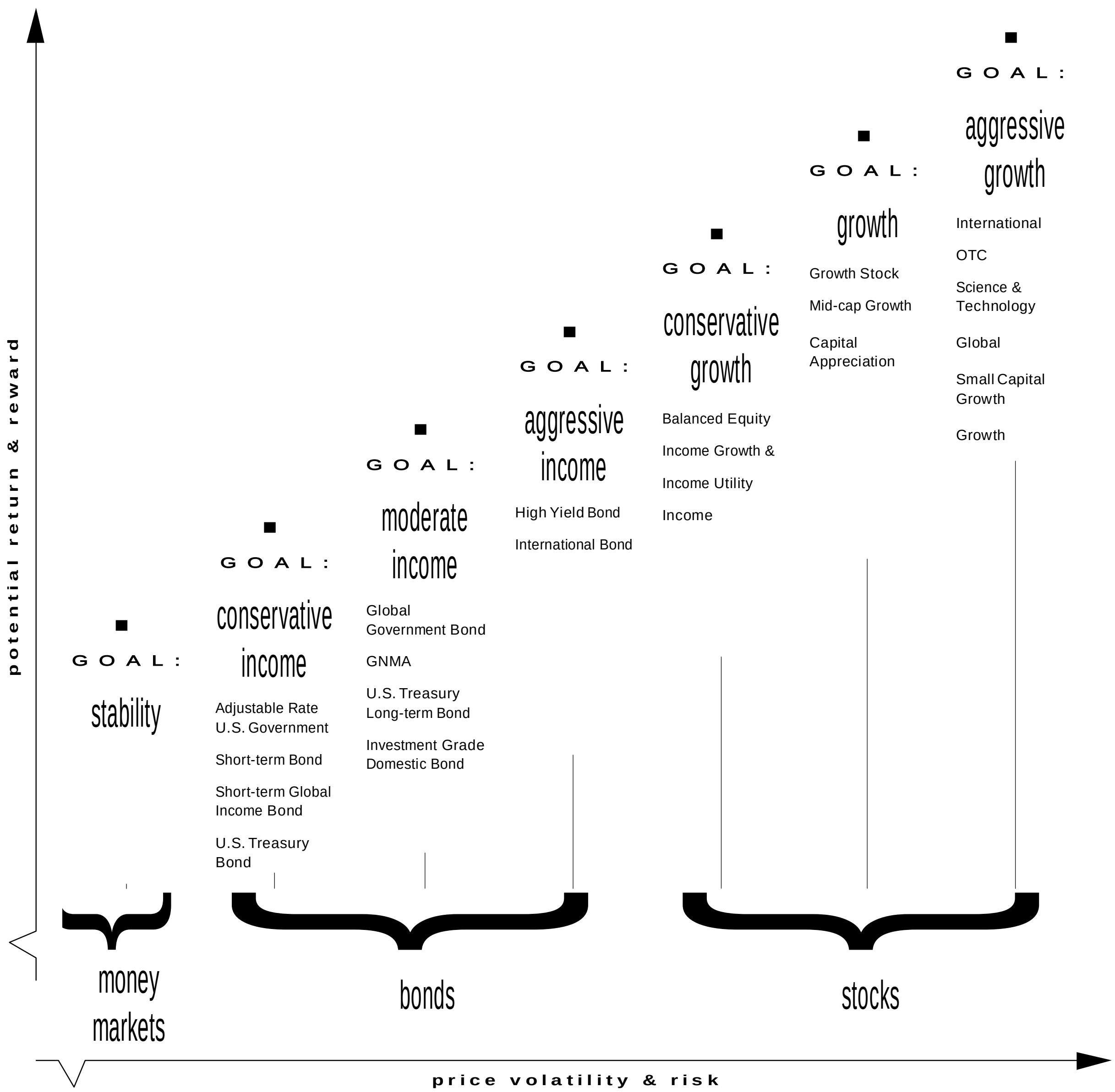
RETURN VS. RISK

We've already touched on investor temperament affecting the return-versus-risk exchange the investor is comfortable with. On this page and the following, return versus risk is again considered, this time more purely in terms of where differing types of investments fall along the continuum.

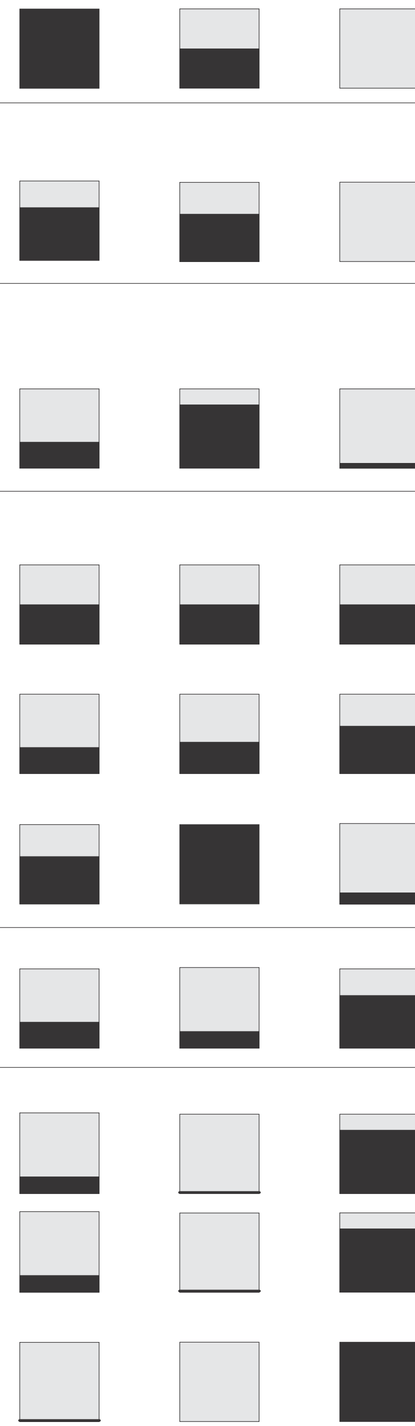
The first chart looks at investment goals' typical relation to investment risk; fund names used are for exemplary purposes; the mutual fund family you're considering may use different fund names. The second chart (see next page) compares relative stability, current return and growth potential of different types of mutual funds.

INVESTMENT GOALS

A RETURN VS RISK EXCHANGE



Relative stability* | Current return* | Growth possibilities*



LOW

VOLATILITY RISK

HIGH

for stability…

MONEY MARKET FUNDS
Current income consistent with capital preservation, stable principal and liquidity through a money market fund.**

for conservative income…

U.S. GOVERNMENT BOND FUNDS
Current income consistent with capital preservation through securities backed by the full faith and credit of the U.S. government.

for moderate to aggressive income…

CORPORATE HIGH YIELD AND/OR WORLD BOND FUNDS
Current income through a diversified portfolio of corporate or high-yielding, lower-rated corporate bonds, with a secondary objective of capital growth when consistent with moderate to high current income.***

for conservative growth…

BALANCED AND/OR ASSET ALLOCATION FUNDS
Capital growth and current income through a well-diversified portfolio balanced between stocks and bonds.

GROWTH AND INCOME FUNDS
Capital growth and current income mainly through a portfolio of income-producing common stocks.

EQUITY INCOME FUNDS
Current income and capital growth through a diversified portfolio of mainly income-producing equity securities.

for growth…

CAPITAL APPRECIATION AND/OR GROWTH & INCOME FUNDS
Capital appreciation through common stocks selected for above-average growth potential.

for aggressive growth…

GROWTH FUNDS
Capital appreciation through a globally diversified common stock portfolio.

EMERGING GROWTH AND/OR SMALL COMPANY FUNDS
Aggressively seek capital appreciation through common stocks.

WORLD, FOREIGN AND/OR SPECIALTY FUNDS
Aggressively seek capital appreciation through "emerging growth" or foreign stocks traded primarily in the over-the-counter (OTC) market.

***What we mean when we say…**

Relative stability: the relative safety of principal and thus the degree of volatility or risk.

Current return: the potential level of income to the fund derived from equity and fixed income interest payments and any use of option-writing instruments.

Growth possibilities: the long-tern growth potential of the investment that brings increased value through capital appreciation rather than dividend income.

** An investment in the fund is neither insured nor guaranteed by the U.S. government. There can be no assurance that the fund will be able to maintain a stable net asset value of $1.00 per share.

*** High-yield securities are rated lower than investment-grade securities because there is a greater possibility that negative changes in the issuer's financial condition, or in general economic conditions, may hinder the issuer's ability to pay principal and interest on securities.