Steering through Volatility

A Special Report

Look at your most recent account statement and you're probably seeing red, literally. Across the board, stock funds have lost a tremendous amount since the market peaked in October 2007. Many indexes dropped by about 50% to their lows in March 2009. The S&P was then flat for 2011, with the Dow Jones returning 5.5%. Those kinds of losses can be very hard to take. This brochure provides some perspective and tips on how you can respond to the market's volatility.

WE'VE BEEN HERE BEFORE—AND SURVIVED!

History tends to repeat itself. That applies to the economy and the stock market among other things. After every recession comes a period of economic growth. And after every bear market comes a bull market for stocks. As bad as the latest recession and financial crisis are, the U.S. economy and stock market have survived worse, going back to the Great Depression.

Since World War II, there have been roughly a dozen bear markets (periods when the stock market lost 20% or more), and a dozen recessions. But the current situation is among the worst. Five of the recessions lasted six to eight months, four lasted 10-11 months, and two were 16 months long. The current recession has already been underway for a year and a half.

As for bear markets, in the 1973-74 and 2000-2002 market downturns, stocks fell roughly 45% from the market's peak to its low point. The 50% drop in the Dow Jones Industrial Average from October 2007 to March 2009 was a tough pill to swallow, but the same investment principles that applied over the last few years and the last few decades still apply today.

Turn the page to learn about actions you can take to improve your situation. >

TODAY IS A NEW DAY

Hopefully, the current combined financial crisis/global recession is a once-in-a-lifetime type of event. The global economy has suffered broadly, as have stocks and the retirement accounts of many millions of people. It's painful. But we can't undo the past, only learn from it as we move forward and reshape our future.

The best advice is to try to look with wide-open eyes at the risks and opportunities that lie ahead, and make thoughtful and wise decisions.

A fresh start

Imagine you are starting out completely fresh. What should you do today and tomorrow to reach your long-term goals, given the current state of your finances?

Create a new game plan

Review your current savings, and your long-term goals. How will you get there? How much do you need to save, for how many years, and at what assumed rate of return? Use an online calculator and work out the numbers. If you see a gap, try looking at the challenge creatively. Could you increase your savings? Work longer? Change your asset allocation strategy a bit? Plan a less expensive lifestyle in retirement?

Stay calm and cool

In reviewing your situation and your goals, don't make radical changes. If your asset allocation was more or less the right mix all along, be careful not to shift it too much as you either seek to catch up or to avoid too much risk.

Manage your money wisely

How much debt you carry—especially high-interest credit card debt—could affect how much you are able to save. If you are paying high interest rates on debt, do your best to do away with those debts. Consolidate them into a lower interest rate loan or pay them off quickly. Then, you'll have more money available to save for your future.

Be a smart consumer

Separate your needs from your wants. Look at all your expenses and decide what is a "must have" and what is a "nice to have." Learn to live on less. If you know you can't have all that you want today, without falling short in your retired years, look for the right balance between today's desires and tomorrow's needs.

Plan to make your next emergency a non-event

If the economic recession and the stock market crash took you by surprise, learn from the experience.

Develop a financial emergency plan. That means building an emergency reserve fund. Aim initially for enough money to pay your expenses for a month or two, and then keep building your emergency reserve to cover six months of expenses if you can.

HOW DID WE GET HERE?

Risky Loans and a Bursting Bubble: For years, homeowners were lured into mortgages through attractive features, such as no down payment, low documentation, and low or zero initial interest rates. Adjustable rate mortgages allowed people to start with smaller monthly payments. Real estate values fell. And as interest rates rose, adjustable rate mortgages reset at higher rates. Monthly payments soared and many homeowners defaulted on their loans.

Losses Spread: The pain spread because of investments based on mortgages. Individual mortgages were pooled together to form mortgage-backed securities, which were sold to investors around the world. Mounting mortgage defaults led to a global crisis, partly because of widespread investments in these mortgage-related products that had hidden risks. This was made worse by the high degree of leverage (investing with borrowed money) that many investors, including hedge funds, had. To cover their losses, hedge funds quickly sold anything they could, causing many investments to drop in price. The ensuing fear led more people to sell.

Frozen Credit: Meanwhile, the fear of not being repaid led to a freeze in global credit markets. Since then, governments and central banks around the world have worked to stimulate the economy and get money flowing again.

Write-offs and Bank Collapses: Over the past few years, banks have written off billions of dollars of bad loans. In September 2008, investment bank Lehman Brothers collapsed, Bank of America bought Merrill Lynch, and the U.S. government took over Fannie Mae and Freddie Mac, two huge institutions that support residential mortgages, while pumping many billions of dollars into insurance giant AIG.

Recession: Meanwhile, the U.S. economy and the economies of many countries spiraled sharply downward. As measured in gross domestic product (GDP), the U.S. economy was essentially flat in 2008 and fell by 2.6% in 2009. GDP rose by

2.9% in 2010, yet fell to 1.6% in 2011. The Federal Reserve has made many attempts to get the economy moving again, from cutting interest rates to zero to making money available to non-bank institutions as well as large banks. Fortunately, governments around the world are working together to resolve the crisis. But because this is a very large, complex crisis and it's taking time to resolve it.

Two key steps that need to take place: The credit market must continue to thaw and the housing market must begin to stabilize.

WHAT DO I DO NOW?

Overall, there has been a lot of volatility in the stock market for quite a while. Investors are understandably very anxious. The following questions and answers address some common concerns of retirement plan participants.

Q. Should I stop contributing to my retirement account?

A. No. As difficult as it is to watch the value of your account decline month after month, you still need to save for your future. In fact, you may have to save even more to make up for a difficult period in which the value of your retirement account has fallen substantially. Don't think in terms of suspending or decreasing your savings. Instead, figure out how to increase your retirement savings or at least maintain them. Instead of asking, "Should I stop contributing?" ask, "How much more can I contribute?" And remember: Tax-deferred savings can grow faster than taxable savings.

Q. Should I sell all my mutual funds and put all my money in a bank account?

A. Making radical moves is risky. Before you do anything, first review your investments and your overall asset allocation. Keep in mind how long you'll have until you begin making account withdrawals in retirement. Stock mutual funds are more volatile than other more stable or conservative investments, especially for the short term, but investors are compensated for that risk through higher potential returns. A broadly diversified approach, with a combination of stocks, bonds and stable value investments, made sense before the bear market began and it makes sense now. It limits risk while tapping into potential long-term gains. Bank accounts are suitable for short-term needs, but they won't generate high enough returns to keep up with inflation or provide sufficient long-term growth. The chart above shows the importance of staying in the market even during times of volatility.

1 *Wall Street Journal, http://online.wsj.com/public/page/quarterly-markets-review-010209.html*

It's Time in the Market That Counts

The following example illustrates the hypothetical growth of a $10,000 investment in the Standard & Poor's 500 Index from Jan. 1, 1980 to Dec. 31, 2010.

	Value	Return
Stayed invested the entire time	$280,740	11.36%
Missed the best 5 months	$159,90	9.35%
Missed the best 10 months	$100,390	7.72%
Missed the best 15 months	$66,551	6.30%
Missed the best 20 months	$45,687	5.02%

Source: GE Asset Management. This illustration is hypothetical and for illustrative purposes only and is not indicative of the performance of any specific investment. Past performance is no guarantee of future results. Investments are subject to market risk and fluctuate in value. The S&P 500 is an index of 500 widely traded stocks and is considered to represent the performance of the stock market in general. An investment cannot be made directly in an index.

Q Doesn't it make sense to get out of the stock market and return once it starts to recover?

A. Whenever the stock and bond markets begin to recover, they could easily outperform the limited interest that a bank account, certificate of deposit or money market account would earn. Unfortunately, it's impossible to identify the best time to get in or out of the stock market. By selling after the market falls and then waiting until it begins to rebound before buying again, you could lock in a loss and miss some of the rebound, whenever that occurs. Also, by continuing to invest when stocks have fallen, you'll take advantage of the opportunity to accumulate more shares at a lower price.

Q What SHOULD I do?

A. Here are five actions to take:

1) Review your account balance, asset allocation strategy and fund performance.

2) Rebalance or reallocate your investments into a more suitable mix if appropriate.

3) Use an online retirement savings calculator to estimate how much you'll need.

4) Save more to make up any gap.

5) Reconsider plans for when you'll retire. Working a few more years could give you more time to save and fewer retirement years to fund.

A GAME PLAN FOR ALL AGES

What should you do as you wait for the world's economic and financial problems to get resolved?

Don't panic. Get back to basics, review your account balance and your investment goals, and then rededicate yourself to achieving those goals.

Revisit your asset allocation (mix of investments). Reconsider your risk tolerance and time horizon.

Do a thorough review. Rethink how you want to invest your money for the short, medium and long term. Make adjustments as needed, but do so thoughtfully and as part of a long-term plan.

Dollar cost averaging (investing the same dollar amount through the market's ups and downs) is the silver lining if you contribute regularly to a retirement account. When the market dips, the same contribution will buy more shares.

By investing $100 a month, based on the illustration below, as the price per share and number of shares purchased fluctuates, a total of $500 purchases 75 shares at an average share price of $7.20.

Month	Investment	Share Price	Number of Shares Purchased
1	$100	$5.00	20
2	$100	$8.00	12.5
3	$100	$5.00	20
4	$100	$10.00	10
5	$100	$8.00	12.5
	$500	$7.20 (avg share price)	75.0

Here are some more tips, based on your life stage:

Young adults (20s, 30s)

1) Stay invested. You have three or more decades to keep building your retirement savings.
2) Take advantage of today. There are no guarantees, but if the long-term direction of stocks is up, and the stock market fell by 50% from October 2007 to March 2009, investors with a long time horizon had a great buying opportunity. Think of a it as a 50%-off clearance sale. Don't just stay invested, consider investing more.
3) Learn some critical lessons. One is the importance of broad diversification. Stocks should form the cornerstone of a long-term investment plan, but as you get closer to retirement, gradually dial down risk; shift more and more to bonds.

Mid-career (40s, 50s)

1) Review and revise your plans. You still have time to change how much you invest, how you invest, when you'll retire and what you'll do after you retire. You have time to rethink everything. Do a thorough review, and get expert help.
2) Save more. If your account balance has fallen and you're off track, now is the time to devote yourself to catching up. Use your remaining years in the work force well and save as much as you can.
3) Diversification is key. Ignore any thoughts to get really aggressive and make up ground quickly or the opposite desire to bail out into cash. Stay broadly diversified.

Pre-retirees and retirees (60s+)

1) Create a Plan B. If you have just retired or plan to soon, you may have to think of a Plan B. If you're still working, could you work longer? If retired, could you find a part-time job to add to your retirement income?
2) Maintain your long-term objectives. Even retirees should focus on long-term investing as well as short-term needs. Keep some money in stock funds because over time they've offered the best chance to outpace inflation. Make sure you have other short-term income sources, and enough cash to provide for a few years.
3) Readjust spending plans. You may need to revise your spending plans. If affordability becomes an issue, rethink where you will live. Meet with a financial advisor.

Big Picture Perspective

Asset class average annual compound returns from 1926 to 2010:

> **Stocks** delivered an average annual return of 11.00%.

> **Bonds** delivered an average annual return of 5.5%.

> **Stable Assets** delivered an average annual return of 3.6%.

> **Inflation** has averaged 3%.

Source: Kmotion Research

REGIONS
INSTITUTIONAL SERVICES