OnTrack

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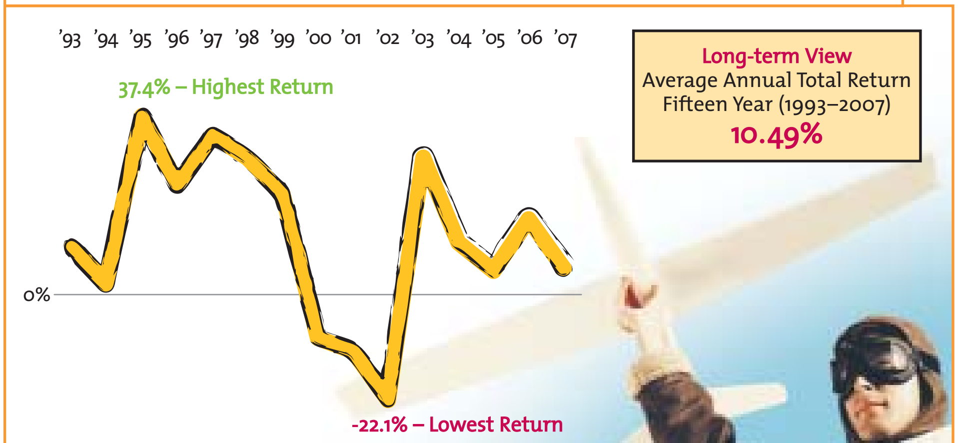
Long-term Investing: A BIRD'S EYE VIEW

When you're in an airplane and you look down, you typically can't see much detail at ground level. The higher you get, the fewer details you see. They seem to fade into the larger picture.

When it comes to investment performance, taking a "bird's eye view" approach can be valuable for retirement investors. Rather than being concerned only about how your investments are performing on a day-to-day or even quarter-to-quarter basis, take a look at how they are performing over longer periods. Unless you're very close to retirement, long-term performance is what counts.

Ground-level View: Annual Stock Returns* 1993–2007



* Measured by the S&P 500 Stock Index, an index of the stocks of 500 major corporations. You cannot invest directly in an index. Past performance is no guarantee of future results. Sources: Mellon Analytical Solutions, LLC and NPI.

What's Time Got To Do with It?

Long-term investing means exactly what it says: being invested for a long period of time. The number of years you have to invest is an important factor to consider when you decide how to invest your retirement account.

The Long and Short of It

Of the three investment types — stocks, bonds, and cash equivalents — stocks have historically provided the best opportunity for growth and the highest relative return over the long term. However, stocks are also more volatile than the other two investment types, so they carry more risk.

If you charted the daily price movements of a stock market index, you'd no doubt end up with lots of ups and downs. That's volatility. And it can be a wild ride. If you step back and look at the same index's performance over longer periods, you're likely to see a lot less jumping around.

A History Lesson

When you don't have much time left to invest, price drops in any stock investments you own could be bad news. But, as a long-term investor, you can focus on an investment's long-term performance (and the stock market's overall performance) instead of its day-to-day ups and downs.

Although past performance is no guarantee of future returns, stocks have always bounced back eventually following periods of price drops. When you have time to wait, the stock investments you hold could rebound following any future market dips.

Preparing for Turbulence

Whether you're flying or investing, you can expect some turbulence. As a passenger on an airplane, fastening your seat belt can help you safely ride out the bumps. As an investor, taking the long-term view can help you put short-term volatility in perspective.

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An ABOVE AVERAGE Approach

Are you interested in learning about advanced investing strategies and theories? Some investors like that kind of challenge. However, if you prefer a simpler, more straightforward approach to investing, you may be interested in learning about dollar-cost averaging (DCA).* Even though it sounds like a complicated strategy, DCA is actually quite simple. And it's a strategy you're already using to invest for retirement.

Sun, Surf, and Macaroni

How does DCA work? Here's an example. Imagine that you have an opportunity to go to a remote tropical island for an extended vacation and that you can stay as long as your food lasts. The trip begins in five months so you start planning right away.

Food is a top priority, so you set a budget of $250 and contemplate your options. Let's say you really like macaroni and cheese. Since it's easy to transport, you decide that mac-n-cheese in a box will be your food staple for the duration of your stay. When the last elbow is gone, your beach vacation will end, and you'll have to return to the real world. So you're motivated to buy as much mac-n-cheese as you can.

The grocery store has the brand you like for $1.95 a box. Should you stock up now? You could purchase 128 boxes with your $250. Or should you wait? After all, your brand of mac-n-cheese might go on sale at some point during the next five months.

More Mac for the Money

	Price of mac-n-cheese	Amount spent	Number of boxes (Rounded to nearest whole box)
Month 1	$1.95	$50	26
Month 2	$1.67	$50	30
Month 3	$1.51	$50	33
Month 4	$1.95	$50	26
Month 5	$2.00	$50	25
Total	**$9.08** **Average price: $1.82** ($9.08 ÷ 5)	**$250**	**140** **Average price paid: $1.79** ($250 ÷ 140)

If you had made a lump-sum purchase the first month when the price was $1.95 per box, your $250 would have bought **128** boxes of mac-n-cheese. With DCA, you were able to buy **140** boxes — and spend a few extra days on the beach.

This is a hypothetical example.

Source: NPI

Then again, prices could go in the other direction, and you'd end up with fewer boxes instead of more.

You decide that the best thing to do is to buy $50 worth of mac-n-cheese every month for the next five months, regardless of price. Check the chart to see what might happen.

DCA and Retirement Investing

When you contribute to your retirement plan, you're doing the same thing: investing a set amount on a regular basis, regardless of price. Each payday, your contribution is invested in the funds or portfolios you've chosen. When prices are low, your contribution buys more shares. When prices are high, it buys fewer shares. Over time, the average price you pay per share of a fund or portfolio typically will be lower than the average share price for the same period.

Simple and Effective

Whether you're investing for retirement or stocking up on mac-n-cheese, DCA can help smooth out the effects of fluctuating prices.

* Investing regular amounts steadily over time (dollar-cost averaging) may lower your average per-share cost, but this investment method will not guarantee a profit or protect you from a loss in declining markets. Effectiveness requires continuous investment, regardless of fluctuating prices. You should consider your ability to continue buying through periods of low prices.