

# SAVINGS AND SECURITY PLAN NEWSLETTER

## QUARTERLY REVIEW

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Stocks posted their best quarter since 2003. When the quarter began, stocks were three weeks into a rally that continued full force for another two months. The quarter marked a period of healing for financial markets around the world. Credit markets, which had been at the core of the financial crisis, continued to improve. As a result, financials were the best performing stocks this quarter.

The S&P 500 Index, which is the benchmark for the three large company stock funds in the Plan, gained 15.93% for the quarter and 3.16% year-to-date. Smaller companies posted even higher gains with the Russell 2500 Growth Index earning 21.79% for the quarter and 14.52% for the year. The international index MSCI EAFE gained 25.43% for the quarter and 7.95% for the year.

Looking at the Plan funds, Cohen & Steers Realty Shares led the way for the quarter posting a gain of 29.45%. T. Rowe Price Mid Cap Value posted the highest year-to-date gain at 14.09%. Several Plan funds outperformed their respective indexes this year. The most impressive of which is the Mid Cap Value Fund which outperformed its index by 10.90%!

The Stable Value Fund, which accounts for approximately 60% of the Plan assets, provides a guarantee of principal and interest for participant withdrawals. The Fund produced a year-to-date annualized yield of 3.24%.

The enclosed statement reflects activity from April 1, 2009 through June 30, 2009. Your next statement will reflect activity from July 1, 2009 through September 30, 2009.

### M E S S A G E F R O M T H E P R E S I D E N T

Dear Participant:

Everybody is asking the same question - when is this recession going to be over? Our article on page 2 takes on this subject, so I encourage you to read it.

There are some interesting things going on right now that show positive change may be taking place. I am referring to commentary that one of the reasons we got into this mess was because consumers were literally spending more than they were earning. This extended into what became known as "liar's loans", where people misrepresented their income and got mortgages which they really weren't qualified to receive. There may be a turnaround in people's

approaches because over the last several months, a reversal has taken place and in the month of May for example, it is estimated that consumers saved over 10% of their income, a record that has not been approached for the last 30 years. Consumers used much of the stimulus money to pay down debt instead of spending more. It seems many people have learned their lessons. As was expressed at a recent Minnesota State IBEW Conference, the local Congressional representative said it was about time for Minnesotans to get back to fundamental values, to be more conservative with their spending. It looks like people around the U.S. are doing exactly that.

The irony in this situation is that consumer

## MODEL PORTFOLIO PERFORMANCE

	<b>10 Yr. Average Annual Portfolio Return*</b>
<b>Conservative</b>	<b>4.23%</b>
<b>Conservative Growth</b>	<b>4.17%</b>
<b>Moderate Growth</b>	<b>3.97%</b>
<b>Growth</b>	<b>3.87%</b>
<b>Aggressive Growth</b>	<b>3.61%</b>

\* Returns as of June 30, 2009

Includes investment management expenses but not plan expenses.

## IS THIS THE TURNING POINT?

After a painful 20 months, the questions many are asking are: *Is the economy turning the corner? Is the recession over?*

The end of a recession typically refers to the month in which the declines in economic growth reach their bottom, or trough. But economic turning points are notoriously hard to identify, especially since data often contradicts itself.

For example, after the 2001 recession, 20 months passed before the National Bureau of Economic Research officially determined its end point. In addition, they didn't announce until December 2008 that the current recession had begun the previous December.

With the rallying of the stock market since its low on March 9th, along with other favorable indicators, it's tempting to say the recession is over. Some experts believe the recession has ended, citing that the Leading Indicators Index, a report that looks at consumer goods orders, stock prices, building permits and seven other key economic data points, rose sharply in May for the second consecutive month. Declines in jobless claims, improving home sales and stabilization in the manufacturing sector are all encouraging signs. However, other economists feel that we are still in a recession, arguing that we need to see more stabilization in home prices and unemployment.

The jump in stock poses a chicken versus egg question: Is the market rallying because people think the recession is over or do people think the recession is over because the stock market is rallying?

While it may be premature to assess whether the recession has officially ended, just about everyone agrees that we are past the worst point. As a result, investors have had a new outlook on risk.

After spending most of 2008 and early 2009 fleeing volatile areas of the market, investors are now racing toward them. Nearly \$40 billion has poured into stock funds since the end of March.

The motivation behind it is the fear that they will miss out on an opportunity to quickly make back last year's losses. It's the opposite of the panic selling that occurred last year - it's panic buying. They are betting that the economy is on the mend and the recovery is within sight. But, what if the economy fails to meet expectations or takes longer to heal?

What is still unknown is how long it will take to recover the losses. There are still uncertainties and weaknesses. As mixed economic reports are released, the market will react in its often knee jerk manner. Those who have recently bought back into the market should understand that there could be both ups and downs ahead.

Buying and selling at the wrong times is a common hazard in markets that shift gears so quickly. For example, after holding tight throughout last year's meltdown, some people gave up earlier this year, thus losing out on the ensuing rally which reached over 30%. This is why we always caution against market timing and encourage a long-term perspective with a disciplined asset allocation plan in place where a certain

## Scarborough's Mission

*We are dedicated to helping IBEW members enjoy a financially secure retirement.*

*Scarborough provides members with access to low cost, top performing investments and personalized retirement plans that address their individual needs.*

*Our role does not end when an IBEW member retires, its just the beginning.*

percentage of your portfolio is invested in stock and a certain percentage is invested in Stable Value - regardless of market conditions.

Those who were properly diversified and stayed put as we advocated have seen their accounts climb significantly since March.

### Getting on Track for the Recovery

With the worst appearing to be behind us, it is the perfect time to re-evaluate your finances to position yourself for a comeback. The following are steps to consider:

**Dollar Cost Averaging** - Dollar Cost Averaging is the practice of investing a fixed dollar amount at regular intervals (such as monthly) in a particular investment. Purchases buy more shares when the price is low and fewer shares when it rises. It lowers the risk of investing a large amount at the wrong time.

For those who got concerned and moved more or all money into Stable Value, you should consider Dollar Cost Averaging as a strategy for re-entering the market. Because the markets are so unpredictable, trying to time when to get back in the market is very difficult. Even investment professionals cannot consistently predict optimal timing.

When the market is doing well, we wonder whether it is the beginning of the recovery or just a "bear market rally" that will go back down again. If you get in too early, you run the risk of the market going back down and losing more money. If you wait too long, you may miss out on much or all of the opportunity to rebound and gain your money back. By systematically moving money each month

from Stable Value to the stock funds, Dollar Cost Averaging takes the timing and emotion out of the equation.

**Rebalancing** - Rebalancing keeps your account consistent with your target allocations. For example, assuming you entered 2008 with a 60% stock / 40% Stable Value mix, if you haven't rebalanced it's now roughly a 50/50 split due to market fluctuation. Doing nothing means you will not catch the full upside you intended with the 60/40 allocation.

Rebalancing would entail moving 10% of the account from Stable Value to the stock funds to restore the 60/40 split. This is especially important for participants with longer time horizons when the difference between the returns of a 60/40 versus 50/50 mix can really add up over time.

**Diversify Concentrated Holdings** - If you have an account such as a 401(k) with a large holding in one company stock, it may be a good time to diversify. As a rule of

### PERFORMANCE OF FUNDS IN THE IBEW PLAN

As of June 30, 2009	Year to Date	3 Years	5 Years	10 Years
Vanguard Asset Allocation Fund	0.91%	-8.27%	-1.93%	0.06%
Vanguard Growth & Income Fund	0.77%	-10.17%	-3.44%	-2.25%
Dodge & Cox Stock Fund	4.81%	-12.74%	-2.82%	3.16%
Vanguard PRIMECAP Fund	7.99%	-4.05%	1.65%	2.94%
T.Rowe Price Mid-Cap Value Fund	14.09%	-4.88%	1.69%	7.44%
Vanguard Explorer Fund	10.82%	-9.75%	-1.91%	3.62%
Harbor International Fund	7.60%	-3.84%	6.55%	6.05%
Cohen & Steers Realty Shares Fund	-10.27%	-16.95%	-0.55%	6.44%*
BNY Mellon Stable Value Fund	3.24%**	3.83%	3.82%	4.41%

The mutual funds past performance is no guarantee of future results and does not reflect Plan administrative expenses. The investment rate of return and principal value of an investment in mutual funds will fluctuate and when redeemed may be worth more or less than the original investment. The Stable Value fund past performance does reflect Plan administrative expenses. \* 10 year return is for retail share class (CSRSX). \*\*Annualized return.

## IS THIS THE TURNING POINT? (CONTINUED)

thumb, a holding of 10% or more in an individual stock would be considered concentrated.

A diversified mix of funds such as Scarborough's model portfolios will follow the market back up because all of the different segments of the market are represented. However, if you own a large holding in an individual company stock, you run the risk that the stock price may not recover as much as the overall market due to circumstances within that particular industry or company.

**Trim the Fat from your Budget** - Withdrawals are a big factor in how much your account will benefit from the recovery. Since withdrawals involve selling shares of your investments, the more you withdraw, the less shares are left in your account to rebound. Since this is a retirement plan, it is expected that people will take money to cover living expenses. However, current circumstances warrant taking a fresh look at your budget. Mortgage rates are historically low so if your current rate is above 6%, or you have an adjustable rate and you plan to stay in your

home for at least the next few years, you should look into refinancing. In addition, shopping around for items such as cable packages, telephone plans and insurance premiums can lead to cutting costs.

**Stable Value Only Withdrawals** - The key to maximizing your recovery is to keep as many shares of your stock investments in place to appreciate when the market rebounds. As stated above, how much you withdraw is important but where you withdraw from is also a consideration. Generally the Plan takes withdrawals proportionately from all of your funds. This is normally advantageous because it keeps your mix intact. However, with the decline in stock prices, we can arrange to have your monthly withdrawals come from the Stable Value Fund only. This is recommended only on a temporary basis until a more consistent recovery occurs.

To discuss how these concepts fit into your individual situation, please call 800-223-7608 to speak with a Retirement Planning Specialist.

spending represents about 70% of our economy and with consumers cutting back, it is having an adverse effect on our economy. At some point, a balance will be achieved, but it's one of the factors that is impacting on the question of "when will this be over?"

There is a similar situation developing with the Federal stimulus program. The U.S. has put over \$15 trillion into the credit markets and there is beginning to be some results as lenders have unfrozen some of their lending practices and money is beginning to flow into the lending market. This was a big factor with the stock market rally which started in early March, resulting in the market climbing over 30% since then. The problem with the stimulus is similar to what has happened with countries in the past who have borrowed a lot and have printed new money. This practice generally results in inflation and diminishes the value

of the local currency. This is one of the reasons why the Chinese have begun to raise questions about their investment in U.S. Treasuries. Before you say "who cares?" you should be aware that the Chinese and other foreign governments' investments represent approximately 50% of the U.S. Treasury investments. The point I am trying to make is that both citizens and governments have to be careful about their spending. The impact on inflation, interest rates and ultimately taxes to pay for all of this will be significant if both groups don't achieve responsible limits on spending.

It does appear that Americans have received a wake up call and when that happens, we always come back and do even better! I am confident that this pattern will continue.

Sincerely,



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