



Second Quarter Starts Out Strong

The second quarter of 2006 kicked off with the stock markets going strong. During April, the Dow remained above 11,000, continuing the first quarter trend of trading in a narrow range without much fluctuation.

Energy and fuel costs remained high, however, and are among the many factors driving inflation upward. In an effort to control inflation, the Federal Reserve has steadily been raising interest rates – and on May 10th, the 16th rate hike in a row brought the federal rate to a five-year high of 5%.

How do rising interest rates affect your investments? In general, they tend to negatively affect the equity market (stocks) and positively affect the fixed-income market (bonds, certificates of deposit). These continued rate hikes will make fund managers more cautious. They know certain types of investments are likely to do better than others and they may adjust their holdings for the climate that's expected ahead.

In early June, jitters about inflation and potential interest rate hikes in the weeks ahead caused some investors to sell off securities. The Dow subsequently dropped below 11,000 for the first time in three months, declining by about 5%. A drop of this type is called a “correction” and is not uncommon when the market has been trading high for a prolonged period. Financial experts consider corrections to be cyclical events and feel this one may even be overdue, since it's been three years since the market had a significant correction of 10%. Since many stocks will drop in price during a market correction, it can provide some excellent opportunities for fund managers with a value strategy. As in most things, when prices are falling, there are some excellent bargains to be found, and investors will be looking for chances to “buy low; sell high.”

Weighing The Benefits Of A 401K

When it comes to saving and investing for retirement on your own, a 401K plan is an easy option with many benefits. Here's how it works: You decide how much money you want to invest each pay period, and choose a fund from among your plan's different investment options. Your employer automatically deducts the money from your paycheck and invests it on

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RELIANCE TRUST COMPANY of Atlanta, Georgia is the Plan Trustee. The Trustee is responsible for oversight of the assets of the trust fund to insure consistency with the terms of the Plan and the master trust agreement. Reliance Trust also provides investment advisory services for certain non-participant-directed assets of the Trust.

your behalf. Since you're "paying yourself first," instead of trying to stash away whatever cash you have left at the end of the month, saving seems easier and studies show the average worker saves more.

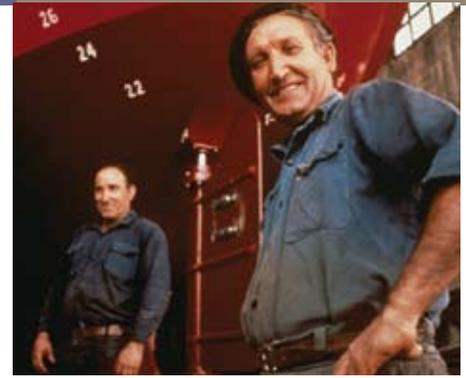
Lowering your tax bill is an even bigger benefit. Consider this: With an ordinary savings account, you're depositing money you've already been taxed on – and then you pay taxes every year on the interest it makes. With a 401K, however, the money is deducted from your paycheck before taxes are taken out. For example, if you earn \$1000 in a pay period and contribute \$50 to the 401K, you're only taxed on earnings of \$950. Your savings are also tax-deferred – which means you don't pay any income tax at all on the money until you withdraw it from the plan. Since that's usually at retirement, you may be in a lower tax bracket. The bottom

line is, more of your money will be working for you, instead of going toward income tax.

Strategies To Consider As You Near Retirement

If you've taken stock of your savings and it seems you're a little behind when it comes to reaching your retirement goals, don't despair. Once you turn 50, you can take advantage of IRS "catch-up rules" to boost your savings. Because many types of retirement plans (IRA, 401K, etc.) come with tax advantages, the IRS sets a legal limit on how much you can invest in them each year. Older workers, however, are now able to make extra "catch-up" contributions to their investment plans, and it's a smart way to ensure you'll retire comfortably.

Don't know where you'll find the extra cash to stash away? Take a look at your home. If you're at a stage in life when your house is really bigger than you need, it may be time to downsize. Let's say you can sell your house for \$250,000 and move to a smaller home that costs \$150,000. You'd most likely save money on maintenance costs,



utility bills and property taxes, freeing up cash for investing. Depending on how much equity you've built, the sale of your house may also leave you with a large chunk of money that you can put toward retirement savings.

What Is A Mutual Fund?

Simply put, it's an investment tool that allows people to pool money together in a fund that invests in various securities (usually stocks, bonds, or a mixture of both). Each share you own of a mutual fund actually includes dozens, even hundreds, of different stocks and/or bonds. In this way, mutual funds allow the average investor to diversify (spread money out across different types of investments) without having to decide on and buy many individual stocks. The mutual fund has a manager who decides when to buy or sell stocks or bonds based on the fund's desired balance of risk and return.

