



Contractors Plan News

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Third Quarter Stocks See Little Growth

The stock market seems to have taken the summer off this year, holding relatively steady during the third quarter but seeing no real growth. A small and temporary decline by both the Dow and NASDAQ in mid-July was attributed to the deadly conflict between Israel and Hezbollah in the Middle East. Not surprisingly, the price of oil went up as political unrest broke out. Energy costs were further affected by leaks in the Alaska pipeline, a major source of domestic oil, causing it to shut down for an undetermined length of time. This prolonged spike in energy prices that began with Hurricane Katrina continues to contribute to rising inflation.



While the Federal Reserve has been attempting to curb inflation by raising interest rates, it decided against another rate hike in August – holding the rate steady at 5.25% after 17 straight hikes. There's no guarantee against future increases, however, and the unknown fate of interest rates is a potential reason for the market's sluggishness, as investors wait for a more certain future. Also contributing to lack of market growth is a general economic slowdown. The housing market

in particular has cooled considerably, as higher interest rates make mortgages less affordable.

Economists feel that the combination of slower economic growth and rising inflation is pulling the Federal Reserve in different directions. Should the Fed hold rates steady to encourage consumer spending, or should it raise rates again to undercut inflation? While there are no concrete answers, Federal Reserve chairman Ben Bernanke says he remains optimistic about the economic environment during the months ahead. Companies in certain market sectors, including financial institutions and pharmaceutical companies, have released second quarter earnings statements that do show strong growth, so the forecast is mixed. ■

The Power of Compounding

In financial terms, compounding means your interest is earning interest. It's been referred to as "the road to riches" and it's one of the simplest investment strategies you'll ever use. Instead of withdrawing the interest or dividends your investments earn, you simply reinvest them – and then capture the returns on these reinvested profits as well as on your original capital.

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The rewards can be amazing when you put the power of compounding to work for you. Why? Because as long as you reinvest your profits, the value of your investments will grow exponentially (at an ever-increasing rate) rather than in small increments. For example: Let's say you invest \$1,000 at a fixed annual rate of 8%. At the end of the first year, your profit is \$80. But if you leave the interest and original investment there to earn more interest, by the tenth year you'll earn \$160 in interest. And in the 40th year, you'll earn a whopping \$1609!

Remember, time is your ally. The longer you leave your money invested, the better compounding works for you. And keep in mind that more capital earns more interest. You can boost the power of compounding even more by adding to your investments every month – for instance, through automatic payroll deductions that go into a 401(k) plan. Your 401(k) is the perfect savings vehicle for compounding to work its magic, because you can't touch the money until retirement (except under special circumstances). Without the temptation to withdraw your profits, your money is left to grow into a fat nest egg. ■

History of the Stock Market

In 1792, 24 financial leaders met in New York City to create the first organized stock exchange in America, putting regulations and fees in place for stock trading. The name New York Stock Exchange (NYSE) was officially adopted in 1863 when the headquarters moved into the same Wall Street building it occupies today. Smaller exchanges also sprang up in competition.

Back in 1800 there were just 20 publicly traded companies. By 1835, the number had soared to 121, with railroads making up much of the newcomers. These prosperous years were followed by the great crash of 1929, when so many banks failed that even people who owned no stock suffered financial problems. The general economic boom during the World War II years helped the market recover, but it wasn't until 1954 that the major indexes rose above the 1929 peak again. After a smaller crash in 1987, reforms were put in place to prevent future problems.

During the 1990s, individual investors began to assert themselves. Online brokerage firms with low trading

DEFINITIONS: What is meant by APY?

APY stands for annual percentage yield. It's similar to APR (annual percentage rate), except it takes into consideration the effects of compounding interest. For example, a savings account with an APR of 5% will yield just that – a 5% return each year. But when that 5% interest is compounded monthly, you're earning interest on interest. As a result, your annual return becomes 5.12%.

When borrowing money, be especially careful to consider APY. Banks will often quote the APR to make a loan rate more attractive. But if the interest you're paying is compounded monthly, that credit card with an APR of 12% will actually cost you 12.68% if you carry a balance for a year.

fees appeared, and consumers were empowered by the large amounts of financial information available on the Internet. Wanting a secure financial future, an unprecedented number of workers began taking advantage of employer-sponsored 401(k) plans. Today there is an incredible number of investment opportunities for people in every economic class, with tax-deferred retirement plans among the most popular. History has shown that, over time, the stock market always increases in value – making it important to begin saving for retirement early and to make adequate contributions to your plan. ■

