5 WAYS TO GET ON TRACK IN 2010

Among the many resolutions you may make this year, getting your financial house in order could be the easiest one to keep. That's because a new culture of thrift seems to be emerging as a rare silver lining to the deepest recession since the Great Depression.

According to a recent poll by Fidelity, 88% of those considering financial resolutions for 2010 believe the economic downturn will give them impetus to stick with their financial goals in the year ahead. So where to begin? If getting your financial house in order tops your list of financial "to dos" this year, here are five steps you may want to consider.

1. Establish a Financial Safety Net
Before focusing on accumulating wealth, it is important to ensure you have established a financial safety net to prevent financial disasters caused by catastrophic illness or other personal tragedies. As such, it is recommended that you review and ensure sufficient coverage for the possibility of disability, death, or short-term cash emergencies. Once you've protected your income-generating ability with disability insurance, protected your dependents with life insurance, and protected your other assets by having an six month emergency fund, your financial safety net is in place and you're ready to turn to the task of accumulating wealth.

2. Establish your Savings Priorities
There are loans to pay for a house, a car, or college tuition, but there aren't many ways to fund your retirement without saving. As a result, saving for retirement should generally be the top priority for Americans under 65. The following represents a general savings "hierarchy" which may be appropriate for investors with relatively simple and straightforward financial situations. It may not be ideal for everyone, so if you have a complex or unique financial situation or are saving for multiple goals simultaneously, consider consulting a financial adviser.

- **First consider contributing as much as the employer match in your 401(k).**
  If you have a 401(k), 403(b), 457, or other workplace savings plan and your employer matches a portion of your contributions, take advantage of it. The matching contribution is like "free" money, with the added potential benefits of tax-deferred growth and compounding returns. Pre-tax contributions and earnings aren't taxable until withdrawn but may be subject to a 10% early withdrawal penalty if taken before 59½.
- If you're self-employed, consider a SEP IRA or Self-Employed 401(k). SEP IRAs permit profit sharing contributions, which for 2009 and 2010, can be up to the lesser of 25% of compensation or $49,000, and can be made up until your tax-filing deadline. Self-Employed 401(k)s permit salary deferrals, match and profit sharing contributions, and have different dollar/percentage limits and timing requirements.
- **Next consider contributing to a Roth IRA, if eligible.**
  If you are eligible, next consider contributing to a Roth IRA. With a Roth IRA, there is no tax advantage at the time of your contribution, however, all earnings and growth are tax-free thereafter. As with a traditional IRA, the annual contribution limit for 2009 and 2010 is $5,000 ($6,000 if you are 50 or older).
- **Then consider maxing out your 401(k).**
  The amount you need to save for even basic expenses over the course of retirement can be hundreds of thousands of dollars. Because of their tax-deferred growth potential, it often makes sense to contribute the maximum to a workplace savings plan or other retirement accounts before tackling low-interest credit cards or tax-deductible debt such as a mortgage or home equity line. You may be able to contribute up to $16,500 to your 401(k) or other workplace savings account for 2010, and $22,000 if you are 50 or older.
- **Next consider contributing to a Traditional IRA.**
  When you've maxed out your 401(k) or other workplace plan, or want more investment choices than they offer, consider contributing to a traditional IRA. If your income prevents you from contributing to a Roth IRA, a nondeductible contribution to a traditional IRA could be another option. The annual IRA contribution limit for 2009 and 2010 is $5,000 ($6,000 if you are 50 or older). If you haven't made an IRA contribution for 2009, you can do so up until April 15, 2010. To make saving easier, you can set up your IRA contributions to be made automatically.
- **Finally consider starting to save for other key goals—automatically.**
  Automatic investing plans can also work for other saving goals, and they're an excellent way to help you avoid the temptation to spend on things you don't need. Plus, having contributions automatically transferred from your bank or paycheck into an investing account means the money gets set aside each

month without fail, before other, less important priorities. When saving for a child's college expenses, consider tax-advantaged accounts like 529 college savings plans and Coverdell Education Saving Accounts, again using automatic investing to make saving nearly effortless.

3. Find the right investment mix.
One of the most important things you can do to help protect your portfolio from big swings, is to diversify your investments across different asset classes. While diversification can't guarantee that you won't have losses, diversifying allows you to combine investments with different risk and reward profiles to provide a balance of risk and potential return that suits your needs.

Of course, diversification isn't achieved by just owning a couple of stocks or, generally speaking, a couple of mutual funds. Effective asset allocation means spreading your money among different types of investments, or asset classes, such as U.S. and international stocks, bonds, and short-term investments. Because certain types of investments have moved in different patterns historically, owning a mix of those asset classes reduces volatility and reduces the risk that a portfolio must take on to generate a given level of return.

The allocation you pursue for your portfolio will depend on your comfort level with risk, your overall financial situation, and the time frame for your investments. For example, the younger you are, the more risk you can usually afford to take with your retirement investments because you have more time to recover from market declines. As you get older and closer to retirement, you may be less interested in growth and more interested in protecting the value of your portfolio. As you approach retirement, getting your asset mix right becomes even more important, since a large decline in the value of your holdings, combined with a relatively short time to act to get your plan back on track, can affect your retirement lifestyle.

4. Diversify within asset classes.
Once you've determined the target asset mix for your investments, a next step is to diversify within each asset type—U.S. and international stocks, bonds, and short-term investments. Stocks may be diversified by company size, (large, mid-, and small-cap), style (growth, value, or blend), sector (technology, biotech, financials, etc.) industry, and geography (domestic or foreign). Bonds can be diversified by maturity, credit quality, issuer (government, corporate, municipal), as well as sector and geography.

As the table below shows, asset classes typically don't move in lockstep and performance can vary widely. So, while diversification cannot ensure a profit or guarantee against a loss, this strategy has historically provided investors a combination of some downside protection and the chance to participate in the upside potential of different asset classes.

Annual Returns	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Best	32.6%	7.8%	37.6%	37.0%	33.4%	28.6%	27.0%	30.7%	10.5%	10.3%	47.3%	32.0%	14.0%	33.6%	11.6%	5.2%
	18.9%	1.7%	28.4%	23.0%	22.4%	20.0%	21.3%	11.6%	8.4%	4.6%	39.2%	20.7%	11.5%	26.9%	7.0%	-26.4%
	16.7%	1.3%	20.5%	16.5%	19.9%	8.7%	21.0%	-3.0%	4.5%	-1.9%	36.9%	18.3%	4.9%	18.4%	5.5%	-33.8%
	15.2%	-1.0%	18.5%	11.3%	13.3%	3.0%	2.5%	-5.1%	2.5%	-15.7%	28.7%	10.9%	4.6%	15.8%	2.2%	-37.0%
	10.1%	-1.8%	13.5%	6.1%	9.6%	-2.6%	-0.8%	-9.1%	-11.9%	-20.5%	28.2%	10.9%	2.7%	11.8%	-1.6%	-39.2%
Worst	9.8%	-2.9%	11.2%	3.6%	1.8%	-17.4%	-3.2%	-14.2%	-21.3%	-22.1%	4.1%	4.3%	2.4%	4.3%	-14.6%	-43.1%

High Yield Bond
Real Estate Securities
International Stock
Investment Grade Bond
Small Cap Stock
Large Cap Stock

5. Check in and rebalance.
We suggest you, or an investment professional, monitor your portfolio throughout the year, and rebalance your investment mix at least annually or whenever your financial circumstances change. For your U.S. and international stock allocation, in particular, we suggest rebalancing if it moves away from your targets by more than 5-10%.

There are several ways to rebalance your portfolio. One is to simply sell those assets that you currently have too much of and reinvest the proceeds in those that fall short of your targets. Because selling securities in taxable accounts generally has tax consequences in the year of sale, be sure to consider taxes when making any decisions to sell. Another way to rebalance is to invest any new money you have (savings contributions, bonus, etc.), either gradually over time or all at once, in investments that currently fall below your targets. Regardless of which approach you take, one important aspect of rebalancing is that you do it in a way that keeps your portfolio well diversified within each type of asset. If you need to increase your stock holdings, consider spreading your contributions or buys among various types of stocks by company size (large cap, mid cap, small cap), style (growth stocks, value stocks), sector (technology, biotech, financials, etc.), and geography (domestic, international developed, international emerging markets). While diversification does not ensure a profit or guarantee against a loss, it, like rebalancing, can also help manage portfolio risk at a level consistent with your needs. Always consider other factors, such as your time horizon, tax situation, and associated transaction costs and fees before you rebalance.