Session II
Selecting Investments for Your Savings Program

The purpose of our presentation today is simple. We are certain of several things that it is not. We are not here to make you a fully informed investor. We are not here to advise you as to the best investment strategy. We are not here to insure that your retirement will be well funded and that your financial concerns are a thing of the past. While these are worthy objectives, they are well beyond the scope of this presentation and to be honest, can only be achieved by careful application of many skills and they can only be accomplished by you. We are here to introduce you to some terminology. We are here to give you the most basic of insights into the investment arena and we are here to assist you in starting to ask those questions that will guide you in your investment adventures. As the title indicates, this is a primer, or a first book of investment advise. The libraries, book stores and computer shops are replete with guides, references and “how-to” books, software and articles. We encourage you to expand your investment education well beyond this brief introduction. We are prohibited by law from giving you investment advise and it behooves our instructors to decline to comment on the advisability of one strategy or one investment versus another. But we are eager to get you started on a very interesting and potentially rewarding education.

WHY ME? WHY NOW?

- INVESTMENT NEEDS
  - FAMILY REQUIREMENTS
  - SPECIAL PURCHASES
  - RETIREMENT
- CURRENT TRENDS
  - INCREASED LIFE EXPECTANCY
  - INCREASED STANDARD OF LIVING
- RETIREMENT SUPPORT
  - YOUR COMPANY'S DEFINED BENEFIT PENSION PLAN
  - SOCIAL SECURITY
  - YOUR SAVINGS PLAN

3

There are some of you who are in the enviable position of having achieved financial independence. Through either hard effort and good planning or some fortuitous event, you are not going to have to worry about meeting your financial responsibilities to yourself and your family. For most of us, even a slight miscalculation or some unforeseen event can result in a serious financial setback. The cost of housing, education, entertainment or the bundle of all of these called retirement is a frightening but undeniable burden. Technology and medicine are combining to make our lifespans and economic concerns far lengthier than they have been in the past. The economy has given each of us heightened expectations of comfort and care over the previous generation. Each of you has made serious commitments to your future by selecting your occupation. Each of you has made plans about your future. It is now time to look a little more closely at you how you propose that the plans be turned into reality. A secure financial future is usually a function of good current planning. We are going to focus on the long term. We are going to address the Savings Program in terms of an addition to your retirement plan. Historically, retirement has been financed by the three legged stool of social security, defined benefit pension plans and personal asset savings programs. We have available to us a special personal asset savings program in the form of company sponsored savings plan with a 401(k) or before tax savings feature.

OUTLIVING YOUR RETIREMENT DOLLARS

- **CURRENT SAVINGS RATES**
- **UNREASONABLE EARNINGS EXPECTATIONS**
- **POORLY PLANNED PROGRAMS**

4

Not all of us plan to live and work forever, but many of us spend like we do. The savings rate for the U.S. middle class is between 2 and 4 percent. Given the current state of Social Security and the current income replacement levels of defined benefit pension plans, it is estimated that the required rate of savings necessary to maintain a current standard of living could be as high as 12 to 16 percent. These are conservative estimates. If inflation should increase to a higher level, a 12 to 16 percent savings level might not be adequate. A growing attitude is for earlier and earlier retirement. Let's stop and ask a few questions.

What are you worth today?

What amount of cash flow would you need at age 65 to meet your living standard expectations?

Can you account reasonably accurately for the money you spent last year?

If you had an opportunity to invest your net worth in brand new investments starting today, where would you put it? Why?

If the advice of all those who work with you is so good, why are they still working instead of taking advantage of their own advice?

A solution and eventual answers to these questions probably lies in education.

PARTICIPANT EDUCATION

- OBJECTIVES
- PREPARATION
  - FINANCIAL AWARENESS
  - DECISION MODELS
- SOLUTIONS

5

If we are going to be smarter about our personal financial futures, we need to establish some objectives.

Change from viewing retirement as some far distant event and from viewing our financial needs as a “good” standard of living to ideas more quantitative and realistic.

If you want to know when you can retire and how much you will need, you are going to have to do some preparation.

You must become more financially aware. Where are you right now? How much do you make and where do you spend it.

How much do you have to save each period and at what rate of return to have an adequate supply of cash? Are there real differences in return? Why?

The solution is education. The brief time we will spend together will only be a start. You will have to devote time and energy to this project if you are to be successful. Is it worth it? Probably yes, after all, it’s your money.

PRESENTATION OUTLINE

- INVESTMENT BASICS
- ASSET MANAGEMENT SKILLS
- OPTIONS AVAILABLE AT BWXT/UTB

6

This is how I propose we talk about it.

Let's review some basics of investment. You are probably familiar with the terms, but you may not have considered them in terms of how you might apply them to your own situation. We will explore returns and risk and time. We need to brush up on our terminology and examine the differences between stocks and bonds and money market securities.

Knowing the words is not typically enough. Central to successful investment is a core of investment skills that go beyond the "buy low, sell high" coffee break expert advice. We are going to look at time as a friend and as an adversary. We will talk briefly about diversification and asset allocation. We will demonstrate the use of dollar averaging.

To wrap up, we are going to look at the alternatives made available to you through the Savings Program.

SAVINGS VERSUS INVESTMENT

- SAVINGS=NOT EXPENDING CURRENT EARNINGS
- INVESTMENT=GROWTH IN VALUE BEYOND SAVINGS
- IF YOU CAN SAVE ENOUGH TO MEET YOUR RETIREMENT NEEDS (NET AFTER INFLATION), YOU DON'T NEED TO INVEST
- GOOD SAVINGS MAKES INVESTMENT POSSIBLE
- GOOD INVESTMENT MAKES SAVINGS EASIER

7

It may well be that several of you have no reason to stay for the rest of the session. If you are able to save enough of your current earnings to allow you to have sufficient assets available to meet all of your future expenditure needs, you are such a good saver that you don't need to learn about investment. I would pick a very safe vehicle, U.S. Savings Bonds and simply save enough to retire comfortably.

Investment is that technique that allows our savings to be enhanced. Some of us will never save enough to meet our objectives. We must be better investors, it is the only way our savings can grow large enough to meet our needs.

THE BASICS OF INVESTMENT

- RETURN
- RISK
- TIME

8

Everyone wants a high return with little risk and they want it forever, but what are they talking about? Return, as we will use the term, is nothing more than a measurement of how your investments have grown as a result of both earnings and appreciation in value. Risk is that possibility that the investment will not grow in value. Time is, of course, our measuring stick. Time is the period we have available to achieve our investment objectives.

WHAT IS RETURN AND HOW DO I COMPUTE IT?

- THIS IS WHAT MAKES US RICH!
- INCOME
- APPRECIATION (DEPRECIATION)
  - REALIZED
  - UNREALIZED

9

A return on an investment can come in many forms. It can be in the form of cash payments, like interest on a savings account or a dividend check received from IBM. We commonly refer to these kinds of payments as income. Examples of income include interest, dividends, (we will talk about dividends when we discuss equity investments a little later) rents and royalties. Return is usually measured as a percentage of the amount invested. If you invested $100 and it earned $10 in a year, your investment would have grown by 10% Return, however, does not always come in the form of income payments. It can also come in the form of changes in value. Notice, I said changes in value. Investments can appreciate or increase in value, but they also can decline or depreciate. A residence purchased for $100,000 that is now worth $120,000 has experienced a 20% appreciation. This appreciation is realized when the growth (shrinkage) is converted to cash, that is, when you sell the house. Returns may also be unrealized, meaning that the investment has changed in value, but has not been covered back to cash or another investment. Return is often a combination of income and appreciation/depreciation. An investment in a equity security can have elements of income (dividends) and appreciation/depreciation (change in market value). Return is usually expressed by a percentage change per year. This annual return is usually the benchmark we use to evaluate our investments. A stock with a total annual return of 18% is a more valuable investment than one with 5% return.

WHAT IS RISK?

➢ RISK DEFINED

10

Risk is the possibility that we will not achieve our investment objectives. Risk is the possibility that our investments will not earn income and that they will not appreciate in value. Risk is the possibility that we will lose our investments. Risk is real and most investors look first to risk and then to return.

TYPES OF RISK

- **INVESTMENT RISK**
- **INFLATION RISK**
- **INTEREST RATE RISK**
- **MARKET RISK**

11

Risk comes in various forms. Investment risk is the chance that you won't earn what you project. If every investment was a good investment, there would be no investment risk, but because of uncertainty, projections do not always come true. Inflation risk is the chance that the value of your assets will not keep up with inflation. If your investments earn 6% and inflation is 7%, you actually lose buying power. Interest rate risk is the chance that the market rate of interest will increase and that your investments (particularly your "fixed" income investments) will be less attractive than they were at the time you purchased them. Market risk is the chance that your investments will fluctuate in value from time to time. The "market", the collection of all the buyers and sellers of investments, responds to all sort of inputs. Your particular investment may be in favor and very valuable today and out of favor and not very valuable at all the next day.

HOW DO I MEASURE RISK?

- VOLATILITY
- TOTAL RISK
  - SYSTEMATIC RISK
  - UNSYSTEMATIC RISK
- BETA

12

When considering alternative investments, we need to examine risk as a total concept. Risk is a measure of dispersion or volatility of investment returns over a period of time. Those investments that demonstrate a very narrow range of returns are said to be less risky. A one-year treasury bill purchased to yield 10%, if held to maturity, will yield 10%. An investment with a lack of variability in return is said to have no risk. Those investments that have a possibility of earning a very high return or losing a great deal, that is, they are more volatile, are said to be more risky. Volatility or risk can be subdivided into two categories. Certain amounts of volatility are due to general movements in the market place. This risk is called systematic or market risk. The volatility that is not due to the overall changes in the market is known as unsystematic risk. It is risk directly related to the particular investment. If we look at a particular investment and measure its risk relative to the overall market, we can assign a measure of how closely the investment follows the market. This is called the beta. If an investment moves directly in relationship to the market, that is, the market goes up, the investment goes up by exactly the same amount, it is said to have a beta of 1. The higher the beta of an investment, the higher the risk.

RISK AND RETURN

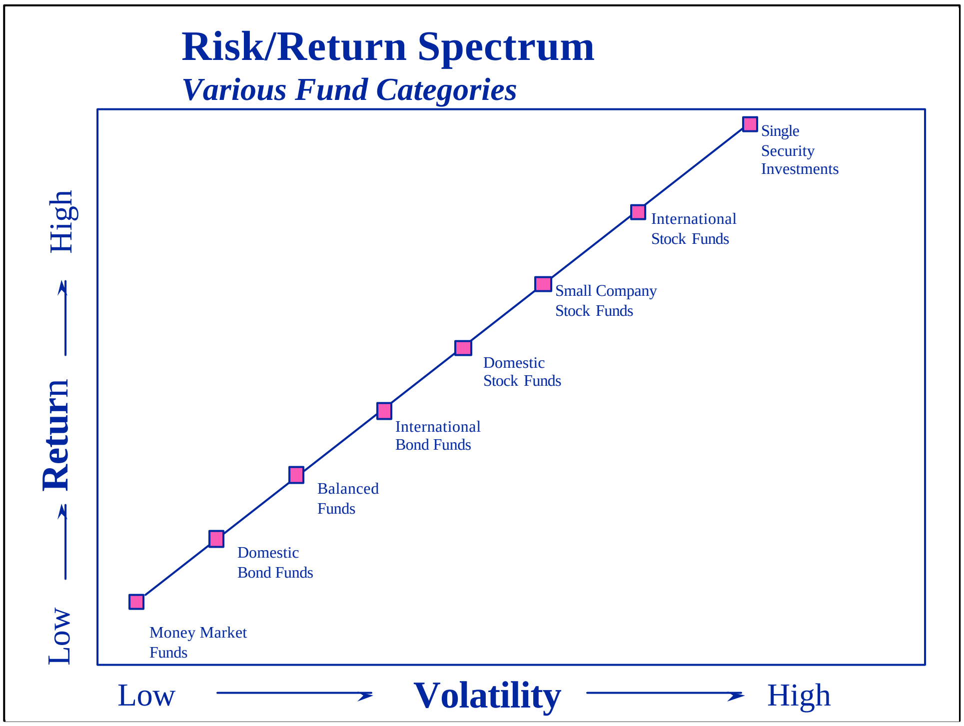
- **HISTORICALLY, HIGHER RETURN HAS COME AT THE PRICE OF HIGHER RISK**
- **INVESTORS MUST DETERMINE THEIR RISK AVERSION**

13

That's a lot of talk about risk. So what? When we make investment decisions we must rely on some basic relationships. First, we must assume that historical relationships will continue into the future. It is imperative that you understand that past performance cannot insure future performance. But, we must rely on history if we are going to function in the future. Historically, those investments which have had the highest rates of return have had the highest degree of risk. If an investor insists on the highest possible return, he must assume a higher level of risk. If an investor insists on curtailing risk, he must be willing to accept a lower rate of return.

Some investors are unable to deal with risk. Some investors do not have sufficient assets to put them at risk. Some investors do not have sufficient alternative sources of revenue to put their investments at risk. Some few investors have all the money and all the time they need.

Each investor must decide on the level of risk that is appropriate for their circumstances. Having selected a degree of risk that is acceptable, the investor can then choose categories of investments that fit within his risk profile.



We will visit with this slide later in the presentation, but for right now, focus on the volatility axis. As you can see, investments range from very low volatility, like money markets, to very high volatility, like individual equity investments. By selecting a spot along the risk axis, you can help narrow your investment choices to appropriate investment categories.

THE ROLE OF TIME

- THE MAGIC OF COMPOUNDING
- TIME SMOOTHES VOLATILITY
- THE NEED TO CONVERT INVESTMENTS BACK TO CASH IS A FUNCTION OF TIME
  - LIFE CYCLE
  - INVESTMENT HORIZONS

15

The third critical ingredient in the pie is that of time. Time serves many purposes in investment decisions. One of the most magic of the effects is that of compounding. The mathematics are simple, but the results are usually shocking. Compounding is nothing more than the concept of paying interest on interest already earned. The effects of compounding are demonstrated on the next chart. The implications of compounding are very real. The basic rule is simply, “invest early.”

COMPOUNDING

To accumulate $250,000 by age 65 you need to save this amount each month

STARTING AGE	5%	7%	9%	11%
25	164	95	53	29
35	300	205	137	89
45	608	480	374	289

16

Note that even at the lowest rate of return, the 25 year old would have contributed 164 x 12 x 40 = $78,720 for the entire 40 year period

While the 45 year old would have contributed 608 x 12 x 20 = $145,920

THE ROLE OF TIME

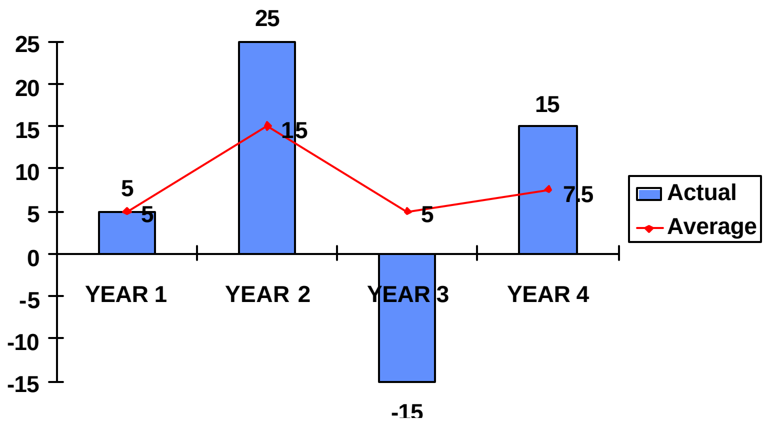
- **THE MAGIC OF COMPOUNDING**
- ***TIME SMOOTHES VOLATILITY***
- **THE NEED TO CONVERT INVESTMENTS BACK TO CASH IS A FUNCTION OF TIME**
  - **LIFE CYCLE**
  - **INVESTMENT HORIZONS**

17

Time not only provides for the magic of compounding, but also tends to smooth volatility.

As seen in the next slide, even the most volatile of investments often results in an acceptable average return over time

TIME SMOOTHES VOLATILITY



18

From a return large enough to make you wealthy or a loss large enough to wipe out several years' savings, comes an average return considered very conservative. Investments should be for the long term. In the long term, time has a tendency to smooth out the rough spots.

THE ROLE OF TIME

- **THE MAGIC OF COMPOUNDING**
- **TIME SMOOTHES VOLATILITY**
- ***THE NEED TO CONVERT INVESTMENTS BACK TO CASH IS A FUNCTION OF TIME***
  - ***LIFE CYCLE***
  - ***INVESTMENT HORIZONS***

19

Time is the framework of our objectives. Time, and where we stand within it, dictates whether we are building or consuming our resources. It is the stage of our life cycles that determines just what our demands will be.

In the early stages of our careers, we are in a position to formulate our objectives, but usually have little in the way of easily available resources to fund those objectives.

In the middle stages of our careers, we find ourselves with the best opportunities to fund the objectives, but we also find that the demands on our resources may be the greatest.

As we enter retirement, we enter the stage where we no longer continue to build our resources, but rather attempt to start using them to replace our decreasing earning ability.

Where we are in the life cycle, dictates how and how much we will invest.

INVESTMENT HORIZONS

- ***WHEN*** **WE NEED OUR INVESTMENTS OFTEN WILL DICTATE THE TYPE OF INVESTMENT WE MAKE**
  - **TIME FOR GROWTH**
  - **NEED FOR IMMEDIATE ACCESS**
  - **LIQUIDITY**
  - **NEED FOR SECURITY**

20

Time also dictates investment strategy. Early in our life cycle, we can afford to make volatile investments. Time will tend to smooth the volatility and compounding will enhance our total return. As we approach retirement however, the demands of cash flow restrict the types of investments we should make. We cannot afford to be ill-liquid, meaning we cannot recover our investments without significant loss or penalty. We cannot accept too much volatility. Cash flow requirements might dictate that we withdraw funds from an investment at a particularly bad place on the return axis. We will discuss this again later, but life-cycle investing is an approach we can use to optimize our investments given our cash flow needs.

INVESTMENT ALTERNATIVES

- CASH AND CASH EQUIVALENTS
- FIXED INCOME SECURITIES
- EQUITY INVESTMENTS
  - CAPITALIZATION
  - GROWTH/VALUE
  - FOREIGN/DOMESTIC
- OTHERS

21

Having considered the impacts of risk, return and time, our next step is to consider the alternatives available for investment. The opportunities for investment are truly limited only by your imagination. The most basic of the groupings is presented here.

The most familiar investment vehicle may well be the savings account. Considering the ease of investment and low cost of investment, dollars invested in cash and cash equivalents in the form of interest bearing checking accounts, savings accounts, N.O.W. accounts, certificates of deposit, etc..... are a very popular form of short and long term investment. These are essentially a form of loaning money to financial institutions

Others prefer to invest by lending money to the government or corporations. Because these investments often provide a promise to pay a stated amount of interest for a stated period of time, they are often called fixed income investments.

When investments result in actual ownership of items, such as part ownership of a corporation by issue of stock certificates, they are identified as equity investments.

Within the other category, we find items like collectibles, derivative investments (those that gain the identity and value from other investments), rental properties., etc.....

TYPES OF INVESTMENT VEHICLES

- **MONEY MARKET SECURITIES - SHORT TERM INSTRUMENTS**
- **BONDS (FIXED INCOME SECURITIES) - LOANS TO A COMPANY**
- **STOCKS - OWNERSHIP IN A COMPANY**

22

It is well beyond the limits of this course to discuss all investment alternatives. I am going to concentrate on a limited number of vehicles within three of the investment categories.

The first of these is money market securities. These are short term investment instruments (typically associated with money market funds) which usually mature in one year or less. Such instruments may include low risk obligations of corporations, municipalities, or the U.S. Government and its agencies. The premier money market instrument is the Treasury Bill or T-Bill. This is a fully guaranteed, very liquid IOU from the U.S. Government. While there is no such thing as a truly risk free investment, the T-Bill would be its closet approximation. Money market investments are frequently held, not as individual securities, but instead through money market mutual funds. We will be discussing funds at little later. Money market investments usually provide lower returns than stocks or bonds, but offer more protection of your principal, or original investment. Money market funds offer returns in the form of interest income. The money market investment is very liquid, meaning that it can be converted to cash easily and rapidly.

FIXED INCOME SECURITIES

- WHAT IS A BOND?
- TYPES OF BONDS
  - GOVERNMENTAL
  - CORPORATE
- GIC'S
- OTHER FIXED INCOME SECURITIES
- THE RELATIONSHIP OF INTEREST AND PRICES

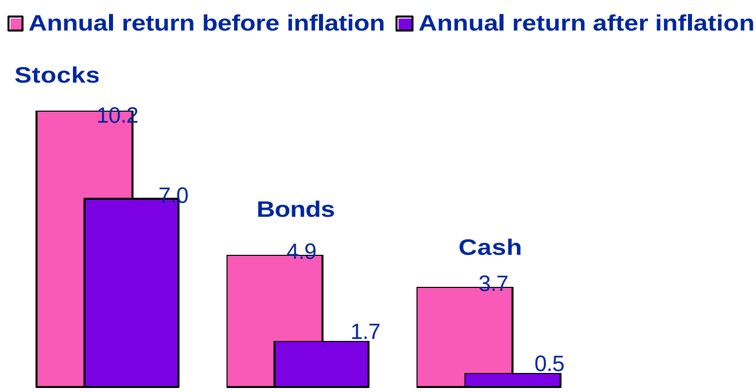
23

Continuing a little further out the risk and return line, we encounter the fixed income securities. These vehicles represent a way of investing by loaning money. Bonds are formal promises to repay a loaned sum of money. They can be issued by both municipal or government agencies, e.g....., the U.S. Treasury, the State of Tennessee, the City of Oak Ridge, or they may be issued by private corporations, e.g..... IBM. The promise to repay is usually accompanied by a promise to pay a return in the form of interest for the use of the money. Because the interest is usually certain for a period of time, these securities have come to be known as fixed income securities.

A form of fixed income security issued by insurance companies is called a guaranteed investment contract. These investment contracts have been a very popular investment vehicle for retirement plans. In addition to GIC's, there are Bank Investment Contracts (BIC's), longer term Certificates of Deposit, and a wide variety of mortgage backed securities.

Fixed doesn't mean "no risk" because the interest rate of the security is fixed over the bond contract, the value of the security can fluctuate over time. This is a function of supply and demand. The market would prefer to invest in the highest paying bonds. If the general interest rate goes up, existing bonds with lower rates decrease in value. If the general interest rate goes down, existing bonds become more valuable. This fluctuation in value is greatest for those contracts extending for a long time. Bonds have historically had more total return (interest plus the change in value) than money markets, but less than stocks. Bonds are more risky than money markets but less than stocks. Bonds are less

Only Stocks Beat Inflation By A Wide Margin



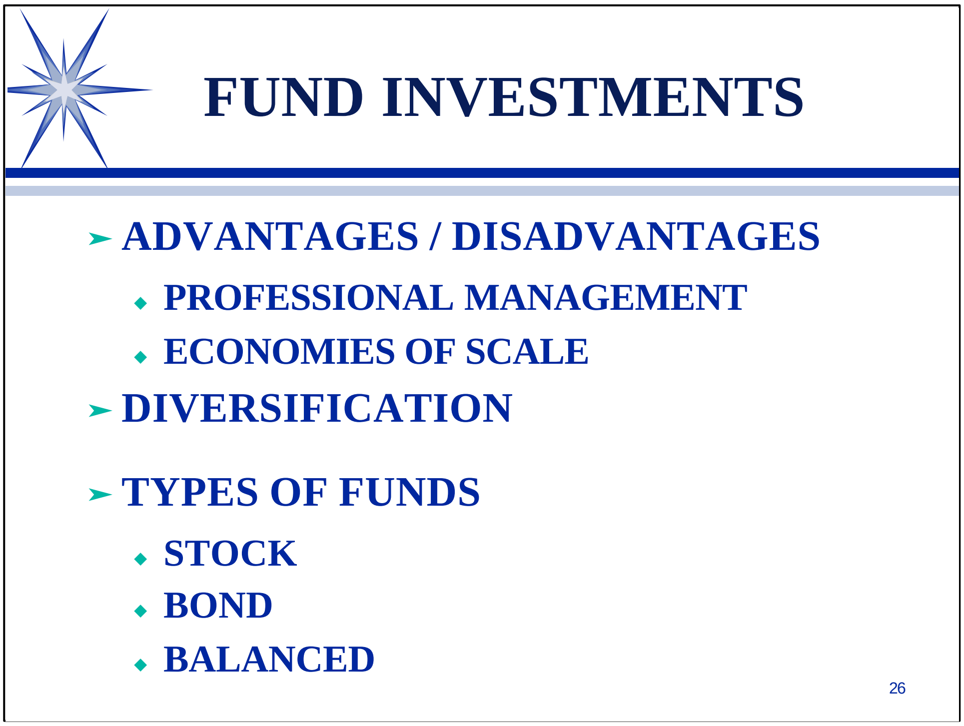
24

EQUITY SECURITIES

- STOCKS AND STOCKHOLDERS
- THE VALUE OF A STOCK
- THE BEAR AND THE BULL MARKET
- INDIVIDUAL SECURITIES VERSUS FUND INVESTMENT

25

The last of our investment vehicles is the equity (or ownership) investments. The most common of these is the ownership of a proportionate part of a private corporation represented by certificates called "stock certificates". Ownership of the stock of a corporation may entitle you to receive a proportionate part of the earnings of the corporation in the form of a dividend, if the Board of Directors so decides. The value of a corporation's stock is once again a matter of supply and demand. If a corporation is perceived to be successful and having potential to earn profits in the future, the demand for ownership will increase. With a fixed supply of certificates available, the price will necessarily increase. The opposite also holds true. Corporations not in favor with the investing public will find the value of their stock declining in the market. When the market's expectations about the value of corporations is positive and the demand, and therefore associated price of traded securities, is increasing we are said to be in a "bull" market. When the attitude turns pessimistic and investors are inclined to sell, the availability of securities is greater than the demand and the price declines. If the decline continues over an extended period of time, we characterize it as a "bear" market. Because of the frequent fluctuations in value, investments in stocks are considerably more risky than the fixed income securities. However, over time, the investment in stocks has provided a higher total return.



The complexities of determining just what will cause a stock's value to increase or decrease, the ability to determine just when the change will happen, and the financial resources necessary to invest across a wide spectrum of stocks, has led most individuals to invest via investment funds versus individual stock ownership. In addition, investment funds are also used to invest in fixed income and money market funds.

When you invest in a fund, your money is pooled with that of many other investors. A professional manager selects the specific investments to make and also how to diversify the investments in a way to optimize the return. The diversification decisions regarding stock and bonds gives rise to classifying certain investment funds as "balanced" when they hold both stock and bond investments.

The mix of investments between money market, bond and stock investments is called its asset allocation. The nature of the allocation is often a function of the investment objectives of the fund and the fund manager. Some funds are more aggressive than others and would have an asset allocation leaning more toward the stock side than the bond side. The concept of allocation has resulted in a wide variety of investment funds and an equally wide lexicon of terms to describe their objectives and intents. Growth funds, income funds, stable funds, etc...., are all ways to describe the asset allocation and investment objectives.

TYPES OF INVESTMENT MANAGEMENT

- **ACTIVE MANAGEMENT - INVESTMENT MANAGER MAKES DECISIONS TO BUY OR SELL SECURITIES TO MAXIMIZE RETURNS**
- **PASSIVE MANAGEMENT - SECURITIES ARE THOSE INSTRUMENTS UTILIZED TO COMPUTE THE INDEX VALUE; I.E.... S&P 500. THE MARKETS DETERMINE RETURN**

27

There are essentially two schools of thought regarding investment management. One school holds that, through extensive research and intensive review of the market, investment managers can have a measurable influence on the total return of the fund. This is characterized as active management.

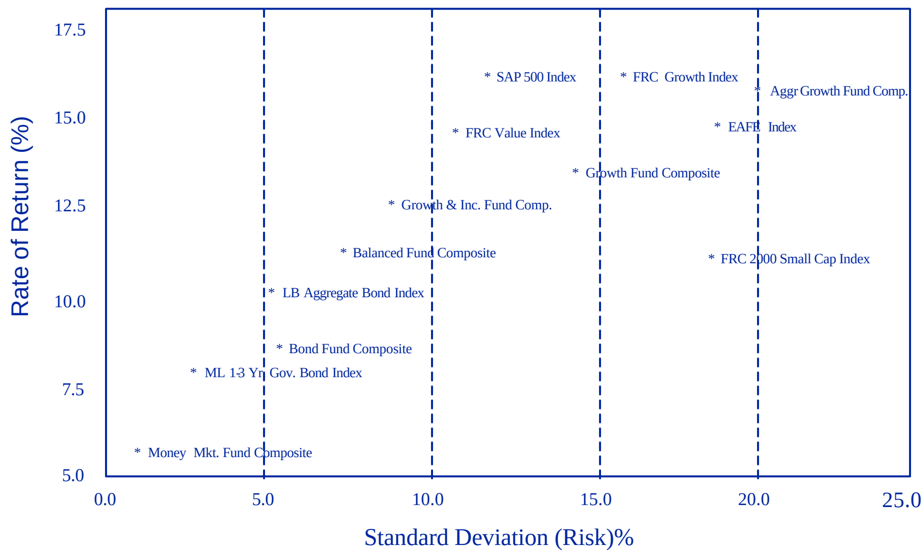
The other school would hold that the market, in general, ultimately makes the best decisions. Investors here are willing to have their funds invested in the same proportion as the market in general or major segments of the market. We have grown accustomed to watching the market in these composite groups. We watch the Dow Jones Industrial Average, The Standard and Poors 500 or the Russell 1000. Funds that invest like these indexes are known as index funds and this style of fund management is known as passive.

AVAILABLE ALTERNATIVES AND THE RETURN/RISK SPECTRUM

- HISTORICALLY, HIGHER RETURN HAS COME AT THE PRICE OF HIGHER RISK
- INVESTORS MUST DETERMINE THEIR RISK AVERSION

28

GENERAL CATEGORIES ALONG THE SPECTRUM



STABLE VALUE FUND = STABLE VALUE FUND

- LOW RISK OF LOSS OF PRINCIPAL
- HISTORICAL RATE OF RETURN IS LOW RELATIVE TO OTHER INVESTMENTS
- INVESTMENT CONTRACTS WITH INSURANCE COMPANIES
- SHORT TERM MONEY MARKET INSTRUMENTS

BOND FUNDS = INTERMEDIATE = STANDISH AYER &WOOD LONG-TERM = PIMCO

- GOVERNMENT AND CORPORATE SECURITIES
- RELATIONSHIP OF INTEREST RATE AND MARKET VALUE
- INTERMEDIATE VERSUS LONG TERM
  - MATURITY
  - INFLATION
  - DURATION
- MARKET VALUE WILL FLUCTUATE
- VALUE IS ADDED BY PROPER SELECTION AND TRADING DECISIONS

31

BALANCED FUND = AMERICAN BALANCED FUND

- LOOKING FOR APPRECIATION IN VALUE AND CURRENT INCOME
- THE ADDITION OF EQUITY PROVIDES FOR GROWTH POTENTIAL BUT INCLUDES THE POTENTIAL FOR LOSS
- HIGH QUALITY REQUIREMENTS
- LARGE CAPITALIZATION COMPANIES

EQUITY, INDEXED=INDEXED EQUITY FUND

- DESIGNED TO REPLICATE THE STANDARD AND POORS 500 INDEX
- LARGE COMPANIES
- ALL EQUITY EXCEPT FOR A LIQUIDITY RESERVE
- WILL FOLLOW THE MARKET = PASSIVE MANAGEMENT

EQUITY, ACTIVELY MANAGED=THE INVESTMENT COMPANY OF AMERICA

- MORE ORIENTED TOWARD GROWTH THAN INCOME
- HIGH QUALITY STANDARDS
- MORE ACTIVE MANAGEMENT
  - STOCK SELECTION
  - TIMING OF PURCHASES AND SALES
- NO FIXED INCOME ELEMENT, SOME CONVERTIBLE SECURITIES, INCOME FROM DIVIDENDS

34

GROWTH AND INCOME, VALUE =VANGUARD WINDSOR

- GROWTH AND INCOME ORIENTATION
- CONTRARIAN
  - LOOKING FOR “UNDER VALUED” STOCKS
  - MORE SELECTIVE IN INDUSTRY GROUPS AND SPECIFIC STOCKS
- SOME FIXED INCOME SECURITIES

AGRESSISVE GROWTH FUND=THE GROWTH FUND OF AMERICA

- NO CONSIDERATION OF CURRENT INCOME
- LONG TERM APPRECIATION IN VALUE OF STOCKS HELD
- MORE SPECULATIVE THAN BALANCED OR GROWTH AND INCOME FUNDS
- LOOKING FOR DEALS
- MORE VOLATILITY

36

GLOBAL FUND=NEW PERSPECTIVES FUND

- A GLOBAL VERSUS INTERNATIONAL FUND (HOLDS SOME U.S. STOCKS)
- DIFFERENT MARKETS WITH DIFFERENT EXPECTATIONS
- PRIMARILY COMMON STOCK WITH SOME CONVERTIBLE SECURITIES
- INTRODUCTION OF CURRENCY RISK

SMALL CAPTIALIZATION GROWTH FUND=MANAGER’S SPECIAL EQUITY

- GROWTH ORIENTED
- SMALL TO MID-SIZED COMPANIES
- NO INCOME SECURITIES
- MULTIPLE MANAGER APPROACH
- NOT DIRECTLY CORRELATED WITH LARGE CAPITALIZATION FUNDS

INTERNATIONAL GROWTH FUND=EUROPACIFIC GROWTH FUND

- TRUE INTERNATIONAL, NO US SECURITIES
- GROWTH ORIENTED
- NO DIRECT CORRELATION WITH DOMESTIC OR VALUE FUNDS

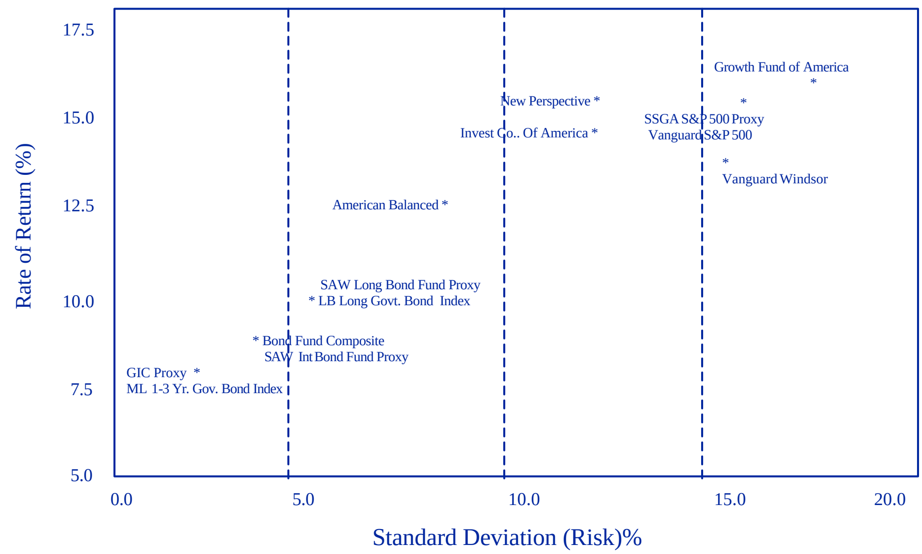
39

LOCKHEED MARTIN CORPORATION STOCK FUND

- SINGLE ISSUE, NO DIVERSIFICATION
- BUY AND HOLD
- VOLATILE
- CLOSED TO CURRENT INVESTMENT
- LIQUIDATE BY 04/30/2003

40

SPECIFIC FUNDS ALONG THE SPECTRUM



Holding Stocks For The Long Run Has Usually Paid Off

Holding Period	% of Years Since 1871 in Which Stocks Outperformed Bonds	% of Years Since 1871 in Which Stocks Outperformed Cash
1 year	59%	64%
2 years	64	69
5 years	71	75
10 years	82	84
20 years	94	99
30 years	100	100

42

WAYS TO PROTECT YOUR INVESTMENT

- ASSET ALLOCATION - (DIVERSIFICATION OF INVESTMENTS TYPES)= TIME PROVEN METHOD TO REDUCE RISK
- SPREAD YOUR SAVINGS AMONG DIFFERENT INVESTMENT VEHICLES (DIVERSIFICATION OF ASSET CLASSES)

43

As I explained at the onset, I am not here to give you investment advice. This is an education effort. There are some tried and true strategies, however, that all investors should consider.

We have already spoken of diversification and asset allocation. The old saying of "don't put all your eggs in one basket" is the theorem behind the diversification theory and its implementation plan is called asset allocation. We are attempting to minimize the systematic or market risk.

By investing across the spectrum of investment vehicles, we can attempt to reap the rewards of all of them. By diversifying our investments we can minimize the dependency on any single investment vehicle. In this way we attempt to spread and reduce the investment specific (or unsystematic) risk.

WAYS TO PROTECT YOUR INVESTMENT (CONT'd)

- **UTILIZE EXISTING ALLOCATION STRATEGIES**
  - **INVEST IN SEVERAL DIFFERENT MUTUAL FUNDS TO TAKE ADVANTAGE OF DIFFERENT INVESTMENT OBJECTIVES AND STRATEGIES (READ THE PROSPECTUS)**
  - **INVEST IN A BALANCED FUND-ASSET ALLOCATION BY DESIGN**

44

Diversification may be achieved by insuring that you have a spectrum of coverage not only in investments, but also in attitudes. Difference of opinion is what gives the investment market its flavor. Different managers are convinced that their particular orientation is more correct than others and are usually eager to not only share that advice, but truly to convince you that they are correct. There is no "right" or "wrong" in investing. All points of view may be valid, depending on the market at the specific moment in time. Diversification across investment strategies may allow you to be right at least more times than you are wrong.

Diversification can also be achieved in a single fund by choosing one that purposefully tries to balance growth and income.

ASSET ALLOCATION -
AMOUNTS ALLOCATED TO EACH AREA A FUNCTION OF

- **LIFE CYCLE**
- **RISK AVERSION**
- **LIQUIDITY**

45

How we diversify and allocate our investments should be the result of careful consideration of:

Where we are in life. How long we have for time to smooth out the rough spots, and for the magic of compounding to work, will probably affect our investment choices. As we approach retirement and can more accurately predict our needs, the less tolerant we become with risk. As we closely approach retirement, we cannot put our investments at high risk or tie them up for extended periods of time.

Some investors are simply unwilling to deal with even the smallest risk will require that that investor invest early. The lower rate of return of money markets needs a long compounding period to catch up with the riskier investment vehicles.

Oftentimes we cannot accept an investment strategy because we either cannot provide the investment dollars when needed or we can't wait the necessary time on investment returns. Liquidity has a significant impact on our choices.

DIVERSIFYING WITH DOLLAR COST AVERAGING

- HOW CAN INVESTING A CONSTANT SUM HAVE A POSITIVE EFFECT?
- IN PERIODS OF FALLING PRICES, THE SAME DOLLAR AMOUNT WILL BUY PROPORTIONATELY MORE SHARES OF A FUND THAN IN A PERIOD OF RISING PRICES
- IF PRICES CHANGE DIRECTION, THERE ARE MORE SHARES TO PROFIT FROM THE GROWTH
- HISTORICALLY, PRICES HAVE ALWAYS INCREASED
- INVEST CONSTANT DOLLAR AMOUNTS IN SAME FUND AT REGULAR INTERVALS, REGARDLESS OF MARKET PRICES AND CONDITIONS

DIVERSIFYING WITH DOLLAR COST AVERAGING

DATE INVESTED	AMOUNT INVESTED	SHARES PURCHASED	PRICE PAID
JANUARY	$100	4	$25
FEBRUARY	100	5	20
MARCH	100	10	10
APRIL	100	10	10
MAY	100	5	20
JUNE	100	4	25
TOTAL	$600	38	$110

Your average share cost = $15.79 ($600/38)
while the average share price = $18.33 ($110/6)

47

NEW OPPORTUNITIES UNDER THE NEW SAVINGS PROGRAM

- **INCREASED ABILITY TO SAVE, NHCE'S CAN SAVE UP TO 60%**
- **IMPROVED ACCESS AND RECORDKEEPING**
- **INCREASED INVESTMENT ALTERNATIVES**
- **LONGER DISTRIBUTION PERIODS**

48

For the participant, the nicest feature of the new savings program has to be the Company match. For those who are willing to participate at the required levels, it is a pay increase. Enough said.

For those of you who felt that the Company plan did not provide you enough flexibility in access and choice, the new recordkeeping system and the new investment alternatives will be welcome additions.

A particularly valuable addition for the participant could be the addition of the loan feature. The loan can allow the participant to meet some short term financial needs without jeopardizing the long-term orientation of the savings program. But a loan isn't for everybody. Let's talk before you borrow.

The Savings Program and its features are, however, only tools available to the participant. Without a good plan that is well executed, these tools cannot and will not insure success.

WORKING WITH THE SYSTEM

- **LEARN THE MECHANICS OF THE PROCESS**
- **INTEGRATE THIS AS A TOOL IN YOUR PERSONAL FINANCIAL PLAN**

49

Your enrollment brochure and the materials in the employee meetings are an attempt to introduce you to the system.

The Company has just developed a new Summary Plan Description of the Savings Plan.