OFFICE OF THE TREASURER

A MESSAGE FROM THE TREASURER ABOUT EQUITY INVESTING

While recent headlines about the market have many investors questioning the viability of stocks as an investment option for their personal portfolios, we urge you to consider the plus side of investing in equities.

This market will probably remain volatile for some time, but we believe now is a good time to look at some positive developments and opportunities for the longer-term investor. For example, valuations (as measured by the price/earnings ratio) for many solid, high quality companies are more reasonable now than they have been over the past two years.

Current recommendations from the legislature and institutional investors for more stringent corporate governance and accounting practices should eventually lead to greater investor confidence. And, the ongoing economic recovery is gradually boosting corporate profits. Therefore, the risk/reward profile for investing in equities has recently improved.

So, in this uncertain environment we recommend participants review their portfolios and financial situation and consider the following successful strategies:

1. Adopt Reasonable Expectations

While neither the five-year run of high double-digit returns seen in the mid-1990's nor the several consecutive down years we're now experiencing are "typical" by historical standards, they serve to illustrate that stocks are by nature more volatile (risky) than other asset classes. It is this additional risk that has provided attractive compensation for investors willing to remain in equities over longer time periods. Looking ahead, investors should anticipate returns that are attractive, but more in line with historical norms. For example, The Regents' asset allocation plan assumes an average annual rate of return of 8.75% over the next 5-10 year period.

2. Diversify

Diversifying your investments among asset classes that tend to react differently to market events can help protect your portfolio from drastic swings in the market. No single asset class performs "best" all of the time, and no one can accurately predict all of the winners and losers for any given period. Evaluate your overall portfolio and adjust it to hold an appropriate mix of classes based on your tolerance for risk. You can easily diversify your portfolio by shifting assets from one fund to another or by directing a higher percentage of your total 403(b) and/or DC Plan contributions to a fund reflective of an underweighted class.

3. Dollar-Cost Average

A way to help "smooth out" volatility is through dollar cost averaging, which simply means investing equal amounts of money at regular intervals. You buy more shares when prices are low (like right now) and fewer shares when prices are high, potentially lowering your overall price per share. When applied through payroll deductions, this disciplined, systematic savings and investment program can help build your retirement savings.