Heads Up

Directed Account Plan Quarterly Review July 2009

Demystifying Diversification - Is it Still a Viable Strategy?

Why did your portfolio take such a hit in the recent market downturn? Does diversification still work?

It may not seem like it, but diversification did – and still does work. Having a diverse array of investments likely helped keep you from losing much more money than you did. This article will show why you shouldn't give up on diversification and why it is still effective.

What affects diversification?

It helps to know a little bit more about what affects diversification. At the heart of it is "correlation." Simply put, correlation is a measure of how the returns of two investments move together, i.e., whether their returns move in the same or opposite direction and how often. Correlation is a number from –100% to 100% that is computed using historical returns. A correlation of 50% between two stocks, for example, means that in the past when the return on one stock was going up, then about 50% of the time the return on the other stock was going up, too. A correlation of –70% tells you that historically 70% of the time they were moving in opposite directions—one stock went up and the other went down.

Correlations can change dramatically and rapidly in volatile markets. Assets can become highly correlated, meaning their returns move in the same direction. This reduces the short-term benefit of diversification, which is what happened recently. Correlations of stocks in the United States to several other types of investments increased dramatically during the 2008-2009 bear market. U.S. stocks skyrocketed to close to a 90% correlation with both international stocks and high-yield bonds, while investment-grade bonds and cash went from being negatively correlated to U.S. stocks to being positively correlated. All of this reduced the effectiveness of diversification during this period.

While changes in correlation have occurred before, as in the 2002 dot-com bear market, the recent bear market has been distinguished by the increase in correlations along with a spike in volatility. Combined, those two things made a bigger impact on investment portfolios than either one would have independently.

Does diversification still work?

It may feel like diversification has failed. It hasn't. Assets are more highly correlated, but not perfectly correlated, so diversification still helped limit portfolio losses in the recent downturn, just not as much as it had previously. Some investors may be tempted to turn to an all-cash portfolio after watching the market struggle lately. A diverse portfolio, however, has historically been the most effective way to get steady appreciation out of your investments while limiting losses as much as possible. A diversified portfolio will never be the highest-earning one when the market performs well, but it also won't crash the hardest when the market goes down.

Fidelity looked at the performance of three hypothetical portfolios[1]: one that invested 100% in stocks, one that is all cash, and one that closely resembles the Directed Account Plan's Moderate Model, consisting of 70% stocks, 25% bonds, and 5% short-term investments. Fidelity's calculations show that from January of 2008 to February of this year, the diversified portfolio fell 33.9%, the all-stock portfolio fell 48.2%, and the all-cash portfolio gained 0.02%. In the rebound of March and April this spring, the diversified portfolio would have climbed 11.7%, the all-stock portfolio would have increased 19.2%, and the all-cash portfolio would have gained 0.03%. The overall performance for the hypothetical diversified portfolio would have been down 22.2% from January of 2008 through April of 2009, while the hypothetical stock portfolio would have lost 29% overall through the same time frame. While the all-cash portfolio outperformed both investments over this time frame, investing in all-cash can limit the future growth of a portfolio, making it an ineffective long-term strategy.

	Jan 08-Feb 09	Mar/Apr 09
All-cash Portfolio	0.02%	0.03%
Diversified Portfolio	-33.9%	11.7%
All-stock Portfolio	-48.2%	19.2%

Building your portfolio

The right portfolio varies from individual to individual, depending on investment time frame, financial needs and comfort with volatility. A good mix of investments will include highly negatively correlated items, so that when one investment is decreasing, another one is on the rise. This way, your portfolio still has the possibility of growing even when a portion of your investments may be struggling. This may help limit the impact of a poor market on your portfolio. The Directed Account Plan offers many options, including a Stable Value Option that is highly negatively correlated to equities, for a diversified portfolio, depending on what your needs are.

[1]Fidelity Viewpoints, "Does Diversification Still Work?", Fidelity.com, June 11, 2009.

Past performance is no guarantee of future results.

Asset allocation and diversification do not ensure a profit or guarantee against loss. Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk. Investing involves risk, including risk of loss. Generally, among asset classes, stocks are more volatile than bonds or short-term instruments.

Performance

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Fund Performance

as of June 30, 2009 (in percentages)

Funds & Portfolios	2007	2008	June 2009	Ytd 2009	3 yr. avg.	5 yr. avg.	10 yr. avg.
Stable Value Fund	**5.21**	**4.51**	**0.23**	**1.37**	**4.58**	**4.84**	**5.29**
BC Govt. 1-3 Year	7.10	6.66	-0.14	0.47	5.74	4.21	4.73
Value Stock Fund	**10.96**	**-42.58**	**-0.41**	**6.63**	**-9.03**	**-1.34**	**0.85**
Russell 1000 Value Index	-0.17	-36.85	-0.74	-2.87	-11.11	-2.13	-0.15
Equity Index Fund	**5.01**	**-37.33**	**0.33**	**4.25**	**-8.42**	**-1.88**	**-1.59**
Russell 3000 Index	5.14	-37.31	0.34	4.20	-8.35	-1.84	-1.46
Growth Stock Fund	**14.36**	**-39.62**	**0.26**	**10.80**	**-6.74**	**-0.58**	**–2.53**
Russell 1000 Growth Index	11.81	-38.44	1.12	11.53	-5.45	-1.83	-4.18
International Stock Fund	**20.44**	**-48.64**	**-0.95**	**18.64**	**-5.00**	**4.58**	**3.19**
MSCI EAFE Net Dividend	11.17	-43.38	-0.57	7.95	-7.98	2.31	1.18
Div. Small Co. Stock Fund	**-1.09**	**-36.44**	**2.53**	**8.76**	**-9.29**	**-2.25**	**4.15**
Russell 2000 Index	-1.57	-33.79	1.47	2.64	-9.89	-1.71	2.38
Conservative Portfolio	**6.58**	**-15.10**	**0.13**	**3.67**	**-0.19**	**2.75**	**3.43**
Conservative Composite Index	5.25	-10.83	-0.16	0.54	-0.45	1.74	2.52
Moderate Portfolio	**8.48**	**-26.59**	**0.29**	**7.25**	**-2.65**	**2.01**	**2.81**
Moderate Composite Index	5.96	-22.27	0.15	3.15	-3.51	0.67	1.15
Aggressive Portfolio	**8.41**	**-32.38**	**0.43**	**8.75**	**-4.57**	**1.30**	**2.58**
Aggressive Composite Index	5.30	-28.82	0.29	3.74	-5.76	-0.02	0.73

Keeping Up Contributions in a Challenging Economy

Currently, one quarter of all participants in the Directed Account Plan are coded as active (making monthly contributions to the plan). While our retired participants know the benefits of sacrifices they made to make contributions during their working years, those making regular contributions may wonder why they continue to do so in this challenging economy, but they can rest assured that they are in good company.

Fidelity data shows that of 11.3 million participants in more than 17,500 plans in the first three months of 2009, 97 percent of people continued to make contributions in the first quarter of 2009. These contributions amounted to an average of $1,700 of their pre-tax income, which is a slight decline from the 2008 level ($1860), but up significantly - over 20 percent - from 2002 levels. With employer matching funds, average total contributions to 401(k) plans in the first three months of 2009 amounted to $2,780 - down a small amount from 2008's first quarter average of $3,080[1].

Putting away money for retirement can seem difficult in a tough economy, but the vast majority of workers are persevering and keeping with their commitment to save for retirement. By continuing to put away pre-tax money now, our active participants are joining these workers in looking beyond the challenges the economy currently faces and maintaining a long-term perspective. When you add the advantage of contributing money on a pre-tax basis, the generous match from CACU, and the fact these funds grow tax-deferred in a retirement savings plan of the caliber of the DAP, you can make a strong case that our active participants have a workplace savings account that is very beneficial for their retirement savings.

[1]Fidelity Investments, "Fidelity Reports Majority of Workers Continued to Fund 401(k) Accounts During First Quarter of 2009", Fidelity.com, May 13, 2009. All data is as of 3/31/09 unless otherwise noted. Analysis is based on Fidelity's Corporate Defined Contribution record-kept data. The terms "worker" and "active participant" are used interchangeably in this press release. They represent current employees of 401(k) plan sponsors who have a balance in their company's 401(k) plan.

Keep in mind that investing involves risk. The value of your investment will fluctuate over time and you may gain or lose money. The intent of this communication is to provide useful information, not investment advice. Each participant in The Directed Account Plan is ultimately responsible to make his or her own investment decisions.

Fund Component Weighting

These tables represent component weightings for individual investment funds as of June 30, 2009.

	Weightings	Net Value of Funds ($MM)
Stable Value Fund		**$317.9**
Dreyfus Cash Mgmt. Fund/CDs	14%	
Invesco Interest Income	46%	
Wellington Core Bond	40%	
Value Stock Fund		**30.7**
BGI Value Index	20%	
Neuberger Berman Partners	20%	
JP Morgan Large Cap Value	15%	
Goldman Sachs Mid Cap Value Instl.	15%	
T. Rowe Price Value	20%	
CGM Focus	10%	
Equity Index Fund		**12.7**
BGI US Equity Index	100%	
Growth Stock Fund		**18.6**
BGI Growth Index	20%	
Wellington Mid Cap Opportunities	15%	
Turner Midcap Growth	15%	
Marsico Focus	20%	
T. Rowe Price Growth Stock	15%	
Primecap Odyssey Growth	15%	
International Stock Fund		**22.7**
BGI EAFE Index	22%	
Am Century International Discovery	10%	
Am Century International Growth	10%	
Templeton Instl. Foreign Equity	12%	
Oppenheimer Intl. Sm. Co.	10%	
Thornburg International Value	12%	
Marsico International Opportunities	12%	
Dimensional Emerging Markets Value	8%	
Royce Global Value	4%	
Diversified Small Co. Stock Fund		**25.1**
BGI Small Co. Index	30%	
Dimensional US MicroCap Portfolio	15%	
Royce Opportunity	15%	
Third Avenue Small Cap Value	15%	
Morgan Stanley US Sm. Cap Value Instl.	10%	
Brown Capital Mgmt. Small Co. Instl.	10%	
iShares Morningstar Small Growth Index	5%	
Conservative Portfolio		**42.0**
Moderate Portfolio		**182.1**
Aggressive Portfolio		**16.2**
Fidelity Funds Window		**66.0**
Total		**$734.0**

More Information and Plan Contacts

To get daily NAVs, account balance information, or to make transfers, you may call the DAP Service Center telephone voice response system, available 24 hours a day. Customer service representatives are available 8:30 a.m. to 8:30 p.m., Eastern time Monday through Friday. Call 1-877-4TWADAP (1-877-489-2327) **or** dial the AT&T direct country code and 877-833-9900 (call collect) outside the U.S. Use your Social Security number and PIN to access your account.

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