

Heads Up

The Directed Account Plan Quarterly Review

October 2007



Market Timing ...

- Market Timing attempts to predict future market directions, usually by examining recent price and volume data or economic data, and investing based on those predictions. Also called timing the market.

Put that watch down, you can't time the market

Bear Markets and Corrections - Hold on Tight

Successful investors know to build bear markets into their plans. They choose an investment allocation strategy and stick with it under all market conditions. A *bear market* is described as being accompanied by widespread pessimism. Investors anticipating further losses are motivated to sell, with negative sentiment feeding on itself in a vicious circle. The most famous bear market in history was 1930 to 1932, marking the start of the Great Depression.

A bear market is not a simple decline, but a substantial drop in the prices of a range of issues over a defined period of time. Investors frequently confuse bear markets with corrections. Corrections are much shorter lived, whereas bear markets occur over a longer period with typically a greater magnitude of loss from top to bottom. Many investors and analysts use technical analysis to try to identify whether a market or security is in a bull or bear phase, and to generate trading strategies to exploit the trend. Studies indicate that these market timers need to put down their watches because the strategy does not work over time.

Sophisticated Models Fail to Predict

The S&P 500 index had dropped almost 10% in one month this past August. Matthew Rothman of Lehman Brothers Holdings Inc. responded to the recent correction, "Wednesday is the type of day people will remember in quant-land for a very long time. Events that models only predicted would happen once in 10,000 years, happened every day for three days."

Consider the findings of a study of market timing by 100 large pension funds, cited by Charles Ellis in his book

"Investment Policy" - "While all the funds had engaged in at least some market timing, not one of the funds had improved its return as a result."

Why Do Market Timers Get Such Poor Results?

Market Timers have to be right twice, once when they sell and once again when they get back in. From 1926 through 2006, of the 324 quarters in this date range, there were only 27 quarters with losses greater than 10 percent. Of those 27 quarters, 16 were followed by quarters when the S&P 500 index rose at least 5 percent, 7 when it rose at least 20 percent, 3 when it rose at least 30 percent, and 2 when it rose at least 80 percent.

After quarters when the market fell at least 10 percent, the next quarter it rose at least 5 percent almost 60 percent of the time. More than 70 percent of the time after experiencing a quarter of a sharp decline, the market rose.

So to successfully time the market you must determine when the risks will show up, how sharp the declines will be and when they will end.

The DAP Moderate Model = Strong Results

Some participants wonder whether staying put in the Moderate Model will really FLY during retirement. For these skeptics, we offer this success story of one of our participants. This pilot has been in the Moderate Model since the inception of the plan. He retired into what was to become one of the worst bear markets on record. Because this resulted in returns below historical levels, he initially started taking modest monthly distributions of about 2.5%. As the market improved and his returns improved, he increased his

excerpt from The Post Dispatch column
by Larry E. Swedroe "Market Timing, it is
never a good time" 9/09/07

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Performance

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Fund Performance


as of September 30, 2007 (in percentages)

Funds & Portfolios	Ytd 2007	2006	3 yr. avg.	5 yr. avg.	10 yr. avg.
Stable Value Fund	3.90	5.21	5.27	5.06	5.69
Lehman Br. 1-3 yr. Govt./Treas.	4.70	4.12	3.53	2.91	4.77
Value Stock Fund	12.91	16.93	16.11	19.50	9.40
Russell 1000 Value Index	5.97	22.25	15.25	18.07	8.80
Equity Index Fund	8.65	15.50	13.65	16.03	6.54
Russell 3000 Index	8.77	15.72	13.74	16.18	6.83
Growth Stock Fund	15.59	5.79	14.91	17.39	5.56
Russell 1000 Growth Index	12.68	9.07	12.20	13.84	4.06
International Stock Fund	20.96	27.41	27.52	25.84	10.27
MSCI EAFE Net Dividend	13.15	26.34	23.24	23.55	7.97
Div. Small Co. Stock Fund	5.50	14.54	12.59	18.08	9.21
Russell 2000 Index	3.16	18.37	13.36	18.75	7.22
Conservative Portfolio	6.78	9.72	9.17	10.07	6.84
Conservative Composite Index	5.77	10.07	7.91	8.59	5.99
Moderate Portfolio	9.66	11.97	12.70	14.24	7.78
Moderate Composite Index	7.39	12.97	11.07	12.46	6.14
Aggressive Portfolio	10.51	13.99	14.54	16.53	8.32
Aggressive Composite Index	7.66	15.50	13.04	15.08	6.55

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from front

The DAP Moderate Model = Strong Results

monthly distributions to approximately 5%. In addition, from time to time as his needs dictated, he would take a partial distribution. Here's the result:

 Captain John Doe	
Retired Jan. 2000 with Moderate Model Balance	\$1,100,000
Total Distributions	\$373,000
Oct. 1, 2007 Balance	\$1,119,189

Unfortunately, this scenario is not unlike the careers of many of our participants. But just as no one in this plan ever made career changes because of the cyclical nature of the airline industry, this participant did not make changes to his investment strategy because of the cyclical nature of the markets. **HU**

DAP Plan News

Forms Online

The Beneficiary Form, Rollover Forms (into the DAP), and Withdrawal Forms are now available at the Fidelity NetBenefits Web Site at www.401k.com. Simply type in your username and password. If you need assistance with this, please call the Benefits Resource Center at 1-877-489-2327. Look at the list of links on the left side of the screen. Click on the Plan Information and Documents link. On the left side of the screen, under Plan Details, click on the Forms link. Under the DAP logo, click on the form of your choice.

Welcome to the Board

Jeff Kline has recently resigned from CommunityAmerica Credit Union. He has been replaced by Michael Patrick, COO for CommunityAmerica Credit Union. Michael was welcomed to the Board at the September meeting.

Ongoing Improvements

This is your plan. Past improvements have come from your suggestions (i.e. withdrawal forms online). The idea of offering ETF's in the plan has been suggested. Do you have an opinion? Email us at twadap@swbell.net.

Fund Component Weighting

These tables represent component weightings for individual investment funds as of September 30, 2007.

	Weight- ings	Net Value of Funds (\$MM)
Stable Value Fund		\$297.9
Cash/BGI Money Market	15%	
PRIMCO GIC	45%	
Wellington Core Bond	40%	
Value Stock Fund		67.1
BGI Value Index	20%	
Neuberger Berman Partners	20%	
Morgan Value Strategy	20%	
Goldman Sachs Mid Cap Value Instl.	15%	
T. Rowe Price Value	15%	
CGM Focus	10%	
Equity Index Fund		23.4
BGI US Equity Index	100%	
Growth Stock Fund		30.6
BGI Growth Index	20%	
Wellington Mid Cap Opp.	15%	
Turner Mid Cap Growth	15%	
Marsico Focus	20%	
T. Rowe Price Growth Stock	15%	
Primecap Odyssey Growth	15%	
International Stock Fund		56.6
BGI EAFE Index	14%	
Am Century International Discovery	10%	
Am Century International Growth	10%	
Templeton Intl. Foreign Equity	12%	
First Eagle Overseas	12%	
Oppenheimer Intl. Sm. Co. A	10%	
Thornburg International Value	12%	
Marsico International Opportunities	8%	
Dimensional Emerging Markets Value	8%	
Royce International Value	4%	
Diversified Small Co. Stock Fund		43.7
BGI Small Co. Index	20%	
Dimensional US Micro Cap Portfolio	15%	
Royce Opportunity	15%	
Legg Mason Opportunity	10%	
Century Small Cap Select Instl.	15%	
Third Avenue Small Cap Value	15%	
Morgan Stanley US Sm. Cap Value Instl.	10%	
Conservative Portfolio		56.3
Moderate Portfolio		318.0
Aggressive Portfolio		26.2
Fidelity Funds Window		99.9
Total		1,019.7

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.

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 am to midnight, 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 Social Security number and PIN to access your account.

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