

# Retirement Roundup

## State & County Employees

Nebraska Retirement Systems

Vol. 13, No. 6, Fall 1998

### Wag the Dog Investing!

Well, third quarter 1998 was no picnic for investors, but you know that already from looking at your statement. The stock market decline the end of August was reminiscent of Black Monday in 1987 in terms of absolute points, but did not exhibit anything near the percentage loss (6% vs. 23%) we saw in 1987. Nonetheless, after a long bull market, it is unsettling to witness a more substantial decline and the reappearance of the dreaded "bear" word.

Although the Dow Jones Industrial Average has declined 20% from its record high of 9368, smaller stocks not included in the top 100 market favorites had already declined materially. When the bear growls, any panic selling will dramatically depress some stocks more than others, creating wonderful buying opportunities. Some of the best values are probably to be found in the stocks of smaller companies and for those more venturesome, international securities. Both small company and international investing can be more volatile but can offer greater rewards as well for the investor with a stronger stomach.

If you've watched much TV, especially the 24-hour non-stop financial news programs, you've gotten a good dose of the frightful forecasts of Armageddon. I'd rather listen to Louis Rukeyser, whose optimistic viewpoint on the market has been right on the money. Louis was quoted in USA Today after the recent market sell off, "In the short

run the market is an unpredictable maniac, but in the long run it makes sense. With low inflation, low interest rates, an economy that continues (however imperfectly) to slog ahead, high consumer confidence, ... the long term future for sensible investors remains absolutely marvelous."

The crisis in Asia and our amateur capitalist friends in Russia have acted as catalysts to turn the market down, even though most economists expect that they will not impact our economy materially as exports to those regions are relatively unimportant to the overall economy. Indeed, the reasons for owning U.S. stocks are even more evident at this time. Our corporations have strong balance sheets, we have technology leadership, brand leadership, a fiscal situation that has gone from deficit to surplus, and continued strong money flows into the market.

Will the bear growl some more? Probably, so you need to contemplate the probabilities of future declines, but as you do so, remember that the U.S. economy is still performing well, our government is generating a surplus, interest, inflation, and unemployment rates are still very low.

Utilize a long-term investment strategy. Almost all studies indicate market timing only works retrospectively, in your rear view mirror. You must persevere and have patience. Some investors have the tendency to sell at the bottom out of

### Update on KPM Funds

The Nebraska Investment Council, at its July 30 meeting, placed KPM Investment Management on probation as manager of the Quality Growth and Conservative Balanced funds. Investment returns substantially below benchmark triggered this action.

The decision facing the Council is whether future, long-term under-performance is sufficiently likely to justify the cost to the fund of replacing KPM. In order to make a well-informed and prudent decision, the Council has increased the amount of attention given to the portfolio and its manager beyond the council's quarterly review process.

Wilshire Consultants reported its findings on the KPM due diligence review to the Council at the September 10th meeting. In summary: "Wilshire concurs with the conclusions reached by the council, and agrees with its decision to place KPM on probation. ... Wilshire finds that it is unlikely that KPM would be recommended for hire; however, the case for termination is not as conclusive." The Council decided to review the situation again when additional information is available from the third quarter performance analysis. This review will occur at the Council's November 12th meeting.

If you are currently invested in the above

## Employer Fund Asset Changes

Prior to January 1, 1997 the law governing your retirement plans required that employer contributions be invested in the Stable Value Fund. When it was given control, the Investment Council endorsed participant direction for the employer account assets. This would allow you to select the investment fund or funds for the employer contributions made on your behalf, just as you select for your own contributions. The Council continues to support this approach to the employer contributions. However, participant direction requires a change in the law governing the plans.

Pending a change in the law, the Council initially decided to invest 25% of the employer account in domestic stocks and the rest in various fixed income strategies. To implement this strategy, inside the employer account, the Council uses the investment funds which are also open to employee contributions.

At its September meeting, the Investment Council decided to increase the amount of employer assets invested in the domestic stock market from approximately 25% to 45%. For the County Plan, the Council will dollar-cost-average this change over the period ending October 30th. For the State Plan, the allocation will be increased to approximately 40% by the end of October and to approximately 45% by the end of January. The slower transition for the state employer account is due to restricted cash availability. With this change, an employee who has \$10,000 in his or her employer account will have approximately \$4,500 (45%) in the Domestic Stock Index Fund.

The Council believes this increase in stocks is prudent and appropriate for the majority of plan participants, given the long-term nature of retirement savings. Plan participants can and should determine an investment strategy which encompasses employee and employer contributions, and even your personal

investments made outside these plans.

You may wish to adjust your employee account investments in response to the change in the employer account holdings. □

### Investing (Cont. from page 1)

fear and purchase at highs motivated by the herd instinct and greed. It's not timing the market that works ... it's time in the market. Over 95% of your return will be determined by asset allocation, i.e., the amount you have in cash, stock, and fixed income investments. So analyze carefully your situation, consider the time you have before retirement in allocating your retirement dollars between the eight investment choices you have. Remember the magic word "diversification". If your strategy needs to be modified, do so, but don't be motivated by fear. In other words "Don't let that tail wag the dog!"

**P.S.** Sterling Financial is pleased to be working with you. We are committed to helping you make sense of your strategy in an investing world.

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### Update (Cont. from page 1)

two funds and are concerned about the future performance, you have the option of transferring your funds and/or reallocating your new contributions to other funds being offered. Please see the back of your Quarterly Statement for instructions on using the Automated Pension Access Line to make investment changes. □

#### RETIREMENT ROUNDUP

Published by  
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Lincoln, Nebraska 68509-4816  
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## Firm Selected for Investment Education

The Retirement Board, during its August 1998 meeting, selected Sterling Financial Advisors, LLC to provide investment educational services for state and county plan members.

As part of the contract, Sterling will take calls, via a toll-free number, from plan members with questions regarding our pension investments. They will contribute regular articles to the "Roundup" on investment/ market comments. And, a major part of the contract requires them to conduct the Financial Planning segment of our Personal Planning Seminars for members under age 50.

Effective immediately, as a member of the state, county employees, or the state-sponsored deferred compensation program (DCP), you may call the following toll-free number with your investment questions:

**1-877-970-9300**

Also, if you are under age 50 and have not attended a Personal Planning Seminar, there is no time like the present! See our Fall Calendar below. □

### Fall 1998 Seminar Calendar State & County Employees

#### Preretirement (age 50 and over)

December 10 - Lincoln  
December 16 - Lincoln

#### Personal Planning (under age 50)

October 7 - Omaha  
October 20 - Lincoln  
October 22 - Beatrice  
November 3 - Norfolk  
November 18 - Lincoln

All eligible members will receive registration information approximately four weeks prior to meetings in their area.

Note: Seminars will be held state-wide next spring.