MTA DEFERRED COMPENSATION PROGRAM

SPRING 2006

FINANCIAL Footnotes

The Stock Market: A Primer

Understanding how Wall Street works

When you buy a stock, you become an owner of the company, entitled to a share of its distributed profits. People buy stock because they believe the value of their shares will increase in the future. If profits go up, share value usually goes up, so someone is likely to pay a higher price for that stock and you can sell at a gain. If the company's profits don't go up, you probably would have to sell at a loss to get someone to buy the stock from you.

Buying Stock

Say you decide to buy 100 shares of stock in (hypothetical) company X. You place your order with a stockbroker, who forwards it to a trader working with that broker on the floor of the New York Stock Exchange (NYSE). The trader goes to the post where company X is traded. (Each of the 2,800 companies listed on the NYSE trades at a post.) There, a specialist (a person whose job is to match orders to buy with orders to sell) brings together the trader looking to buy company X stock with a trader looking to sell company X stock. The trade is completed at a price acceptable to both parties and you own 100 shares of company X.

Stock Trading

Transactions like this happen thousands of times a day on the floor of the NYSE. Stock trading is still done face-to-face on most major stock exchanges of the world, but an increasing amount is being done by computer. The NASDAQ Stock Market (founded by the National Association of Securities Dealers, but now independently operated), trades by computer. The NYSE is the world's biggest stock exchange, but NASDAQ, where many of today's high tech stocks trade, is a close second.

You may not own individual stocks, but instead invest in mutual funds that own stocks. The trade proceeds the same way, whether you or the manager of your mutual fund do the trading. The reason for buying or selling stocks is the same, too: Both you and the mutual fund manager are hoping for the best possible return on your money.

Source: The New York Stock Exchange

Striking a Balance

SEE REVERSE

What Is Common Stock?

How common stocks fit into your retirement portfolio

Common stock is the technical name for the stocks you buy and sell every day. They are issued initially by a corporation and then traded among investors. There are two ways to make money with common stock: when you sell the stock for more than you paid for it, and when you receive dividends (a portion of company profits paid by some, but not all, common stocks).

Common stocks offer no performance guarantees, but over time have produced a better return than other investments. The risks are that the individual company will not do well or that stock prices in general will weaken. Stock funds, such as the ones offered through retirement plans, buy the stocks of many different issuers and are considered less risky because losses in some of the stocks may be offset by gains in others.

Source: *The Wall Street Journal Guide to Understanding Money & Investing*. 3rd ed.
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Tracking Indexes

Knowing what indexes are out there is key to good investing.

In addition to the Dow Jones Industrial Average (The Dow) and the Standard & Poor's 500 Index (S&P 500), there are several other indexes designed to take the temperature of key segments of the market.

The Lipper Indexes track 10 to 30 of the largest mutual funds in a particular investment category, and can be particularly helpful to retirement savings plan investors.

The Morgan Stanley Capital International Europe, Australasia and Far East (MSCI EAFE) Index, a benchmark for international funds, tracks approximately 1,000 foreign stocks in developed markets in Europe, Australia, Asia and the Far East.

Lehman Brothers Government/Bond Index is a benchmark index made up of the Treasury Bond Index and the Agency Bond Index, as well as the 1 to-3-Year Government Index and the 20-plus-Year Treasury Index.

You can track these and other indexes online at **smartmoney.com**, **morningstar.com** and most business-related Web sites. While you can invest in mutual funds that try to mimic the performance of indexes, you can't invest directly in an index.

For questions related to your account or investments, contact:

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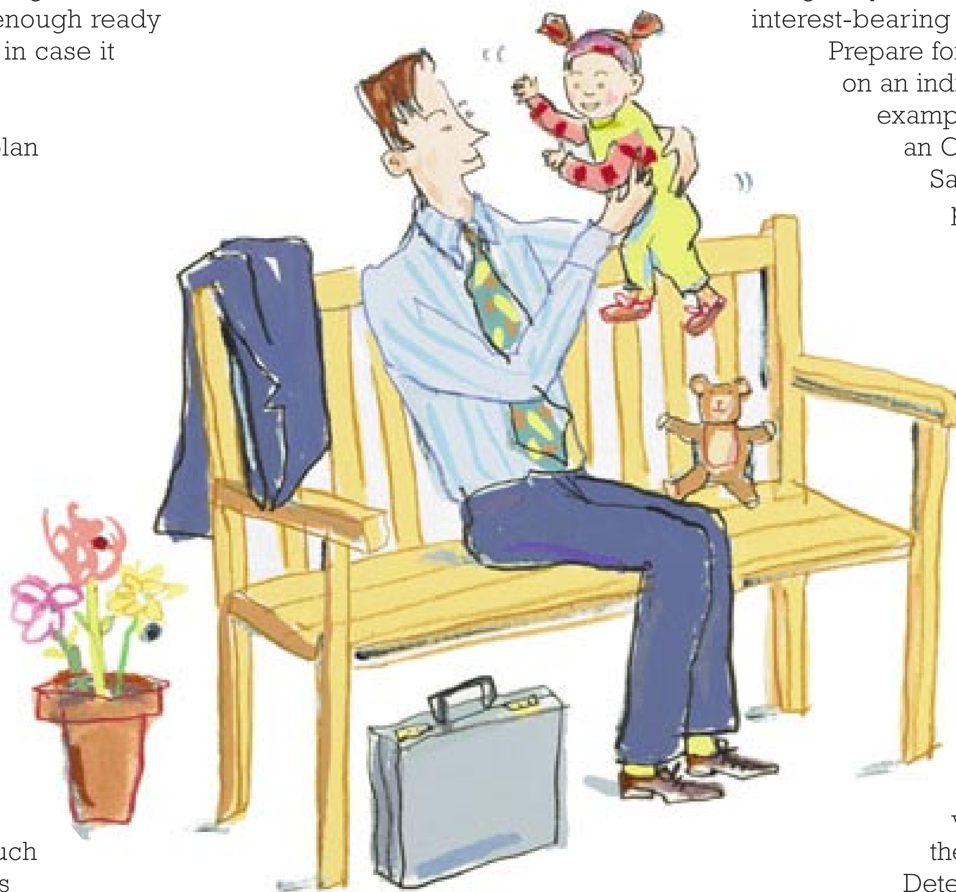
Life-stage Investing

Striking a Balance

Reaching your long- and short-term goals

Let's face it: There's always a tug-of-war between your present needs and your future goals. The trick is to strike a balance that allows you to begin building a retirement cache today, yet still have enough ready cash to fix your roof in case it collapses tomorrow.

If you've got your retirement savings plan in place, good for you. But if sticking to that plan has you financially strapped from day to day and year to year, it's time to take a step back. Remember, there are other important priorities you may want to plan for, such as building an emergency fund and saving to send kids to college. And what about those special treats for yourself, such as vacation getaways or buying that cottage on the beach? It's important for people to treat themselves now and then. What's the point of saving for the future if it makes you miserable today?



Getting a Head Start

When you're in your 20s, 30s and 40s, you need to first determine how much you can save in your retirement plan, being sure to leave enough money in your budget for the here and now. Once you've begun to save, forget about that money—it's the cornerstone of your future. Also, be sure to tailor your retirement investments to suit your needs. The longer you have until retirement, the more money you should consider investing in stocks to fuel growth in your portfolio.

Build an emergency stash—experts recommend three to six months of salary held in an accessible account. Rather than a simple savings account, you may get more bang for your "safety" buck in an interest-bearing checking account.

Prepare for other key goals on an individual basis. For example, you might set up an Coverdale Education Savings Account or 529 plan earmarked for your kids' college tuition—keeping in mind that you won't necessarily have to foot the whole bill yourself. Loans, grants, scholarships and your children's part-time jobs can help lighten the load.

Mid-Life Planning

In your 50s and beyond, start to focus on yourself by visualizing life beyond the 9-to-5 workplace. Determine if you're on track to maintain the style of living you want. As expenses like mortgage payments and college tuition wind down, use this freed-up cash to pump up your retirement savings plan.

Second, consider a more moderate mix of investments as you get closer to the time when you'll begin drawing on the funds. You'll want a mix that adequately preserves your capital, provides regular income and maintains the long-term growth potential needed to fund a retirement that may last over 20 years.

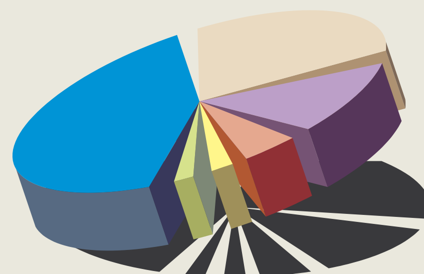
Figuring out how to pay for the present and prepare for the future is as much a personal decision as it is a financial one. That's why it's important to come up with a strategy that will allow you to fix that collapsed roof and also enjoy your life—both now and when you retire.

Asset Allocation vs. Diversification

Commonly confused, yet markedly different

Q: What is the difference between asset allocation and diversification?

A: Asset allocation is the first step in deciding the right mix of asset classes for your investments—one that balances risk and reward against your long- and short-term goals. For example, you may allocate 60% of your retirement savings to stock funds and 40% to fixed-income funds.



The next step is to decide what funds to choose *within* each asset class. This progress is called diversification. In the example above, you decided to *allocate* 60% of your retirement savings to stock funds. You *diversify* by selecting several different types of stock funds. The more diversified your portfolio is, the less likely any one investment choice can hurt you with a poor performance.

A portfolio should be diversified at two levels: *among* asset categories and within asset categories. So in addition to allocating your investments among stocks, bonds, cash equivalents, and possibly other asset categories, you may also want to consider spreading out your investments within each asset category. The key is to identify investments in segments of each asset category that may perform differently under the same market conditions.