Heads Up

Directed Account Plan Quarterly Review October 2009

Tips for Surviving the Next Disaster

The market meltdown of 2008 was a decidedly man-made disaster, but the lessons learned from it are not unlike the lessons learned from a natural disaster like a 100-year flood. Both events are extremely rare, but both also have lessons to impart.

Many investors made rash investment decisions over the last year. Spooked not by rising flood waters but by drops in their portfolios, they made the decision to move their money to what they saw as higher ground – the Stable Value fund. When considering how best to ensure adequate income throughout your retirement, it's a good idea to ask whether this kind of investing, be it overly aggressive or overly cautious, will help you reach your financial goals.

The one thing that most of the country had in common in the summer of 2008 was that nobody saw the wreckage of late 2008 and early 2009 coming. In the same vein, in March of 2009, the one thing that most people had in common was that nobody predicted a 50% run-up in the market. This makes the point that nobody – be they the best economists, or analysts – knows what the market is going to do or where it is going to go, ever.

With that in mind, there are four key points that are important for anybody, from savers to retirees to follow:

1) Have a plan. Just as you'd have a plan for your house, including an insurance policy, a toolbox to fix a leaky faucet, and perhaps visions of future remodeling, investors need a plan for their future income – how to generate it, how to grow it and how to protect it.

2) Asset allocation. You wouldn't build your house right on the levee, but that doesn't mean that you can't enjoy a view of the lake out your window. Driven by the plan, a strategically allocated portfolio will help you minimize risk. Unlike the trying times your parents or grandparents experienced during the Depression, risk today may not be as much about losing all your money as much as outliving your money.

3) Diversification. You should never own enough of any one investment to make a killing on it, and never own enough of one to get killed by it. You don't keep all of your belongings in the basement where they're more prone to flooding, but you don't keep them all in the attic, either.

4) Stay calm. If you have a well-crafted financial plan, you shouldn't panic when the market turns south. Just as running around and screaming doesn't help when the water is rising, losing your head when the market becomes either a bear or a bull isn't beneficial. Stick to the plan you developed in calmer times.

With the market recovering, take a step back and look at your portfolio. If it meets your needs and your risk tolerance, that's great. If not, it may be time to reevaluate and consider adding some equity options to the mix.

The Model Portfolios July 1993 - September 2009

Portfolio	Conservative	Moderate	Aggressive
avg. annual return	6.69%	7.36%	7.66%
avg benchmark return	6.11%	6.33%	6.55%
years returns were up	14	12	11
years returns were down	2	4	5
largest annual gain	18.38%	25.77%	31.27%
largest annual loss	-15.10%	-26.59%	-32.38%

Stable Value Update

Early this year, the DAP office received many phone calls from participants with questions about the stability of our Stable Value Fund. The April Heads Up contained some answers to frequently asked questions that the office was receiving about the Stable Value Fund.

One question of concern was how low the yield (known as the crediting rate in the Stable Value world) would go in this interest rate environment. Recently our Stable Value manager reported an increase in the rate with small incremental increases to come. The rate on the Stable Value Fund dipped as low as 2.93% earlier in the year – about the same rate we experience during the last recession – and is now currently at 3.25%.

Back in early 2009, participants were also concerned about the market to book ratio of our Stable Value Portfolio. The market to book ratio - the difference between the prices paid for a bond (book value) and the current mark to market value of the bond (market value) - was 95% at the time that the April edition of Heads Up came out. While not ideal, the 95% ratio was in the top quartile of Stable Value Funds and acceptable given the state of the fixed income markets at the time. Currently this ratio is 100% and is moving higher. In early 2008 before the credit crisis, the ratio stood at 102.2%.

The bottom line is that our Stable Value managers have served the Directed Account Plan and its participants well for the past sixteen years, particularly during unprecedented market conditions.

Performance

DAP Plan News – Recent Allocation and Manager Changes

As the past year has seen unprecedented turmoil in the market, the DAP Board of Directors made a conscious decision to exercise patience when reviewing performance. This was a particularly courageous move given the volatility in the marketplace. It also allowed the Board to focus on investment manager performance in both "up" and "down" markets, providing a robust picture of how the managers perform in various circumstances. Through August, many of our managers are now outperforming their respective benchmarks for the year and the Board felt it was a good time to make some changes. In addition, recent market turmoil has opened investments in funds that were previously closed and at very attractive fees. Buffalo Small Cap. Fund, our newest addition to the DAP, is a good example of the opportunities available to us now. While Buffalo continues to keep the mutual fund side of Small Cap. closed to individual investors, it recently opened its mutual fund to retirement plans. We were able to invest in this exceptional fund at very reasonable fees. This is one of the many benefits of being a participant in the Directed Account Plan.

Allocation Change: The International Stock Option was rebalanced to decrease the target allocation of Oppenheimer Intl. Small Co. to 8% and to increase the target allocation to Royce Global Value to 6%. With Oppenheimer up approximately 91% YTD, the Board thought it prudent to move some assets to Royce Global, a fund with less historical volatility.

Manager Change: A new fund, Buffalo Small Cap. Growth was added to the Diversified Small Co. Stock Option on October 2. Buffalo was given a 10% allocation in the option while iShares Morningstar Small Cap Growth Index is being reduced to 0% and the BGI Small Co. Index target allocation in being reduced to 25%.

Fund Performance

as of September 30, 2009 (in percentages)

Funds & Portfolios	2007	2008	September 2009	Ytd 2009	3 yr. avg.	5 yr. avg.	10 yr. avg.
Stable Value Fund	**5.21**	**4.51**	**0.25**	**2.11**	**4.39**	**4.74**	**5.21**
BC Govt. 1-3 Year	7.10	6.66	0.27	1.32	5.34	4.17	4.69
Value Stock Fund	**10.96**	**-42.58**	**4.35**	**26.72**	**-4.24**	**2.28**	**3.65**
Russell 1000 Value Index	-0.17	-36.85	3.86	14.85	-7.87	0.90	2.59
Equity Index Fund	**5.01**	**-37.33**	**4.15**	**21.20**	**-5.14**	**1.51**	**0.55**
Russell 3000 Index	5.14	-37.31	4.19	21.19	-5.06	1.56	0.73
Growth Stock Fund	**14.36**	**-39.62**	**4.88**	**29.30**	**-1.63**	**3.23**	**-0.64**
Russell 1000 Growth Index	11.81	-38.44	4.25	27.11	-2.50	1.86	-2.56
International Stock Fund	**20.44**	**-48.64**	**5.97**	**42.02**	**-0.32**	**8.54**	**4.86**
MSCI EAFE Net Dividend	11.17	-43.38	3.83	28.97	-3.60	6.07	2.55
Div. Small Co. Stock Fund	**-1.09**	**-36.44**	**6.47**	**31.48**	**-3.57**	**2.26**	**6.49**
Russell 2000 Index	-1.57	-33.79	5.77	22.43	-4.57	2.41	4.88
Conservative Portfolio	**6.58**	**-15.10**	**1.86**	**11.21**	**1.49**	**4.16**	**4.42**
Conservative Composite Index	5.25	-10.83	1.77	8.00	0.62	3.00	3.48
Moderate Portfolio	**8.48**	**-26.59**	**3.35**	**20.02**	**0.48**	**4.52**	**4.25**
Moderate Composite Index	5.96	-22.27	2.90	15.08	-1.26	2.96	2.50
Aggressive Portfolio	**8.41**	**-32.38**	**4.21**	**25.03**	**-0.62**	**4.51**	**4.34**
Aggressive Composite Index	5.30	-28.82	3.63	18.57	-2.70	2.88	2.41

Fund Component Weighting

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

	Weightings	Net Value of Funds ($MM)
Stable Value Fund		**$306.2**
Dreyfus Cash Mgmt. Fund/CDs	14%	
Invesco Interest Income	46%	
Wellington Core Bond	40%	
Value Stock Fund		**35.2**
BGI Value Index	20%	
Neuberger Berman Partners	20%	
T. Rowe Price Value	20%	
JP Morgan Large Cap Value	15%	
Goldman Sachs Mid Cap Value Instl.	15%	
CGM Focus	10%	
Equity Index Fund		**14.8**
BGI US Equity Index	100%	
Growth Stock Fund		**22.5**
BGI Growth Index	20%	
Marsico Focus	20%	
Wellington Mid Cap Opportunities	15%	
Turner Midcap Growth	15%	
T. Rowe Price Growth Stock	15%	
Primecap Odyssey Growth	15%	
International Stock Fund		**25.1**
BGI EAFE Index	22%	
Am Century International Discovery	10%	
Am Century International Growth	10%	
Templeton Instl. Foreign Equity	12%	
Thornburg International Value	12%	
Marsico International Opportunities	12%	
Oppenheimer Intl. Sm. Co.	8%	
Dimensional Emerging Markets Value	8%	
Royce Global Value	6%	
Diversified Small Co. Stock Fund		**31.4**
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		**50.5**
Moderate Portfolio		**196.5**
Aggressive Portfolio		**18.7**
Fidelity Funds Window		**76.0**
Total		**$776.9**

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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