EMPLOYEE RETIREMENT PLANS

Current Developments in Plan Administration and Participant Investment Choices

The S&P500 Index has been a popular choice for participant directed 401(k) plans, and for good reasons.

From 12/31/69 through 12/31/06, a 36-year period, the S&P500 had an average yearly return of 11.3%. Few fund managers have done as well!

The 500 companies within the S&P index are an extraordinary group – good management coupled with good products and services are necessary to get into the ranks of the 500 largest U.S. companies.

The average no-load mutual fund has an expense charge almost four times greater than an S&P500 index. Fund managers have a high hurdle.

Mutual fund managers who are successful in beating the 500 index find large sums directed to their funds. Most fund managers are unable to resist growth of assets since their compensation is based upon a percentage of assets. Therefore the closing of funds to new money is an uncommon occurrence and large funds become too diversified to sustain better-than-index growth; they eventually hold the same companies as the index.

We think that plan trustees will satisfy their fiduciary responsibility by including the S&P500 index as a participant choice. But are there funds with records of producing long-term returns superior to the S&P500 index?

S&P (Standard and Poor's) has designed a number of portfolios in addition to the popular S&P500 index. Some of these are based on size, such as the mid-cap index consisting of the 400 companies that follow the S&P500 in size, or the small-cap index consisting of the next 600 companies in size. These 1,500 companies represent more than 95% of the market value of all the publicly traded companies in the U.S. Other S&P models are not indices and are based on proprietary investment guidelines applied by S&P's security analysts.

The S&P Platinum Portfolio is such a model using proprietary investment guidelines. The S&P Platinum Portfolio consists of approximately fifty issues that meet the following criteria:

1. The stock must be 5-STAR rated based on S&P's Stock Appreciation Ranking System (STARS), a qualitative stock selection methodology. These are stocks expected to significantly out-perform the market during the coming 12-month period.

2. The stock must also receive a 5 ranking by S&P's Fair Value, a proprietary quantitative system that calculates a stock's weekly fair value. The 5 ranking indicates the stock is priced significantly less than its fair value, implying more powerful price appreciation potential.

3. Stocks are added to the model portfolio by S&P when they achieve both a 5-STAR qualitative and a 5 Star Value quantitative ranking. They remain in the model portfolio until they lose both 5 rankings.

Does the S&P Platinum Model really work? Following is a chart describing the value of $10,000 invested in both the S&P500 and S&P Platinum at the beginning of each year from 1987, the inception of the model, through 2006:

Year	S&P500 Index	S&P Platinum
1987	$ 10,203	$ 10,912
1988	$ 22,708	$ 26,431
1989	$ 41,621	$ 49,739
1990	$ 48,235	$ 61,316
1991	$ 73,556	$ 101,468
1992	$ 87,283	$ 1 20,406
1993	$104,151	$ 53,634
1994	$112,393	$ 169,819
1995	$164,142	$ 247,647
1996	$209,423	$ 346,071
1997	$287,466	$ 18,099
1998	$376,799	$ 516,030
1999	$462,391	$ 925,708
2000	$424,446	$1,109,843
2001	$377,751	$1,116,820
2002	$297,134	$ 726,573
2003	$388,186	$1,071,420
2004	$433,983	$1,197,565
2005	$453,773	$1,318,998
2006	$515,577	$1,490,072

A few observations.

While the difference between $515,577 and $1,490,072, $974,495, is significant, during the 20-year period the Platinum portfolio outperformed the 500 Index in 16 of the 20 years, indicating a remarkable consistency.

The Platinum portfolio experienced both the highest high, 75.98% in 1999 and the lowest low, (35.52%) in 2002, a volatility that would suggest a conservative investor use the platinum Portfolio for less than 100% of his/her total investment portfolio.

BENEFIT*WORKS* has created a mutual fund using the S&P Portfolio model. The unit investment trust provides a daily share value and the ability to purchase fractional shares for a participant's account, similar to a mutual fund but at a fraction of mutual fund expense charges. (The Vanguard Investment Group reports that the average no-load mutual fund expense charge is 1.44%)

BENEFIT*WORKS* charges .0004583 monthly (.55 percent annually) for maintaining the Bw mutual fund. Securities are held by TD Ameritrade Institutional Services.

Security analysis is the business of S&P. They are neither a security broker nor an investment banker. They pay no one to recommend their service. TD Ameritrade fully insures the securities in their custody. The IRS requires an annual audit that is submitted to the U.S. Dept. of Labor, simplifying the filing of a plan's annual 5500 forms.

The Platinum portfolio is one of a number of S&P models used by our firm. BENEFIT*WORKS* offers a wide range of retirement plan investment choices, including ETFs (Exchange Traded Funds), providing Indexed accounts at a low cost.

For further information on portfolio holdings, give us a call at (717) 273-8441.

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