

## Market Turbulence Questions and Answers

Frequently asked questions regarding the market downturn

### **SOME PEOPLE ARE USING THE WORD ‘UNPRECEDENTED’ TO DESCRIBE OUR CURRENT FINANCIAL CRISIS. HAS ANYTHING LIKE THIS EVER HAPPENED BEFORE?**

Yes, other countries have experienced similar financial crises. In the 1990s, Sweden experienced a situation very similar to what we are dealing with here. A decade of low interest rates and speculative growth in the housing market resulted in major loan defaults and a financial industry that was on the verge of collapse. Quick government intervention, which included bailouts, government takeovers and bank deposit guarantees, prevented a major financial failure in the country.

At the present time, other countries in Europe are experiencing economic instability; their governments have also aggressively intervened with takeovers and bailouts to head off more serious consequences.

### **COULD WE BE HEADING TOWARD ANOTHER GREAT DEPRESSION?**

There are a number of reasons why it’s unlikely that this financial crisis will result in another Great Depression. Several market commentators have mentioned that the Federal Reserve Bank now plays a much more aggressive role in maintaining economic stability than it did in 1929. Also unlike 1929, the government has acted quickly with massive aid to help stabilize the financial markets.

The average decline of the S&P 500 Index over its 10 previous bear markets was 31.5 percent. In contrast, by the July 1932 low point of the Great Depression, stocks had dropped nearly 90 percent from their peak.

### **HOW HAS THE STOCK MARKET REACTED TO CRISES OVER TIME?**

The stock markets routinely experience short and longer-term price swings. It’s the nature of the risk — and potential return — associated with stock investing. Even with this volatility, the stock market has experienced overall upward growth for the past 80 years. That growth occurred in spite of the Great Depression, World War II, the Korean and Vietnam wars, and no less than 10 bear markets.<sup>1</sup>

### **WILL MY RETIREMENT PLAN ACCOUNT BE AFFECTED BY THE RECENT PROBLEMS EXPERIENCED BY FINANCIAL FIRMS?**

Firms such as Lehman Brothers, Freddie Mac and Fannie Mae issued bonds that were purchased by investment managers and became part of the holdings in the investment funds of retirement plan accounts. When some of those bonds ran into trouble, the value of the funds that invested in them declined. In addition, the stock values of these and other companies have been affected by recent bankruptcies, buyouts and takeovers.

Investment funds typically include several, perhaps a hundred or more, individual holdings. (In fact, the S&P 500 Index Fund holds the stocks of 500 companies.) This diversification helps cushion the impact on your account when some of a fund’s holdings do not perform well.<sup>2</sup>

1. Past performance is no guarantee of future results. Investments are subject to market risk and fluctuate in value.
2. Diversification does not ensure a profit or protect against loss in a declining market.

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## **I READ THAT A MONEY MARKET FUND “BROKE THE BUCK.” IS IT POSSIBLE THAT THE MONEY MARKET FUND I’M INVESTED IN WILL ALSO GET INTO FINANCIAL TROUBLE?**

When a money market fund “breaks the buck,” it means that its net asset value (NAV) falls below one dollar. It is unusual for the NAV of a money market fund to fall below a dollar; but if it does, the parent company usually covers the shortfall so that it doesn’t “break the buck.”

The U.S. Treasury Department has moved quickly to help restore confidence in money market funds by offering a temporary Money Market Guaranty Program.

The U.S. Treasury Temporary Guarantee Program provides a guarantee to participating money market mutual fund shareholders based on the number of shares invested in the fund at the close of business on September 19, 2008. An increase in the number of shares an investor holds after the close of business on September 19, 2008, will not be guaranteed. If a customer closes his/her account with a fund or broker-dealer, any future investment in the fund will not be guaranteed. If the number of shares an investor holds fluctuates over the period, the investor will be covered for either the number of shares held as of the close of business on September 19, 2008, or the current amount, whichever is less.

The Program expires on April 30, 2009, unless extended by the United States Treasury.

## **ARE ANY OF MY 401(K) INVESTMENTS INSURED?**

Investments are not insured by the Federal Deposit Insurance Corporation (FDIC) or other government agency.

Assets in The Standard’s Stable Asset Fund are backed by the financial strength of Standard Insurance Company.

## **IS MY DEFINED BENEFIT (PENSION) PLAN INSURED?**

The assets in most defined benefit plans are insured by the Pension Benefit Guaranty Corporation. PBGC takes responsibility for paying benefits to current and future retirees when:

- a pension plan runs out of money,
- a company liquidates and has an underfunded plan,
- PBGC must end a plan to protect participants and the insurance fund, or
- a sponsoring company demonstrates it cannot continue funding a pension plan and stay in business.

PBGC was created by the Employee Retirement Income Security Act of 1974 to encourage the continuation and maintenance of private-sector defined benefit pension plans, provide timely and uninterrupted payment of pension benefits, and keep pension insurance premiums at a minimum. Defined benefit pension plans promise to pay a specified monthly benefit at retirement, commonly based on salary and years on the job.

The maximum pension benefit guaranteed by PBGC is set by law and adjusted yearly. You cannot earn additional benefits after the plan ends.

To find out whether your defined benefit plan is insured by PBGC, contact your plan administrator or refer to your Summary Plan Description.

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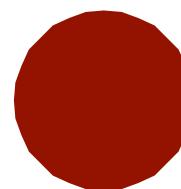
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## HOW RISKY ARE MY 401(K) INVESTMENTS?

The overall risk associated with your 401(k) investments depends on the proportion of aggressive, high-risk stock investments that you have. Your stock funds offer the highest potential investment returns, but also the highest risk of losing money, particularly in the short term. Bonds offer moderate potential return and less risk of loss than stocks. Cash equivalent investments, such as money market funds,<sup>1</sup> offer low risk and returns that historically have been at, or slightly above, inflation. Losing money with cash equivalents is unlikely.

### Aggressive portfolio

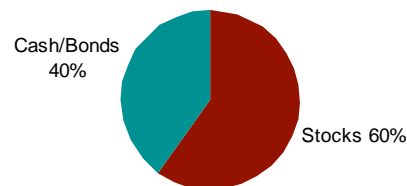
An example of an aggressive portfolio would be one allocated 100 percent to stocks. It may be appropriate for investors with a high tolerance for risk and more than 15 years until retirement.



Stocks  
100%

### Moderate portfolio

An example of a moderate portfolio would be one allocated about 60 percent to stocks and 40 percent to bonds and cash equivalents. This portfolio may be appropriate for moderate investors with five to 15 years until retirement.

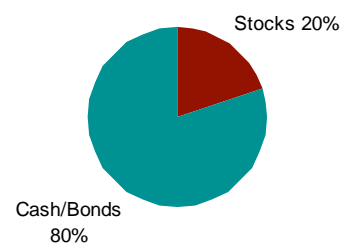


Stocks 60%

Cash/Bonds  
40%

### Conservative portfolio

An example of a conservative portfolio would be one allocated about 20 to 25 percent to stocks and 75 to 80 percent to bonds and cash equivalents. This portfolio may be appropriate for investors with fewer than five years until retirement, or more conservative investors with a time frame of longer than five years.



Stocks 20%

Cash/Bonds  
80%

1. An investment in money market funds is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in these funds.

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## **I'M NEARLY 75 PERCENT INVESTED IN STOCKS, AND NOW REALIZE THAT I'M NOT WILLING TO TOLERATE THE KIND OF VOLATILITY I'M SEEING IN THE MARKET. IS THERE ANYTHING I CAN DO ABOUT THAT NOW?**

You may want to change how your *future* contributions are allocated. Consider increasing the amount allocated to bonds or cash equivalents such as money market funds. This will slowly change your asset allocation to a more conservative investment mix.

## **SHOULD I CONSIDER MOVING MY MONEY TO MORE CONSERVATIVE INVESTMENTS?**

When you transfer money from stock to bond investments<sup>1</sup> or money market funds<sup>2</sup> in a down market, you are locking in your losses. Based on the history of the stock markets over the past 80 years, it's probable that your stock holdings can rebound and grow over time. (However, be aware that past performance is not a guarantee of future results.)

The proportion of stock investments you have in relation to bonds and money market funds is referred to as your *asset allocation*. This mix of investments should take into account how many years you have until retirement and your ability to tolerate the type of abrupt price swings the market is encountering at this time. Think of your asset allocation as part of a long-term investment strategy that is intended to weather market downturns.<sup>3</sup>

## **MY ACCOUNT HAS BEEN GOING DOWNHILL. ANY SUGGESTIONS?**

If you are registered to use Personal Savings Center on **retirement.standard.com**, you can use Guided Planner, an online retirement-planning tool. This service guides you through a questionnaire to assist you in determining your risk tolerance. Depending on your answers, it will suggest possible retirement-planning solutions. This service is available on retirement.standard.com by logging in to Personal Savings Center and selecting Guided Planner from the Retirement Planning Resources menu.

## **I'D LIKE TO PROTECT THE MONEY IN MY 401(K) ACCOUNT. WHAT'S MY BEST OPTION NOW? SHOULD I MOVE THIS TO A MONEY MARKET INDIVIDUAL RETIREMENT ACCOUNT (IRA)?**

Your 401(k) plan offers a money market or similar low-risk investment fund that is comparable to the money market funds available through an IRA. There would be little, if any, advantage in moving your 401(k) account balance to a money market IRA. In fact, you could incur transfer expenses that would make such a move detrimental, and in most situations, you must be terminated from your plan or at least age 59½ to request such a rollover.

You can move toward a lower-risk investment mix by changing your investment directives to allocate some or all of your future contributions to your money market or cash equivalent fund.

1. Funds that invest in bonds are subject to certain risks including interest-rate risk, credit risk and inflation risk. As interest rates rise, the prices of bonds fall.
2. An investment in money market funds is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in these funds.
3. Asset allocation does not guarantee a profit or protection against loss.

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If you transfer money you currently have invested in stock funds to a money market fund, you will have essentially locked in your losses and will not be in a position to benefit from a future market recovery. However, if you do decide to transfer money out of your stock funds, consider doing it in small increments over time. That eliminates the risk posed by trading a large sum of money on a day when the market takes a sharp dive. (Mutual funds are valued at the end of each trading day. When you make a trade on a given day, you won't know what the buying or selling price was until the end of the day, after your transaction is completed.)

### SHOULD I MOVE MY MONEY OUT OF MY 401(K) INTO A SAVINGS ACCOUNT?

If you were to move your money out of your 401(k) plan, you would lose the tax advantages that your plan provides. That includes pre-tax contributions, which reduce your taxable income and your current income taxes. Another tax advantage is *tax-deferred compounding*, which has the potential to increase your account earnings over time compared to a standard savings account.

Also, if you were to move your money out of your 401(k) plan, your entire account balance would be taxed as regular income, *and* you would probably owe an additional 10 percent federal penalty tax.

### CAN I FREEZE MY ACCOUNT TO PREVENT LOSING MONEY?

It isn't possible to "freeze" an investment account. The risk of losing money is directly tied to the proportion of cash equivalents (e.g., money market funds), bonds and stock investments you have. The larger the proportion of cash equivalents and bonds, the lower the risk to your portfolio. You may have discovered, in light of the current market turbulence, that you are a more conservative investor than you thought. Below are some portfolio guidelines for conservative and moderately conservative investors you might find helpful. You may want to gradually shift your investments to a more conservative asset allocation by changing how your future contributions are allocated.

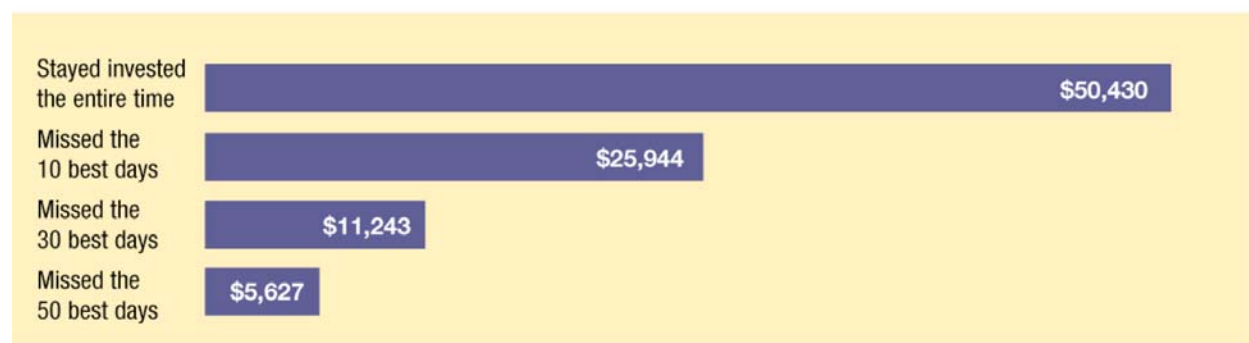
Asset Allocation Ranges for Diversified Portfolios						
Time Frame	Fewer than 5 years until retirement		5 to 15 years until retirement		More than 15 years until retirement	
Type of Investor	Cash Equivalents and Bonds	Stocks	Cash Equivalents and Bonds	Stocks	Cash Equivalents and Bonds	Stocks
Conservative	75-80%	20-25%	60-80%	20-40%	40-60%	40-60%
Moderately Conservative	75-80%	20-25%	40-60%	40-60%	30-40%	60-70%
	The higher suggested stock percentages may be appropriate for investors on the long end of the time frame. The lower suggested percentages for stocks may be appropriate for investors on the short end of the time frame.					

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## SHOULD I STOP CONTRIBUTING TO MY 401(K) PLAN, AT LEAST FOR NOW?

Some people have been asking whether it might be a good idea to just stop contributing to their 401(k) plans, at least for the time being. Investing in the market and staying invested is critical to the growth of your retirement savings. If you're considering dropping out of the market, consider what it may be costing you.

The following example illustrates the hypothetical growth of a \$10,000 investment in the Standard and Poor's 500 Index from Dec. 31, 1988, to Dec. 31, 2008.



Source: Standard & Poor's and The Standard internal calculation, 2009. This example is hypothetical and for illustrative purposes only and is not indicative of the performance of any specific investment. Past performance is no guarantee of future results. Investments are subject to market risk and fluctuate in value. The S&P 500 is an index of 500 widely traded stocks and is considered to represent the performance of the stock market in general. An investment cannot be made directly in an index.

The markets will always be subject to volatility; things can change quickly. It's important to stick with your strategy.

## I'M AN AGGRESSIVE INVESTOR AND CAN TOLERATE A LOT OF MARKET SWINGS. WOULD THIS BE A GOOD TIME TO INVEST MORE HEAVILY IN STOCKS, WHILE THE MARKET IS DOWN?

Surprisingly, some of the best stock returns have come as a result of turbulent market conditions. According to market research, since 1926, the best five-year return in the U.S. stock market began in May 1932 — in the midst of the Great Depression — when stocks rallied 367 percent. The next best five-year period (when the stock market rose 267 percent) began in July 1982, when the economy was in the middle of one of the worst recessions of the post-war period. (Analysis provided by Fidelity's Market Analysis, Research, and Education (MARE) group, a unit of FMRCo.)

Three Best Periods to Enter the U.S. Stock Market Since 1926		
Date	Subsequent 5-Year Return	Coincident Event
May 1932	367%	Great Depression
July 1982	267%	Worst recession in past 25 years
Dec. 1994	251%	Most dramatic Fed tightening in past 20 years

This example is hypothetical and for illustrative purposes only and is not indicative of the performance of any specific investment. Past performance is no guarantee of future results. Investments are subject to market risk and fluctuate in value. U.S. stock market returns represented by total return of S&P 500® Index. An investment cannot be made directly in an index. Three dates determined by best five-year market return subsequent to the month shown. The S&P 500®, a market capitalization-weighted index of common stocks, is a registered service mark of McGraw-Hill Companies, Inc., and has been licensed for use by Fidelity Distributors Corporation. Sources: Ibbotson, FMRCo. (MARE) as of August 31, 2008.

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Although current market conditions provide growth opportunities for aggressive investors, avoid the temptation to shift large amounts of money into stock funds in hopes of a big turnaround. While the general trend of the stock market (as measured by the S&P 500 Index) has been upward for nearly a century, that growth has been accompanied by considerable volatility and prolonged downturns. It's impossible to know what the market will do, or when.

If you are contributing to your 401(k) plan on a regular basis, you are already positioned to take advantage of bargain prices in a down market. It's called dollar-cost averaging. Dollar-cost averaging does not ensure a profit or protect against a loss in declining markets. However, when stock prices are down, your investment dollars are able to purchase more shares at lower prices. You're then in a position to benefit if prices go up later.

## **I AM APPROACHING RETIREMENT AND I DON'T HAVE THAT MANY YEARS LEFT TO SAVE. I WOULD RATHER EARN 1 TO 2 PERCENT A YEAR THAN CONTINUE LOSING MONEY. CAN YOU HELP ME?**

Cash equivalents, such as money market<sup>1</sup> and stable value<sup>2</sup> funds, are considered low risk. Although the rate of return is low — typically at or slightly above the rate of inflation — the chance that you could lose money with these investments is typically lower than stock investments.

If you are a conservative investor approaching retirement, cash equivalents and bonds<sup>3</sup> should make up the majority of your investment holdings, with a small allocation to stocks.

Here are some portfolio guidelines you might find helpful:

Time Frame	Less than 5 years until retirement		5 to 15 years until retirement	
Type of Investor	Cash Equivalents and Bonds	Stocks	Cash Equivalents and Bonds	Stocks
Conservative	75-80%	20-25%	60-80%	20-40%
Moderately Conservative	75-80%	20-25%	40-60%	40-60%
	The higher suggested stock percentages may be appropriate for investors on the long end of the time frame. The lower suggested percentages for stocks may be appropriate for investors on the short end of the time frame.			

## **I HAD PLANNED ON RETIRING SOON, WITHIN THE NEXT COUPLE OF YEARS. DO I HAVE TO POSTPONE MY RETIREMENT PLANS?**

You may not have to postpone retirement if you have a safety net that you can draw on for a few years. If you have money in a low-risk money market fund or a savings account, you may have the liquidity to supplement your pension and/or Social Security benefits without dipping into stock funds that may be down.

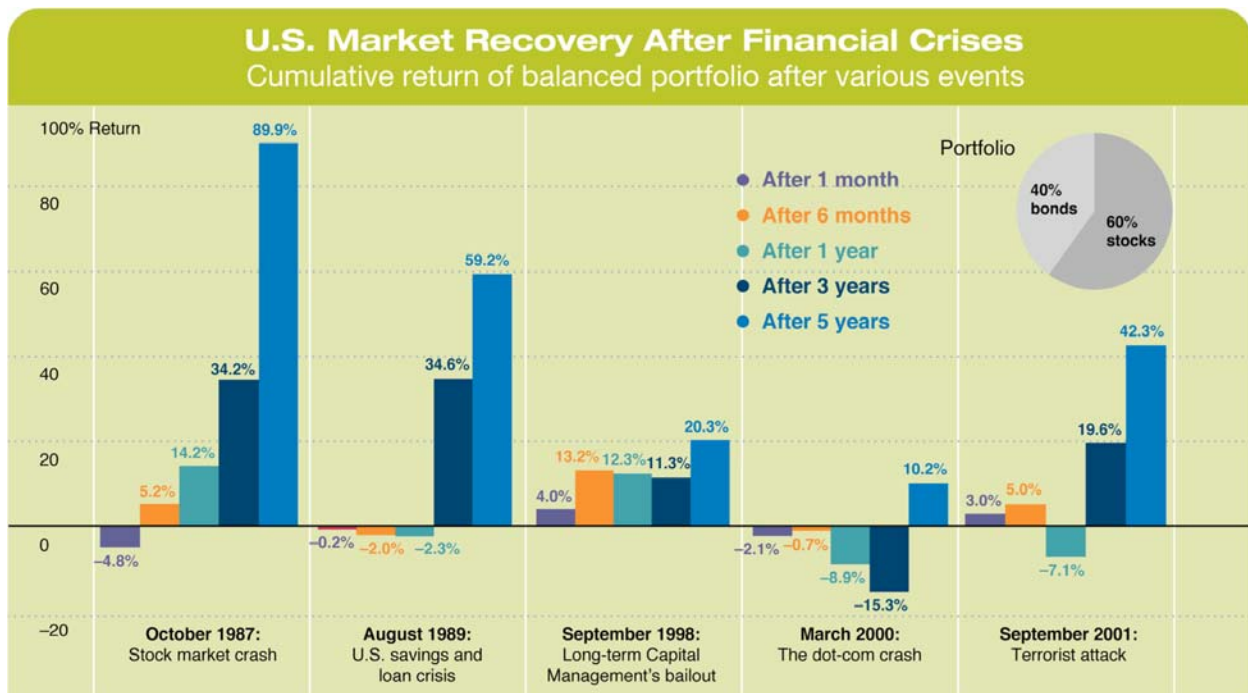
1. An investment in money market funds is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in these funds.
2. Stable value funds are backed by the claims-paying ability of the issuing company.
3. Funds that invest in bonds are subject to certain risks including interest-rate risk, credit risk and inflation risk. As interest rates rise, the prices of bonds fall.

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Remember, you may have 20 to 30 years in retirement and won't be spending your savings all at once. As long as you're not allocated too heavily to stocks (see the table above), it may be a good idea to let your stock investments ride out this volatility.

## CAN YOU GIVE ME AN EXAMPLE OF AN INVESTMENT MIX THAT HAS GROWTH POTENTIAL AND CAN WEATHER ECONOMIC DOWNTURNS REASONABLY WELL?

Here's an example of how a portfolio of 40 percent bonds and 60 percent stocks would have performed following five past financial crises.



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**Past performance is no guarantee of future results.** Returns reflect the percentage change in the index level from the end of the month in which the event occurred to one month, six months, one year, three years and five years after. The illustration does not account for portfolio rebalancing during these time periods. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Stocks in this example are represented by the Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general. Bonds are represented by the 20-year U.S. government bond. Calculations assume monthly data. The data assumes reinvestment of all income and does not account for taxes or transaction costs. For the U.S. savings and loan crisis, August 1989 was chosen because that was the month the Financial Institutions Reform, Recovery and Enforcement Act of 1989 was signed into law. For Long-term Capital Management, September 1998 was chosen because that was the month the hedge fund was bailed out by various financial institutions.

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In the short term, investment values are affected by financial crises. However, over the longer term, they tend to rebound, sometimes even posting significant gains. In all but one of the five financial crises illustrated here, the portfolio had recovered and had positive returns in the double-digit range after three years. This was due in part to the 40 percent bond allocation, which helped cushion the portfolio when the stock markets were hit hard.

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## **ABOUT THE STANDARD**

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Plan sponsors and participants should carefully consider the investment objectives, risks, charges and expenses of the investment options offered under the retirement plan before investing. The prospectuses for the individual mutual funds and The Standard's Group Variable Annuity Contract and each underlying investment option in both the group variable annuity and group annuity contain this and other important information. Prospectuses may be obtained by calling 877.805.1127. Please read the prospectus carefully before investing. Investments are subject to market risk and fluctuate in value.

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