

Co-op 401k Plan

AMERICA'S LEADING 401(K) PROGRAM FOR COOPERATIVES
Administered by Milliman



UPDATE

EMPLOYEE BENEFIT NEWS FOR
THE COOPERATIVE INDUSTRY

JULY 2009

• Dangers of
Market Timing
page 2

• IRS requires Plan
restatement
page 3

• Fund returns as
of 6/30/09
page 4

Buy and hold still viable in the current economy

“Buy and hold is dead,”

So say the detractors of long-term investing, spouting an opinion growing in popularity in the wake of the current worldwide economic downturn. As The Motley Fool, states, “when the S&P 500— *the proxy for U.S. blue-chip companies*— loses money over a decade-long time frame, old assumptions are questioned.”¹

Just because methods are questioned, however, does not make them wrong. Though under fire, many experts, including the Co-op 401(k) Plan’s financial advisors at Agri-Invest, have come to the defense of buy and hold investing. Agri-Invest’s Craig Buckhout told *Update*, “Our position is that holding a well-diversified portfolio, constructed to meet the investor’s risk tolerance, with controlled costs, is the best way to meet long-term investment objectives.”

What is buy and hold?

Buy and hold is a passive investment strategy that works as it is named; an investor buys stocks or bond and holds them for a long period of time. The strategy allows investors to ignore short-term market fluctuations. Because of the scale of a retirement nest egg and the amount of time an average employee will work, the buy and hold philosophy has been a natural match for retirement planning. The theory is that the more a participant saves, the longer that money is working for them through compounding interest, and the more diverse the portfolio, the greater chance a participant will have to reach financial security at retirement age.

www.coop401kplan.com

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Why buy and hold works for the Co-op 401(k) Plan

Retirement investors ideally start saving for retirement starting with their first paycheck in their twenties or as they settle into their careers in their thirties. Retirement investors who plan to spend 20-30 years saving can take solace in knowing that historically, strong market performance has outweighed recession periods. Since World War II, the average recession has lasted about 10 months. The average expansion? Over five years³.

Because of its historical success, the buy and hold approach has been the central investing model for defined contribution plans since the advent of the 401(k).

However, in a year when stock prices dropped dramatically, many notable investors have gone so far as to declare buy and hold “dead.”

In fact, in an article that declared “Long-Term Investing Doesn’t Work,”² Tom Gardner argues that when a single year can wipe out the gains of many, it’s time to rethink our investment strategy.

Though the article is *meant to dissuade* readers from

BUY & HOLD con’t on page 2



BUY & HOLD con't from page 1

sticking with a buy and hold philosophy, Gardner raises points that actually *support* the approach for Co-op 401(k) Plan Participants.

He first states that multidecade holding periods will generate the highest rates of return, and then goes on to outline a certain type of investor who can use that time to make buy and hold work for them. For long-term investing to work, savers must master the “Four T’s.”

- **Time frame:** Do investors have enough time to recover from zero-return periods?

A successful retirement plan cannot be put into place over night. The earlier Plan Participants start saving, the more time they have to take advantage of compounding interest and to overcome downturns in the market.

- **Training:** Are investors capable of creating a diverse portfolio?

No average retirement saver should be expected to be a finance guru. Fortunately for Co-op 401(k) Plan Sponsors, the Plan provides comprehensive, accessible educational tools, pre-diversified model portfolios, and even professional investment advisors for the most complex situations.

- **Tacking on:** Will investors add new money, especially during economic downturns?

Continuing to make contributions is inherent in 401(k) plan retirement saving. Every paycheck, money is automatically transferred to the account and shares are being purchased, even in bear markets.

- **Temperament:** Can investors handle a period of loss in their portfolios?

Investing temperament is certainly an individual variable, but one that can be controlled. Co-op 401(k) Plan investments are generally risk-based, meaning participants can individually find the proper balance between volatility and potential returns.

Gardner says, “If you can’t chant a resounding yes to all four of these, you shouldn’t embrace buy-and-hold

investing for the long term.”

The “Four T’s” profile fits almost every participant in the Co-op 401(k) Plan. Therefore, with respect to the title of his article, Co-op 401(k) Participants certainly sound like an ideal match to be successful utilizing long-term, buy and hold investing.

Dangers of market timing

For investors in a long-term savings plan like a 401(k) plan, the buy and hold strategy retains viability because of the long term nature of the plan and the tendency of the market to have longer periods of expansion than recession. In documenting the pros of a buy and hold approach, it would be remiss to ignore the in-vogue strategy of buy and hold detractors: market timing.

Supporters of market timing say that investors need to continually hedge their bets by chasing the best returns or by settling into more conservative investments. For normal employees who are making investments for their retirement, this strategy is a risky one. In a survey published by Blue Chip Economic Indicators³, not a single economist predicted a recession during the market peak of October 2007. If experts fail to predict the market accurately, how can the average employee?

Trying to time the market becomes dangerous because a small number of days drive a big portion of the return. In fact, from 1996-2005, a buy and hold approach would have netted an investor a 9.1% rate of return. Missing just the best *10 days* over that 10 year period, would have cost the market-timing investor over 50%— a 4.1% rate of return⁴.

John Bogle told Fool.com, “And while buy and hold for all of American business (a stock index fund) may produce long years of plenty interrupted by years of famine, putting equity capital to work in that way will be great so long as America is great.”

¹<http://www.fool.com/investing/general/2009/06/11/so-is-buy-and-hold-dead-or-what.aspx>

²<http://www.fool.com/investing/general/2009/06/05/long-term-investing-doesnt-work.aspx>

³http://www.edwardjones.com/ecmweb/groups/ejw_content/@ejw/@us/@graphics/documents/web_content/web085802.pdf

⁴<http://caps.fool.com/Blogs/ViewPost.aspx?bpid=210628&rt=01122484080623683728&>

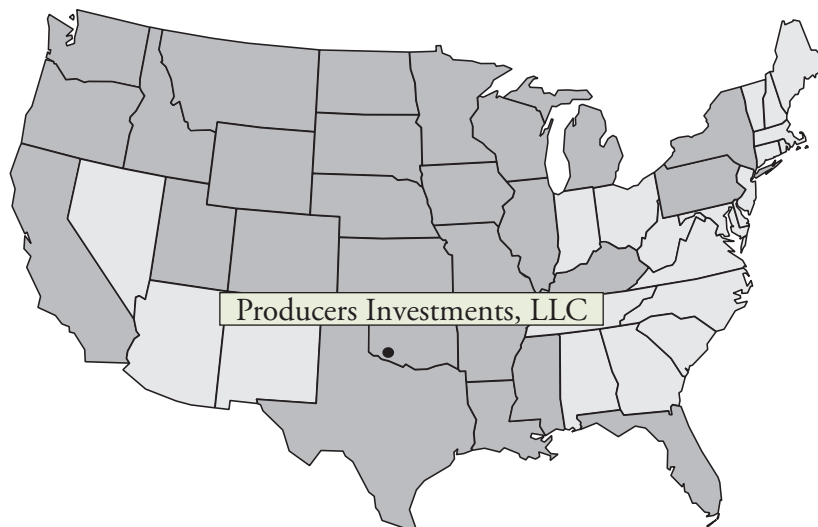
Welcome Aboard!

Please join Milliman in welcoming the following cooperatives to the Co-op 401(k) Plan:

Producers Investments, LLC

Frederick, Oklahoma

General Manager: David Boyd



Plan BITS

IRS-required Plan Restatement information

All retirement plans must be restated to reflect the provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and subsequent regulatory changes.

The IRS has issued new rules for the timing of plan restatements and determination letter filings (if applicable). Under the new rules, plans using a prototype document (such as the Co-op 401(k) Plan) must be restated every six years.

During the restatement process, you will receive:

- Plan Provision Review
- Amended Adoption Agreement & Plan Document
- Form 5307 - Application for Favorable Determination

This restatement process will formalize the addition of any amendments applied to your Plan into your

new document. This would also be a good time to review your plan's provisions to make sure the plan design is consistent with your objectives.

Oppenheimer Wolff & Donnelly, Milliman and the Co-op 401(k) Plan Fiduciary Board strongly urge your cooperative to apply for a Favorable Determination Letter. This letter provides you with a written IRS opinion as to the qualified status of your plan under IRC section 401(a). This is extremely important in the event of a plan audit by the IRS.

The restatement deadline is April 30, 2010. To spread out the workload of the restatement process, we plan to proceed with the restatement process early.

Feel free to contact your Regional Client Service Manager with any questions.

INVESTMENT FUND UPDATE AS OF 6/30/2009

Asset Category	Investment Fund	NAV	3-month	1-year	5-year annualized	10-year annualized	Ticker symbol
Stable Asset	Galliard Stable Asset	\$22.24	1.06%	4.76%	4.88%	5.34%	N/A
Bond	PIMCO Total Return Institutional	\$10.45	4.7%	9.27%	6.36%	7.01%	PTRX
Inflation Protected Bond	Vanguard Inflation-Protected Secs. Fund	\$23.88	0.34%	-2.35%	4.71%	N/A	VAIPX
Balanced	Vanguard Wellington Admiral	\$43.54	13.15%	-13.47%	3.44%	4.35%	VWENX
Large-Cap Value	Vanguard Windsor II Admiral	\$34.29	17.81%	-24.32%	-1.34%	0.37%	VWNAX
Index Stock	Vanguard Institutional Index	\$84.18	16.01%	-26.08%	-2.21%	-2.18%	VINIX
Large-Cap Growth	American Funds Growth Fund R5	\$22.95	16.85%	-26.51%	0.84%	2.75%	RGAFX
Mid-Cap Value	JP Morgan Mid-Cap Value Select	\$15.34	16.82%	-25.31%	-0.05%	7.72%	JMVSSX
Mid-Cap Growth	T. Rowe Price Mid-Cap Growth	\$38.05	17.80%	-24.76%	2.18%	4.45%	RPMGX
Small-Cap Value	Alliance NFJ Small-Cap Value Fund	\$20.13	17.31%	-23.64%	3.50%	8.52%	PSVIX
Small-Cap Index	Vanguard Small-Cap Index Signal	\$19.75	24.21%	-25.11%	-0.75%	3.04%	VSISX
Small-Cap Growth	Vanguard Explorer Admiral	\$43.43	19.87%	-26.80%	-1.91%	3.62%	VEXRX
Internal Large-Cap Value	Dodge & Cox Internal Stock	\$25.42	33.37%	-30.05%	-7.34%	N/A	DODFX
Internal Large-Cap Blend	Vanguard Internal Growth Admiral	\$44.26	27.11%	-29.63%	4.05%	2.41%	VWTLX
Internal Large-Cap Growth	Artisan International Fund	\$16.58	23.00%	-32.75%	2.94%	4.09%	ARTIX
Model Portfolios: ²	Conservative	N/A	3.61%	-0.39%	4.68%	N/A	N/A
	Moderately Conservative	N/A	7.97%	-6.08%	3.85%	N/A	N/A
	Moderate	N/A	12.33%	-11.77%	3.02%	N/A	N/A
	Moderately Aggressive	N/A	16.69%	-17.47%	2.20%	N/A	N/A
	Aggressive	N/A	21.37%	-25.66%	0.86%	N/A	N/A

²Returns for model portfolios are a blended return calculated by using the returns for the underlying funds in the portfolio. Fund performance figures were provided by Galliard Capital Management and Morningstar. Past performance is not a guarantee of future results. Because five- and ten-year returns are not yet available for this share class of this fund, these returns are for the most similar share class available.

Looking for more information about the Co-op 401(k) Plan?

Complete this form and mail

or fax today!

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Update is a monthly publication for cooperatives exploring retirement plan and employee benefit issues with special focus on the Co-op 401(k) Plan, a 401(k) program administered by Milliman's Minneapolis office. This publication is for informational purposes only and is not intended to render legal advice on the topics discussed.

Update Employee Benefit News for the Cooperative Industry



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