

CHIEF INVESTMENT OFFICER MARTIN LEIBOWITZ
TALKS ABOUT VOLATILITY



Keeping Your Cool In A Savage Market

All of us who have invested in equities feel battered and bruised by the savagery of recent market declines. The loss of our precious retirement assets is bad enough. But many people are becoming concerned about the fundamental wisdom of their investment philosophy.

YES, THE MARKET HAS (ONCE AGAIN) SHOWN that it can be subject to extreme levels of volatility that many investors could not have imagined. And, yes, many investors have discovered that their emotional and financial ability to weather these storms is more limited than they had previously thought.

In times like these, there is a great danger in losing perspective. Fortunately, most of us are far more diversified than we realize. In addition to equities, your securities portfolios typically have significant allocations to other asset classes, such as bonds, guaranteed principal products, and real estate. There is some comfort—legitimate comfort—in assessing the market

damage in terms of the effect on your overall portfolio.

In reality, it is this overall portfolio and its asset allocation that—together with your other assets, other sources of funds, and your future stream of household savings—will be the ultimate determinant of your financial well-being. In the past, TIAA-CREF has always urged investors to seek appropriate diversification among the broad range of asset classes. In addition to TIAA Traditional and the equity accounts, we introduced the Bond, Real Estate, and Inflation-Linked Bond accounts to facilitate such diversification—and many of

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you have made good use of these alternative products.*

But, most important, even when the equity market was surging, our advice was to diversify and aim for a portfolio allocation that truly suits each individual's long-term needs. Investing for short-term needs is pretty easy: You really can't afford to take much risk. In contrast, retirement investing is almost always long-term in nature—even for many of those actually

share some of the downward risk with you in such accounts.)

So, the bottom line is to find an allocation structure that strikes a proper balance between what you can reasonably expect to earn and the downside risk that you can live with both in the interim and over the long term. In these troubled times, it is particularly hard to keep a cool head and make a rational decision that strikes this balance. During the heady times we urged



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in retirement. In tax-deferred retirement accounts, this longer-term horizon means that it is far more important to tolerate some degree of risk in order to reach for higher returns. Without some additional return, inflation—even at the low rates we've recently experienced—can seriously debilitate the purchasing power of your assets. And without significant returns over the long run, the value of the tax deferral is greatly reduced. (On the other hand, since market declines reduce the taxes you will owe along with the size of your portfolio, there may be some comfort in recognizing that the tax authorities do

you to stay diversified—knowing that you would sacrifice some return by being less than fully weighted in the best-performing market sector. So now we urge you to form a balanced diversification structure that will be best for you over the long term.

Just remember that TIAA-CREF has a number of ways to assist you with your choices, including savings and asset allocation tools and publications you can find on our Web Center (www.tiaa-cref.org), as well as counselors you can reach by telephone toll-free at 800-842-2776.

Vice Chairman and
Chief Investment Officer

*Real estate investing has special risks, including fluctuation in property value, higher expenses or lower income than expected, and potential environmental problems and liability.

Please note: Withdrawals prior to age 59½ are subject to restrictions and may also be subject to a 10 percent additional tax. Investment returns, and the value of the principal you've invested, will fluctuate, so the shares you own may be worth more or less than their original price.