

Invest in a down market ... why would I want to do that?

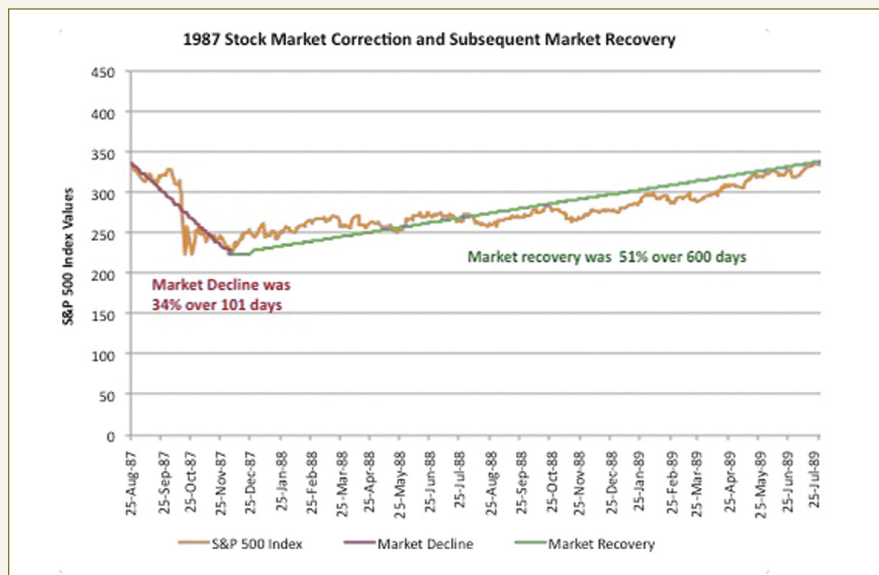
If you have been good about continuing to make contributions to your retirement plan despite the down market, you may often feel like you are throwing that money into a black hole. You keep contributing and yet your statement balance continues to decline. It is difficult not to panic. It would be natural for you to feel like fleeing the market completely. But this may not be the best course of action. Here are some reasons you may want to continue your current contributions and maybe even save more.

Corporations may become more efficient

The corporate cost-cutting that occurs in a down market can make corporations more efficient and better operated, potentially having a positive effect on their earnings and stock price valuations. The improved efficiency of a down market can be viewed as a positive for the potential future success of your investment strategy, not a reason to abandon it.

Market declines can increase market return opportunities

Over the long term, as the market recovers it has the potential to provide a higher percentage return than was lost in the down market.



Source: Bloomberg

Past performance is not a guarantee of future results.

The 1987 Stock Market Correction resulted in losses of almost 34%, but the recovery provided gains of 51%. Money left in the market over the entire 701 day period had essentially no return. However, new money invested during the correction and the recovery made positive returns.

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Consider this example:

If you purchase an investment that is worth \$10 and during a market decline it falls to \$5 – the loss is 50%.

If you bought more of that same investment while its value is \$5, you would double that portion of your investment (increase by 100%) should the investment value recover to \$10.

Hypothetical example for illustrative purposes only. The total return in this example would depend on the investment amounts purchased at the different price levels.

History shows trying to time the market can be difficult

In the 1987 correction the low was tested three times before a floor was finally established on December 4, 1987. There was nothing about the market after December 4 that clearly guaranteed that the worst was over. Many investors stayed out of the market waiting for some assurance that the worst was over. If investors waited 100 days following the market bottom to be sure that the market decline was over, those investors would have missed returns of almost 20%. In fact, the first 90 days were the best returns of the entire recovery.

Recovery Period Returns from 1987 Market Correction

| First 100 Days | Days 101 – 200 | Days 201 – 300 | Days 301 – 400 | Days 401 – 500 | Days 501 – 600 |
|----------------|----------------|----------------|----------------|----------------|----------------|
| 18.32% | 2.54% | 0.34% | 2.96% | 7.50% | 12.04% |

Markets change rapidly and investors do not have an ability to forecast the tops or the bottoms of the market cycle with any accuracy. In order to capture the full impact of the recovery, you must be willing to invest in the down market. As long as you have a developed a sound investment strategy and have a suitably long investment horizon, the market cycle should not be feared.

You may not invest directly in an index. Indices do not have expenses which would reduce performance shown.

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