SERS PLAN 3 REPORT

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DEPARTMENT OF RETIREMENT SYSTEMS QUARTERLY UPDATE • APRIL 2008 S

Time in the Market

Sandy Matheson, Director, Department of Retirement Systems

Market fluctuations create anxiety for everyone, even veteran investors. Skilled investors, such as the Washington State Investment Board (WSIB), invest for the long-term, resisting the temptation to "time the market." This principle has resulted in returns of nearly 10 percent over the last 10 years for the state's pension funds, a significant outcome when you consider the extreme market conditions that occurred during this time.

Individual investors should follow the same long-term investment strategy. Historical data shows that market extremes are self-correcting and that investing for the long term results in optimal returns. Because financial security is so important, the temptation exists to try and time the market, buying or selling in response to rapid market shifts. Historical data also shows that this is rarely beneficial.

A less common form of timing the market is continuous frequent trading, also known as day trading. Though it rarely benefits individuals more than a portfolio balanced for their stage in life, some people do want to engage in it. The problem results when people trade frequently in funds like those offered in the state's Plan 3 Program. Continuous (See *Time in the Market*, p. 2)

SERS PLAN 3 WSIB TOTAL ALLOCATION PORTFOLIO (TAP)

AS OF 12/31/2007

		AVERAGE ANNUAL RETURNS		
	4th Qtr 2007	1-Year	3-Year	5-Year
TOTAL ALLOCATION PORTFOLIO	-0.50%	14.27%	15.27%	15.71%

The Washington State Investment Board (WSIB) periodically reviews and adjusts the TAP Fund's asset allocation. Over the last five years, the TAP Fund has shifted to a more aggressive asset mix. These returns reflect the asset mixes during the time periods shown.

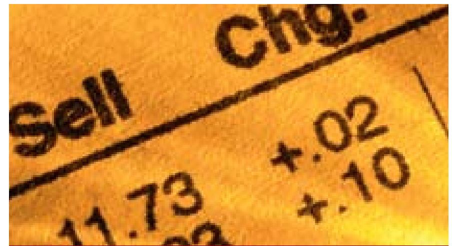
SERS PLAN 3 SELF-DIRECTED FUNDS

AS OF 3/31/2008

	1st Qtr 2008	1-Year	3-Year	5-Year
MONEY MARKET FUND	0.86%	4.80%	4.55%	3.22%
WASHINGTON STATE BOND FUND	3.19%	8.81%	5.73%	4.73%
SOCIALLY RESPONSIBLE BALANCED FUND*	-2.46%	6.93%	5.92%	N/A
U.S. LARGE STOCK INDEX FUND	-9.52%	-5.14%	5.78%	11.21%
U.S. STOCK MARKET INDEX FUND	-9.49%	-6.08%	6.04%	11.94%
U.S. SMALL STOCK INDEX FUND	-9.84%	-13.00%	4.93%	14.68%
INTERNATIONAL STOCK INDEX FUND	-8.97%	-2.64%	13.31%	20.90%
SHORT-HORIZON FUND	-0.99%	4.23%	6.55%	7.51%
MID-HORIZON FUND	-3.45%	1.93%	7.51%	10.42%
LONG-HORIZON FUND	-6.73%	-1.73%	8.03%	12.89%

*The Socially Responsible Balanced Fund became available for investment on April 1, 2004. The fund inception date is July 1, 2003.

All returns are net of fees. Self-Directed funds are valued daily; your account balance and rate of return will vary accordingly. Past performance is no guarantee of future results. For more information about the funds, please see the Plan 3 Investment Guide or the Web site at www.icmarc.org/sers/investing.



MARKET COMMENTARY

as of February 29, 2008

While global capital markets performed relatively well in the face of increased volatility up to the end of 2007, stock returns became more uncertain early in 2008. It appears that real evidence of weaker corporate earnings is what ultimately pushed the market into negative territory. However, investors have also been struggling with other issues such as a declining housing market and an increasingly inflationary environment. Fourth quarter 2007 operating earnings for the S&P 500 were approximately 25% below the levels of where they were just a year ago despite more than 60% of companies exceeding projections. This profit decline was the worst for the S&P 500 since the bursting of the tech bubble in 2001 and represents the first consecutive quarterly decline in more than six years.

Bonds

Bond markets continued to provide some stability. However, investors largely favored the conservative end of the spectrum. The LB Aggregate Index rose 2.1% during the three-month period while the riskier LB High Yield Index fell 2.4%. Bond

(See *Market Commentary*, p. 2)

(*Time in the Market* from p. 1)

trading activity increases fund costs and can negatively impact investment performance for all members.

In 2006, the WSIB began experiencing increased workload, risk and cost from a small number of individuals who traded frequently. We worked with the WSIB to design and implement trading restrictions that would maintain attractive, low cost investment options for the 99+ percent of members who do not engage in frequent trades. (*See* Trading Restrictions Reminder *on this page.)*

The 2006 trading rules do not stop a member from taking money out of a fund to move it to an alternative they feel is safer, such as a money market fund. The rules do stop frequent market timing by restricting the ability to take money out of a fund one day and then move it back into the same fund shortly thereafter.

The ability to make investment decisions and conduct trades is an important feature of Plan 3. We believe the trading rules we've put in place provide the best available service to our members. The Federal Thrift Savings Plan implemented similar trading rules for their members this year, as have many private funds.

Our investment philosophy is time in the market, not timing the market. Our goal is to provide you with fund options that assist you in planning for your own secure retirement.

(*Market Commentary* from p. 1)

investors invested more heavily in higher quality bonds during the period, pushing the most conservative, government-backed bonds higher and causing Treasury yields to fall. The 10-year Treasury bond yield fell to 3.5%, well below its peak level of 5.3% achieved in mid-June 2007.

Stocks

Investors found little refuge in stocks, regardless of market capitalization, investment style, or region. The S&P 500 Index finished the period with a 9.7% loss while small companies fared slightly worse as the Russell 2000 Index lost 10.3%. Growth stocks were the weaker performing style, although the difference between growth and value was relatively tight. Nearly all S&P 500 sectors experienced dramatic declines during the period. The exception was in the commodity-related sectors; commodity prices soared and those sectors bounced back in February. Energy was the only sector that posted a positive return for the three-month period, with Technology and Telecommunications being the hardest hit.

International stocks again outpaced domestic stocks, although results abroad were not much better than in the United States. Currency continued to play a major role as the U.S. dollar lost ground to most major foreign currencies. International stocks outperformed domestic stocks in recent periods largely because of the currency effect of a weakening U.S. dollar.

WSIB to adopt new fund choices

Later this year, WSIB will offer new investment funds to members. Commonly referred to as "target date" or "lifestyle" funds, these options feature an investment strategy that is tailored for your age and expected retirement date.

The target date funds will replace the three Horizon funds, which are risk-based balanced portfolio options. In the Horizon funds, you currently choose a long-, mid-, or short-term portfolio, but you are responsible for changing your option as you move closer to retirement. The new target date funds automatically change the asset class mix for you as you move closer to your target retirement date. Watch for more information – coming soon.

Trading Restrictions Reminder

Note: On July 7, 2006, trading restrictions were implemented on all Plan 3 Self-Directed Investment Program funds.

The purpose of the Plan 3 trading restrictions is to limit the impact that "market timing" by a few members has on the returns for all members. Market timing, or excessive trading, involves trading on a frequent basis and transferring large amounts of money between funds with the intent of seeing short-term gains. Excessive trading requires more cash on hand to honor the frequent trades and transfers. Because the cash is used to cover potential transfers instead of being invested, returns can be lowered for other members.

How trading restrictions work:

If you transfer more than $1,000 out of a fund, you will not be able to move dollars back into that fund for 30 calendar days. For example, if you transfer more than $1,000 out of a fund on January 15, 2008, you will not be able to move dollars back into this fund until February 15, 2008. January 16th is the first day and February 14th is the 30th day. You can trade back into a fund the next business day after the 30th day. Transactions of $1,000 or less are not impacted by these trading restrictions.

For more information, contact DRS' Plan 3 record-keeper ICMA-RC at 888-711-8773.

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