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DWS SCUDDER
Deutsche Bank Group

Retirement focus

SUMMER 2006

FORWARD THINKING FOR YOUR FINANCIAL LIFE

Planning on building your home into your retirement income?

A home has long been part of the American dream and widely regarded as a sound long-term investment. And with the surge in home prices in recent years, many workers may be counting on their homes to fund their later years. In fact, one survey found that two-thirds of Baby Boomers plan to sell their home to pay for retirement.[1]

But while a home may certainly be a valuable asset that will factor into retirement plans, there may be risk in relying too heavily on it.

Appreciating housing

The strong performance of the real estate market in recent years may have affected your return expectations for the future. Nearly 50% of homeowners think the price of their home will rise 5% to 15% over the next three years, and 25% expect appreciation of 16% or more.[2] But as with any investment, long-term performance may be more telling than short-term results. While the national average home price rose more than 12% in 2005, it has risen closer to 6.1% annually over the past 30 years.[2]

Of course, even if your home's value increases more than the national average over time, you'll also need to look at how much equity (the market value of your home after subtracting the unpaid balance on the mortgage) you've built up. In 2005, homeowners withdrew an estimated $243 billion of equity from their homes through refinancing. And nearly 30% of retirees were still paying a mortgage in 2000 versus 19% in 1980.[3]

Home alone?

When all is said and done, you may realize some gains from your home toward retirement. However, there are so many variables that impact saving for

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IMPORTANT REMINDER ABOUT TRADING POLICIES

Over the last few months, DWS Scudder has communicated to you in numerous formats (DWS Scudder University Web site and Voice Response System, etc.) the important steps we have taken to protect participants who are long-term investors in mutual funds. The enhancements we have put in place to help long-term investors include a short-term trading redemption fee and the monitoring of accounts for frequent trading.

DWS Scudder is working toward complying with SEC Rule 22c-2, which requires each fund's board of directors to decide by October 16, 2006, whether it will implement a redemption fee program.

Earlier this year, the participant recordkeeping system that serves your employer-sponsored retirement plan was enhanced to comply with DWS Scudder's implementation of a 2% short-term trading redemption fee on DWS funds. This fee is designed to discourage short-term trading, which is defined as acquiring shares of a fund by a purchase and holding them for less than a predetermined number of days. Redemption fees are specific to each

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Heading off financial procrastination

It's human nature to put off until tomorrow what you can do today. But when it comes to investing, especially for long-term financial needs, inertia could mean falling short of your goals. If procrastination is an issue for you—or you just want to make your financial life a little simpler—keep these strategies in mind.

Three common investment mistakes to avoid

Want to learn from others' investing errors rather than through first-hand experience? Here's your chance.

1. **Jumping in and out of the market**—Some investors purchase shares based on the market's daily moves. But this is risky: You might enter or exit at the wrong time and miss the market's best days. The alternative: Buy and hold an investment for as long as it suits your goals.
2. **Investing too conservatively or aggressively**—Some investors avoid stock funds out of concern about their price swings, while others shun bond funds because they want higher returns. Which choice is right? The answer may be neither. Match investments to your financial goals, risk tolerance and time horizon. Typically, stock funds are better suited for longer time frames.
3. **Waiting to invest**—The earlier you begin investing, the sooner your money may begin working for you. By starting early, especially if you're investing in a tax-deferred retirement account, you'll create the potential for any earnings to compound, or build upon themselves. You may need to invest less in the long run to reach your financial goal.

Pay yourself first—automatically

When it comes to budgeting, it's often recommended that you "pay yourself first." That is, include in your budget a specific dollar amount you'll invest for your financial goals. To make sure you put that recommendation to work, you may want to consider setting up an automatic investment plan. If you're contributing to your employer-sponsored retirement plan, you're already taking advantage of automatic investing through payroll deduction.

You can also set up automatic investments through a mutual fund account to pursue retirement and other goals, such as college savings. For example, you can typically have money direct-deposited from a bank account or from your paycheck on a fixed schedule.

DOLLAR COST AVERAGING AT WORK[1]

This hypothetical example shows how dollar cost averaging might save money over time. The investor would buy more shares of an investment when prices fall and fewer when prices rise. Over time, the average cost of the shares may be less than the average price.

	Amount invested	Share price	Shares bought
January	$200	$12	16.67
February	$200	$11	18.18
March	$200	$9	22.22
April	$200	$8	25.00
May	$200	$9	22.22
June	$200	$10	20.00
Total:	$1,200	$59	124.29
Average Price: $59 ÷ 6 months = $9.83			
Average Cost: $1,200 ÷ 124.29 = $9.65			

One benefit of automating your investments: You may be less likely to spend money that you want to set aside for your future. What's more, investing a specific amount on a regular basis, a strategy known as dollar cost averaging (DCA), can help take the emotion and guesswork out of investing. It might also be cost-effective (see table).[1]

Put portfolio rebalancing on autopilot

Asset allocation is the process of picking a mix of asset classes (stock, bond and cash investments) that matches up with your goals, time horizon and risk tolerance. Over time, you may need to rebalance the asset classes in your portfolio to bring them back in line with your original asset allocation. Why? Market moves can skew your asset allocation, leaving you exposed to more—or less—risk than intended.

Fortunately, there may be ways to make rebalancing easier. For example, so-called asset allocation funds, which have a preset investment mix, are periodically rebalanced by the portfolio manager. In addition, your financial advisor may be able to offer other automatic rebalancing services. Keep in mind that with asset allocation, you can't completely "set it and forget it." If your goals change, you may need to rethink your specific fund choices.

[1]Regular investing does not guarantee a profit or protect against a loss in a declining market. Dollar cost averaging involves continual investments in securities regardless of fluctuating price levels. Investors should consider their financial ability to continue purchases through periods of low price levels.

Mid-year review: an economy

on the move

"Rebounding from a weak finish in 2005, the economy surged early this year, fueled by strong consumer spending and business investment," says Josh Feinman, chief economist for Deutsche Asset Management. "That was good news for the stock market, but it also raises some concerns going forward."

Josh Feinman, chief economist of Deutsche Asset Management

"If the economy continues brisk growth and that begins to strain resources, inflation might pick up." The Federal Reserve Board attempts to head off longer-term inflation expectations, explains Feinman. "If people believe inflation is going to remain low, it's more likely to do so."

Resolving two puzzles

The Federal Reserve Board also looks at the yield curve (see below) on bonds for another clue as to where the economy's headed, notes Feinman. Normally, investors would expect to receive a higher yield on long-term bonds because they're taking on more risk by locking in a rate for a longer period of time. Yet last year, rates on short-term and long-term bonds were very close.

The yield curve has started to steepen in recent months, and that, suggests Feinman, "might mean some of the bond market conundrum that the Federal Reserve Board had been grappling with is lessening."

Another economic concern has been the robust housing market. "There are signs that housing activity has come off the boil, which is actually encouraging," says Feinman. "The longer homes keep increasing rapidly in value, the greater the risk of a sharp correction."

Market view

The stock market benefited earlier this year from above-average economic growth, but Feinman expects the economy may slow a bit, in part due to a cooling of the housing market. That isn't necessarily bad, he says. "Growth needs to moderate to avoid potential overheating, which can lead to inflation. In the long run, an overheated economy would be worse for the stock market."

What might investors expect going forward? "As long as the economy remains fairly resilient but doesn't overheat," concludes Feinman, "that should be beneficial for corporate profits and the market."

The information contained in this piece has been taken from sources believed to be reliable, but the accuracy of the information is not guaranteed. The opinions and forecasts expressed are those of Josh Feinman as of June 2, 2006, and may not actually come to pass. This information is subject to change. No part of this material is intended as an investment recommendation.

Yield curve

SIMPLY PUT

What: The yield curve is a chart that plots the interest rates of bonds of different maturities, from short-term to long-term, at a given point in time. A yield curve might show, for example, the yields on a particular day for a range of Treasury securities, from a 3-month Treasury note to a 20-year Treasury bond. In a "normal" yield curve, long-term bonds have higher yields than short-term bonds, compensating investors for the risk they take in tying up their money at a particular interest rate for a longer period of time.

Why: Market watchers keep a close eye on the yield curve, in part for the insights it provides on the bond market but also as an indicator of the economy's health. The normal, up-sloping yield curve may suggest that the economy is growing and inflation is tame. Recently, yields on short- and long-term bonds have been relatively similar, giving us a phenomenon known as a "flat" yield curve. Briefly, the curve was even "inverted," with long-term bonds producing a lower yield than short-term bonds.

How: How does the yield curve affect investors like you? In the short term, it can offer a snapshot of bond yields. But your investment choices should typically be based on longer-term considerations, particularly your goals. What's more, many economists point out that the yield curve has its limitations as an economic indicator, so you may be better served by staying focused on your own investment strategy.

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retirement—such as the rising cost of health care and the uncertainty surrounding Social Security—that it may not be wise to count on the sale of your home as your primary source of retirement income.

What's more, because home prices can fall as well as rise, a home by itself may be no substitute for a diversified retirement portfolio. Should the value of your home end up falling, other investments you hold—including those in your tax-advantaged employer-sponsored retirement plan—have the potential to rise in value and help compensate. Diversification does not eliminate the risk of potential loss.

If you hope your home might add to your retirement savings, be sure you have a plan for tapping into its value. For example, if you sell your home, you'll want to think about where you'll find new housing and how your cost of living might be affected by a new location.

Meanwhile, although you may look at your current home or the one you plan to buy someday as a principal asset, be sure to leave room in your budget to take full advantage of your retirement plan, which allows you to make contributions with pretax dollars and defer paying taxes until you withdraw the money, typically at retirement when you may be in a lower tax bracket.

HOUSING VALUES VARY

Home appreciation rates can vary widely, and there's no guarantee yours will match rates achieved elsewhere.

Average gains for the one-year period ended December 2005.

Highest Appreciation		Lowest Appreciation	
Arizona	34.90%	Michigan	3.76%
Florida	26.83%	Ohio	4.03%
Hawaii	23.85%	Nebraska	4.25%

Source: Office of Federal Housing Enterprise Oversight, March 1, 2006

[1]Source: *Chicago Tribune*, September 2005

[2]Sources: *Los Angeles Times*, March 8, 2006; Office of Federal Housing Enterprise Oversight, OFHEO House Price Index, March 2006

[3]Sources: Dow Jones, April 10, 2006; Demos, February 2004

LEARNING LINKS

Try these tools and resources at **university.dws-scudder.com**:

- Learn more about asset allocation by reading "Reducing Risk With Diversification."
- See the benefits of automatic investing in the interactive chart "Understanding Dollar Cost Averaging."
- Read about retirement planning in the article "Choosing a Retirement Location."

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fund and can be found in the fund's prospectus. Messages regarding the DWS Scudder redemption fee policy have been posted to InterActive Account, Voice Response System and in our education workshops. As we get closer to the October 2006 time frame, other fund families may begin to assess redemption fees. Always refer to the prospectus before you invest.

Additionally, DWS Scudder monitors the trading activity of participants daily. If we determine that a participant is trading too frequently, we issue a letter asking them to discontinue such activity. If they do not, we send a second communication indicating that we have placed a purchase block on the funds they have been trading too frequently. These measures have been put in place to encourage investors to utilize their fund as a long-term investment, as it is intended.

VIEW A PROSPECTUS

To obtain a prospectus for any funds offered through DWS Scudder, download one from dws-scudder.com, talk to your financial representative or call Shareholder Services at (800) 621-1048. We advise you to carefully consider the product's objectives, risks, charges and expenses before investing. The prospectus contains this and other important information about the investment product. Investments in mutual funds involve risk. There are additional risks associated with investing in non-US companies, high-yield bonds, emerging markets, aggressive growth stocks, non-diversified/concentrated funds and small-, mid- and micro-cap stocks which are more fully explained in the prospectus. Please read each fund's prospectus carefully before you invest.

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