

★ WHAT IS INVESTING?

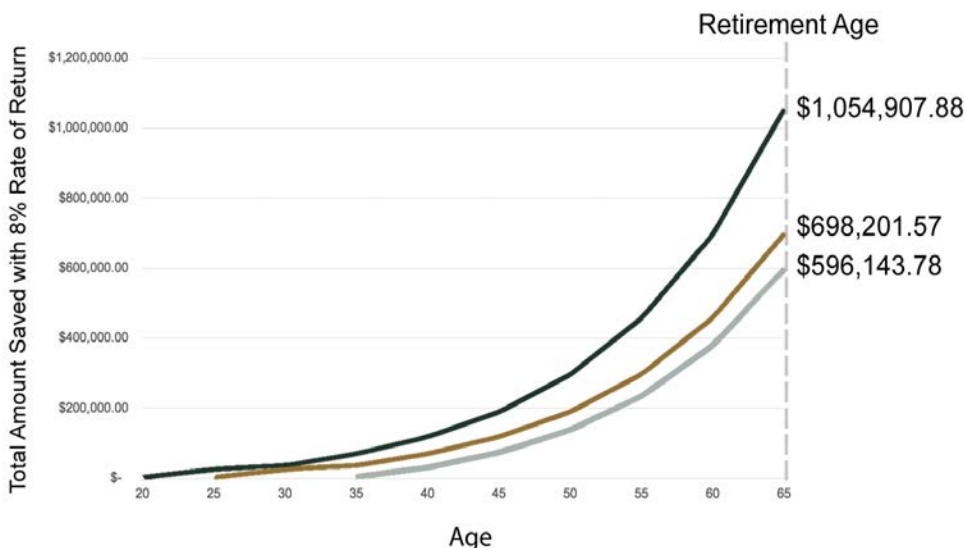
Stocks, bonds, bears, bulls — making your way through investing buzzwords can be confusing. Let's start with a basic understanding of investing. ***In simple terms, investing is using money to try to make a profit or produce income.*** Investing money is different from saving money. Saving involves setting money aside in safe, relatively low interest paying accounts so it's there when you need it. Investing is about taking calculated risks with your money to try to earn more with it. Most people invest to achieve a goal, whether it be a long term goal like retirement or short term goal like saving for a down payment on a house.

HOW DOES COMPOUND INTEREST (EARNINGS) WORK?

In simple terms, compound interest is the cycle of earning interest on interest! Here is an example to help illustrate the power of compound interest and why it's important to start early.

Pressy, Mandi and Steve all want to save for retirement. Pressy starts at age 20 saving \$200 per month. Mandi starts at age 25 saving the same \$200 per month. Steve waits until age 35 and tries to play catch-up by saving \$400 per month.

Assuming the same 8% rate of return for each of them, see the chart below for their results. Even though Pressy only saves \$12,000 (\$2,400 for 5 years) more than Mandi, she ends up with over \$350,000 more by age 65. Steve, by age 65 has significantly less than both despite trying to save more.



■	Pressy saves \$200/mo. starting at age 20
PRESSY	
■	Mandi saves \$200/mo. starting at age 25
MANDI	
■	Steve saves \$400/mo. starting at age 35
STEVE	

Q. WHY SHOULD I INVEST?

Even with the potential benefits of investing, it's important to understand that you could lose money doing it. Given the fact that you're not guaranteed to make more than if you saved your money, why invest at all?

A. HERE ARE 3 GOOD REASONS WHY!

1. POTENTIAL FOR HIGHER RETURNS

Investing gives you the chance to earn higher returns. The larger your returns, the more money you'll have in the future.

2. ACHIEVING LONG TERM GOALS

Savings alone might not allow you to accumulate enough to reach your goals. Investing those same dollars can increase those chances, or at least position you to accumulate more money over time.

3. INFLATION

Inflation affects goals that are years in the future. Expect things to cost more in the future than they do today. Investing offers the potential to keep up with – and even outpace – inflation.

★ WHAT ARE THE BASIC TYPES OF INVESTMENTS?

STOCKS

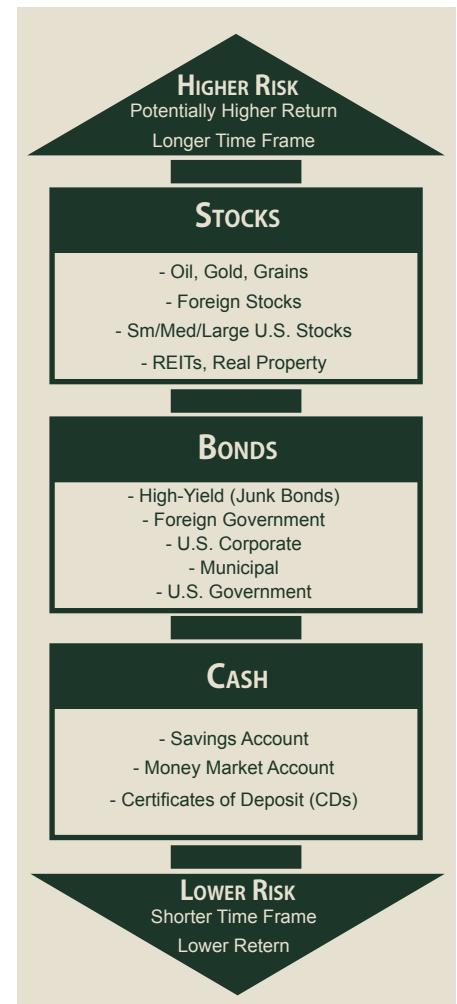
A stock — also known as a share or equity — is a type of investment representing ownership in a company. Companies sell stock to raise money to fund their business. You become a shareholder and own part of the company when you buy stock. As a shareholder you share in the company's profits if it chooses to distribute periodic payments called dividends. If the company is successful, then the stock may become more valuable and can be sold for a profit. On the other hand, if the company has problems, then the shares in the company might become less valuable or become completely worthless, and an investor can lose money from the original investment.

BONDS

A bond is an investment representing a loan made by an investor to a borrower — typically a business or government entity. The borrower promises the debt will be paid back with interest at a specific time. Bonds are typically issued by companies, municipalities, states, and sovereign governments to finance projects and operations.

CASH

Cash and cash equivalents such as savings accounts, money markets, and certificates of deposit (CDs) are intended to be relatively safe and accessible. They tend to offer relatively low yields and returns because there's not as much risk associated with these products, like with stocks or bonds. This typically makes cash and cash equivalent products a poor choice for long-term goals because many of them won't even keep up with inflation.



★ UNDERSTANDING MUTUAL FUNDS AND EXCHANGE TRADED FUNDS (ETF)

If you think back to elementary school, you may remember learning about the three primary colors: red, yellow, and blue. You can create thousands of other colors by using these three colors as a foundation. This concept also works pretty well when you think of investing. Using the basic investments from above — cash, bonds and stocks — you are able to create thousands of other investments.

MUTUAL FUNDS

A mutual fund is a type of investment made up of a pool of money collected from many investors to invest in securities like cash, bonds, stocks and other assets. Mutual funds are operated by professional money managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

EXCHANGE-TRADED FUNDS (ETF)

An ETF, or exchange-traded fund, is an investment that tracks a particular set of equities, similar to an index. It's similar to a mutual fund but trades just as a normal stock would on an exchange, and its price adjusts throughout the day rather than at market close. ETFs can track stocks in a single industry, such as energy, or an entire index of equities like the S&P 500.



WHAT ARE A FEW STRATEGIES TO HELP ME INVEST?

INVEST REGULARLY

Invest a set amount of money on a regular basis whether investment markets are moving up or down — a strategy known as dollar cost averaging. When prices are high, your regular contributions buy fewer shares (units of ownership in a company or mutual fund); when prices are low, your contributions buy more. This strategy tends to spread investment risk over time. Keep in mind that dollar cost averaging does not ensure a profit or protect against loss in a declining market. Although dollar cost averaging will not protect you against losses when the stock or bond markets are declining, it does reduce your risk of investing by ensuring that stock and bond purchases are made at a variety of prices, buying more shares at lower prices and fewer at higher prices. Dollar cost averaging also eliminates the risk of investing all of your money in the stock or bond market at market peaks. You should also consider your ability to invest continuously through periods when the market is down.

INVEST FOR THE LONG TERM

The more time you give your investment to grow and compound, the more likely you are to reach your financial goals. History shows that patient investors who focus on long term goals can generally withstand fluctuations of the stock market. USE TIME, NOT TIMING. If you start early and invest regularly, you will likely be able to use time to your advantage. Do not try “timing” decisions to buy and sell based on the market fluctuations. It is extremely difficult to accurately predict the market fluctuations over the long term.

KEEP EMOTIONS OUT OF YOUR ACTIONS

Investors’ decisions tend to be influenced by short-term variables and the latest news. Think and act intellectually, not emotionally. Investing success requires patience, determination and an unemotional approach. Do your homework then stay on course. INCREASE YOUR KNOWLEDGE. Learn all you can about investing and specific investments by regularly reading reputable business periodicals, investment books, and annual reports of companies whose securities you might want to purchase. There is no shortage of opinion about investing and the market, be disciplined and use facts to guide your decisions.

AVOID HIGH-RISK INVESTMENTS

Avoid futures, commodities, and other risky forms of investing — at least until you have an established, diversified portfolio, you know all about them, and you are willing and able to accept their increased risks.

AVOID CHASING PERFORMANCE

If you choose your investments by leaping into whatever is currently doing very well, you may be setting yourself up for recurring losses over time. Oftentimes, the best performing stock in one year becomes one of the worst in subsequent years.

DIVERSIFY

Select a wide variety of securities for your portfolio to minimize investment risks. Investing in several unrelated assets will produce a return based on the average of your various investment returns, rather than relying completely upon the return of one investment.

EVALUATE YOUR INVESTMENT PLAN

You should evaluate your investment plan at least annually or at times of significant life events. If necessary, rebalance your portfolio to ensure your mix of investments aligns with your goals, risk tolerance, and time horizon.



RESOURCES: www.investor.gov
www.sec.gov
www.mymoney.gov

www.dol.gov
www.finra.org



**SECURING THE
FINANCIAL
FRONTLINE**