

Investment Basics

A Guide to Your Investment Options



Investment Fundamentals

What Is Investing?



Speculating?



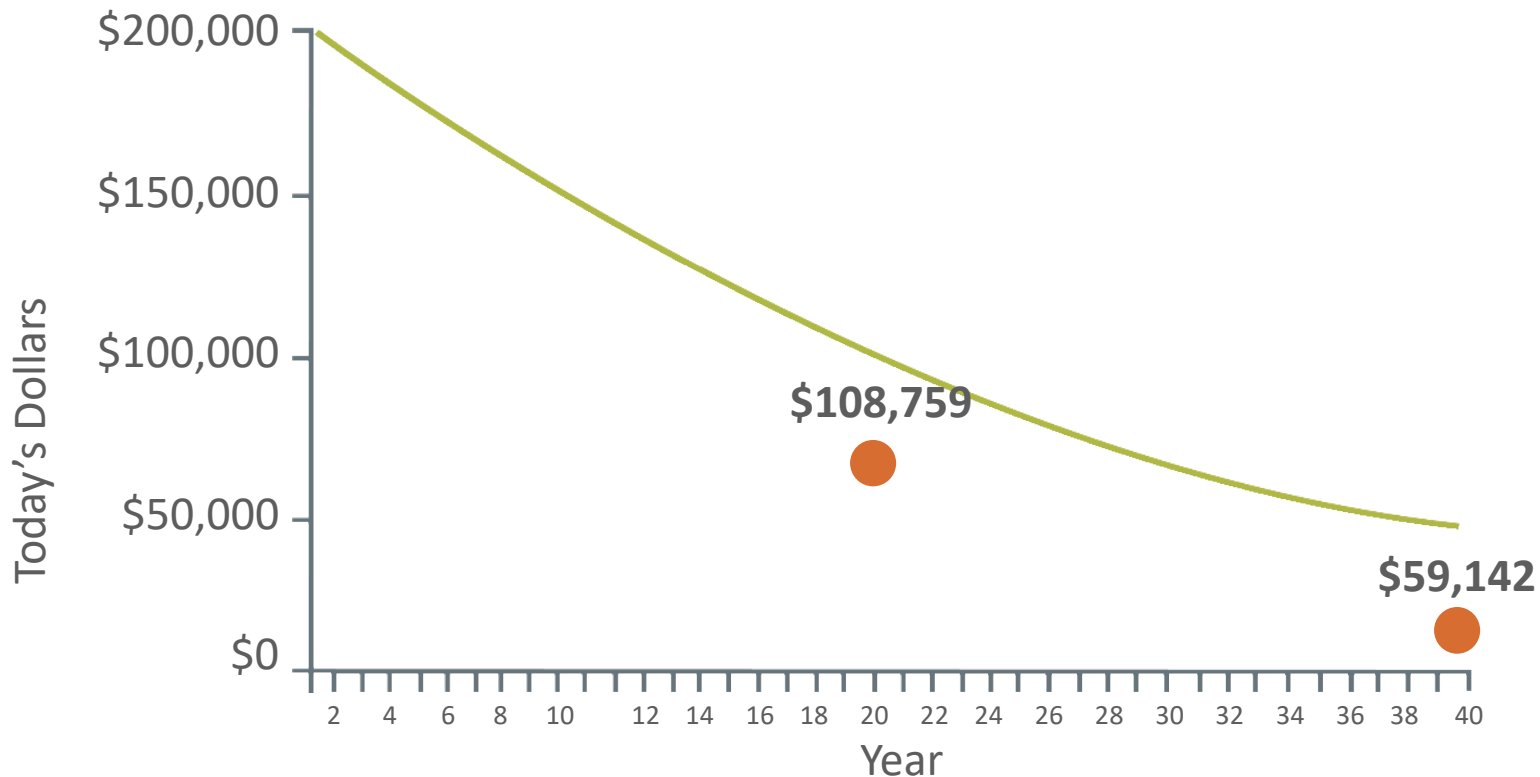
Saving?



Investing--A carefully planned and prepared approach to managing and accumulating money.

Investment Fundamentals — The Effect of Inflation

Purchasing Power of \$200,000 at 3% Annual Inflation

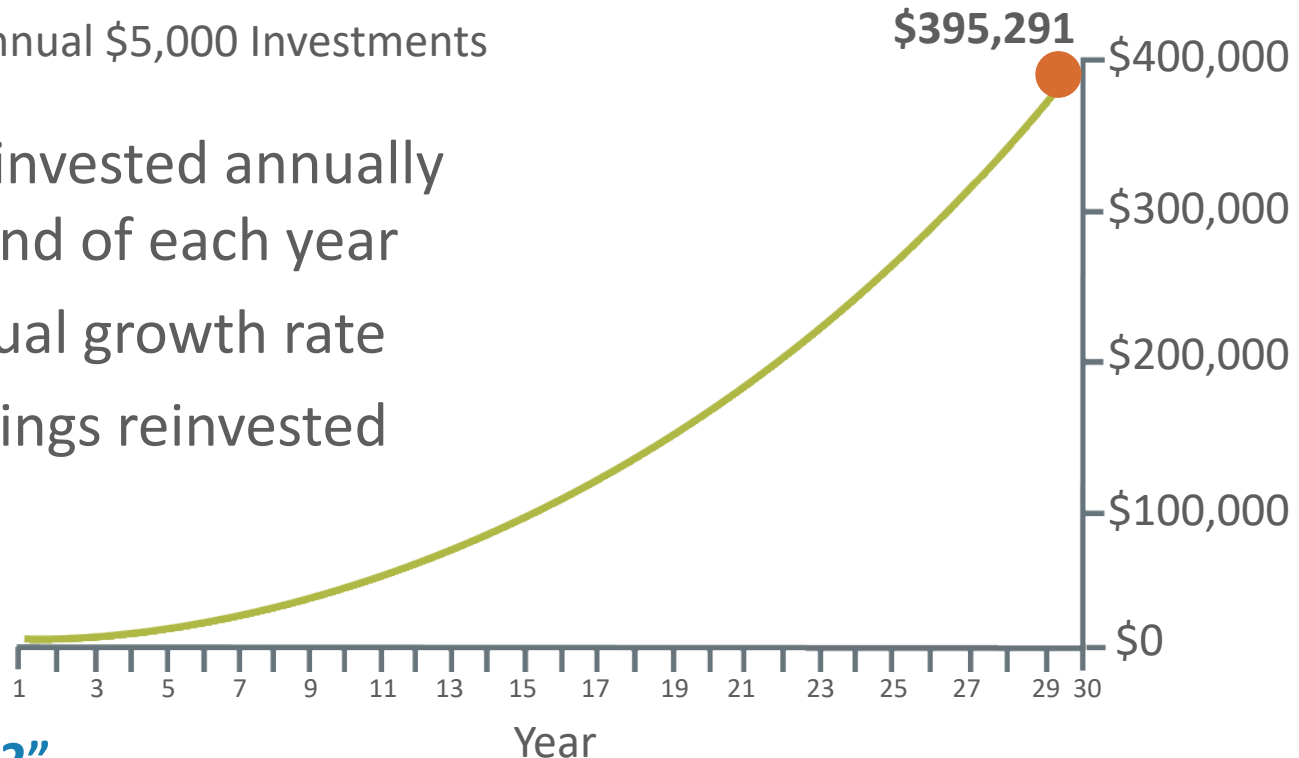


This hypothetical example of mathematical principles is used for illustrative purposes only. Actual results will vary.

Investment Fundamentals — The Effect of Compounding

Growth of Annual \$5,000 Investments

- \$5,000 invested annually at the end of each year
- 6% annual growth rate
- All earnings reinvested



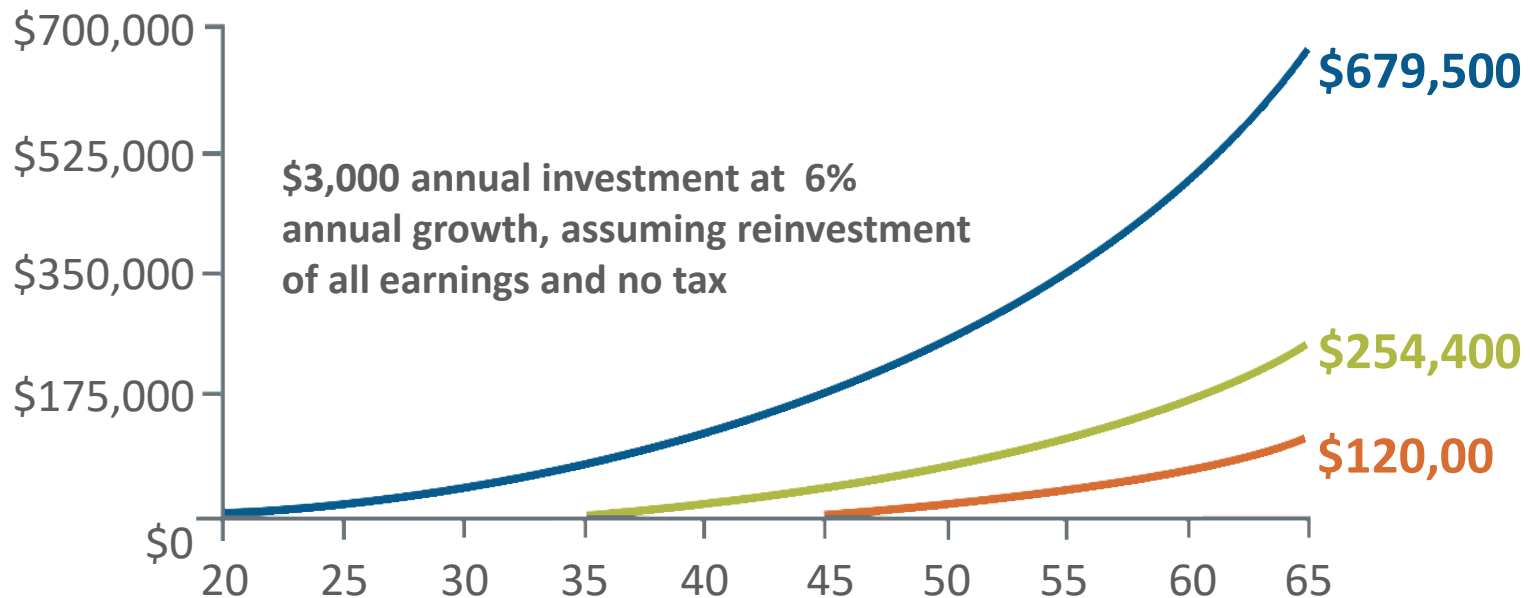
“Rule of 72”

$72 \div \text{Rate of Return} = \text{Years Needed to Double in Value}$

This is a hypothetical example and is not intended to reflect the actual performance of any specific investment. Investment fees and expenses, and taxes are not reflected and would reduce the performance shown if they were included. Actual results will vary.

Investment Fundamentals — Sooner Is Better

- Don't put off investing
- The sooner you start, the longer your investments have to grow
- Playing “catch-up” later can be difficult and expensive



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Investment Fundamentals — Identifying Goals and Time Horizons

- Investment goals
 - Retirement
 - Education
 - Special purchase
 - Financial security
- Short-term goals vs. long-term goals
- In general, the longer your investment horizon, the more risks you can afford to take

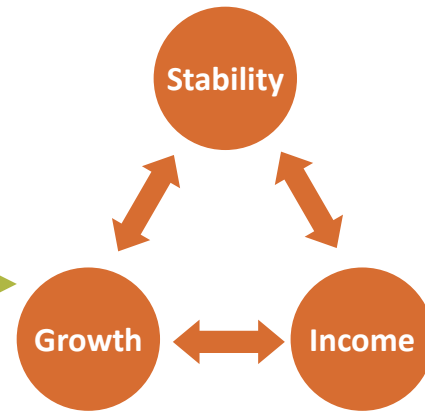
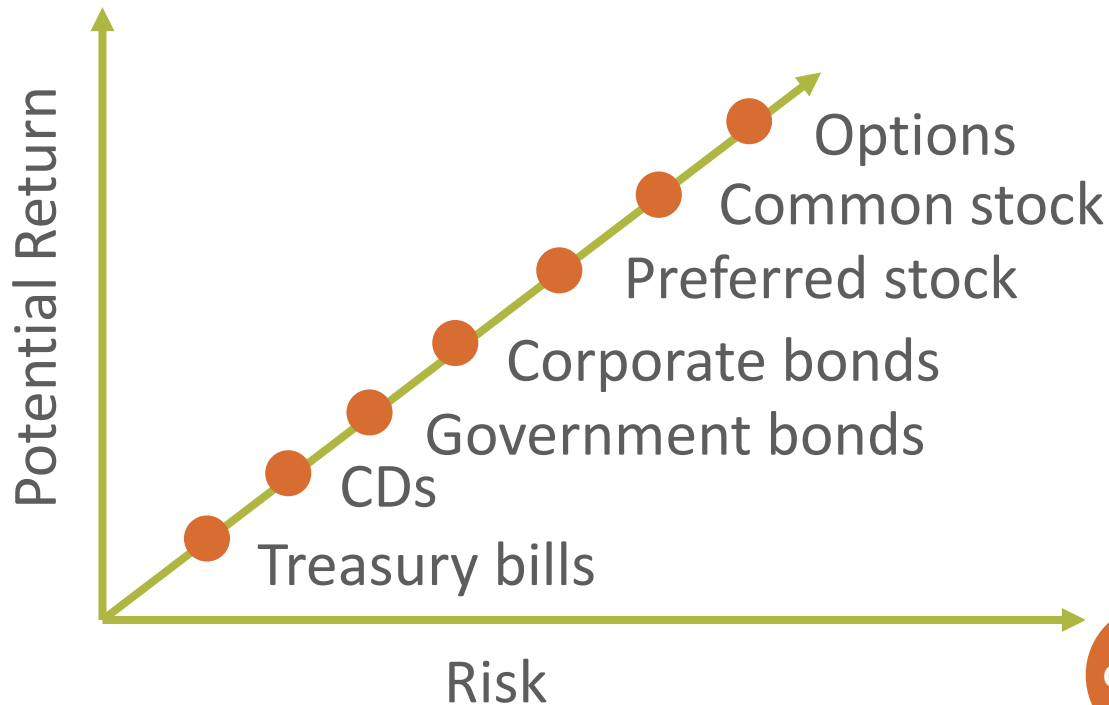


Investment Fundamentals — Risk Tolerance

- Ability of investment plan to absorb loss
- Personal tolerance for risk
 - Aggressive
 - Moderate
 - Conservative



Investment Fundamentals — Relationship Between Risk & Return



Risk-Return Tradeoff

Investment Options — Types of Investments

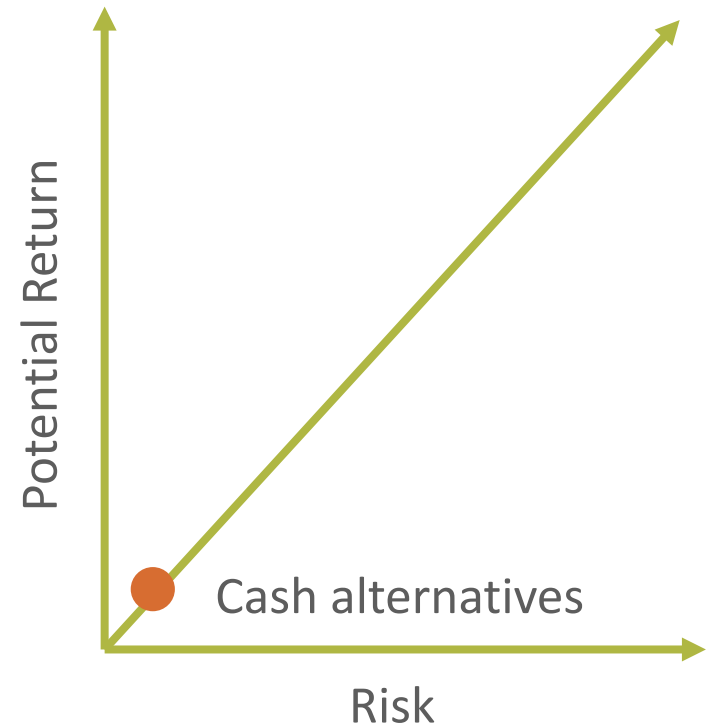
- Cash alternatives
- Bonds
- Stocks
- Other investments
- Funds

401(k) plans and IRAs are not investments--they are tax-advantaged vehicles that hold individual investments



Investment Options — Cash Alternatives

- Lower risk, short-term, relatively liquid
- Examples of cash alternatives include:
 - Certificates of deposit (CDs)
 - Money market deposit accounts
 - Money market mutual funds
 - U.S. Treasury bills (T-bills)



Investment Options — Cash Alternatives

Advantages

- Predictable earnings
- Highly liquid
- Lower risk to principal

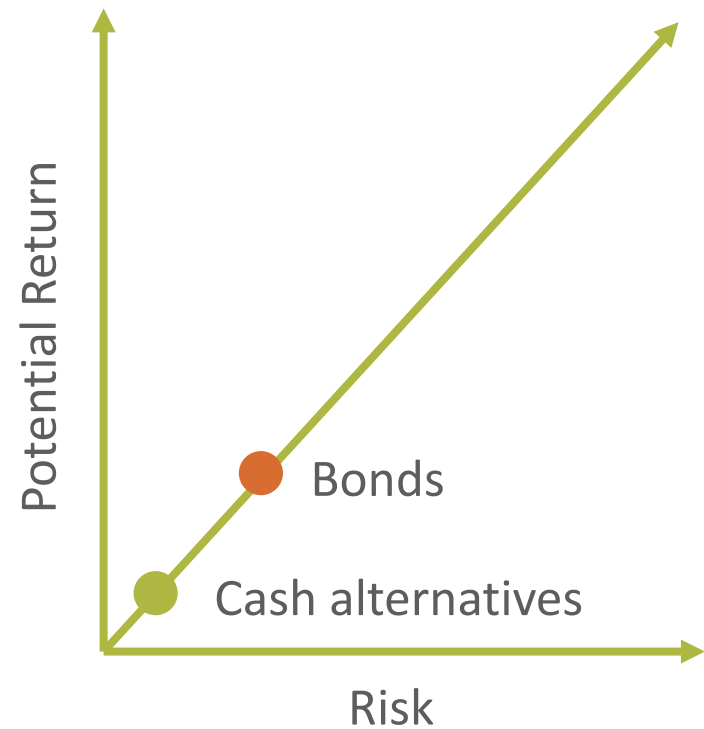
Disadvantages

- Relatively low returns
- May not keep up with inflation



Investment Options — Bonds

- Loans to a government or corporation
- Interest typically paid at regular intervals
- Can be traded like other securities
- Value fluctuates



Investment Options — Bonds

Types of bonds include:

- U.S. government securities
- Agency/GSE bonds
- Municipal bonds
- Corporate bonds



Investment Options — Bonds

Advantages

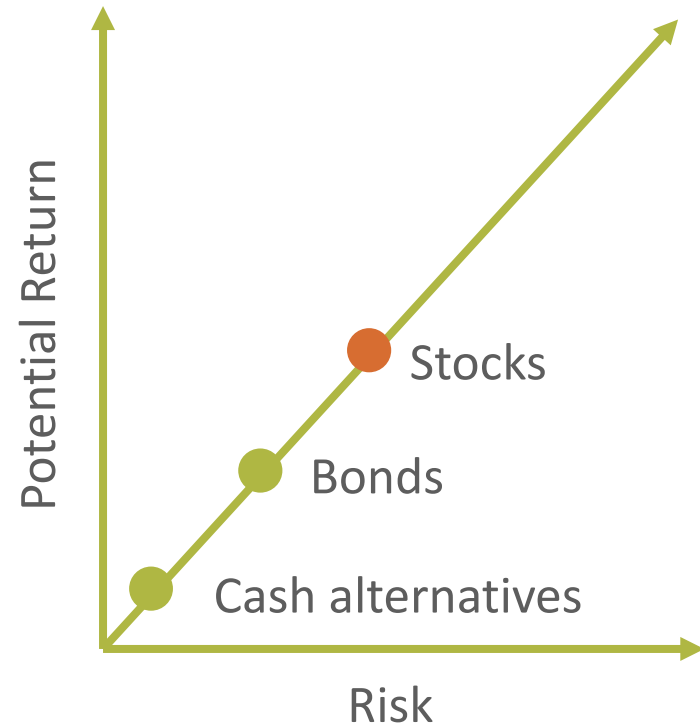
- Steady and predictable stream of income
- Income typically higher than cash alternatives
- Relatively lower-risk (compared to options such as stock)
- Low correlation to stock market

Disadvantages

- Risk of default
- Value of bond will fluctuate with interest rates
- Lower risk means lower potential returns (than stock, for example)

Investment Options — Stocks

- Shares of stock represent an ownership position in a business
- Percentage of ownership determines your share of profit / loss
- Earnings may be distributed as dividends
- Shares of stock can be sold for gain or loss



Investment Options — Stocks

- Common vs. preferred
- Categories:
 - Small cap
 - Midcap
 - Large cap
- Stock terminology:
 - Growth stock
 - Value stock
 - Income stock
 - Blue chip stock
 - American Depositary Receipts (ADRs)



Investment Options — Stocks

Advantages

- Historically, have provided highest long-term total returns
- Ownership rights
- Can provide income through dividends as well as capital appreciation
- Simple to buy and sell

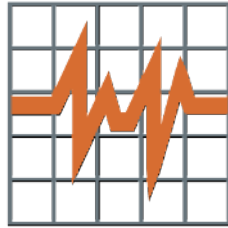
Disadvantages

- Poor company performance affects dividends / value of shares
- Subject to market volatility
- Greater risk to principal
- May not be appropriate for short term

Investment Options — Other Investments



Real estate



Stock options



Commodities



Collectibles

Investment Options — Mutual Funds

- Your money is pooled with that of other investors
- Fund invests dollars according to stated investment strategy
- You own a portion of the securities held by the fund (instant diversification)

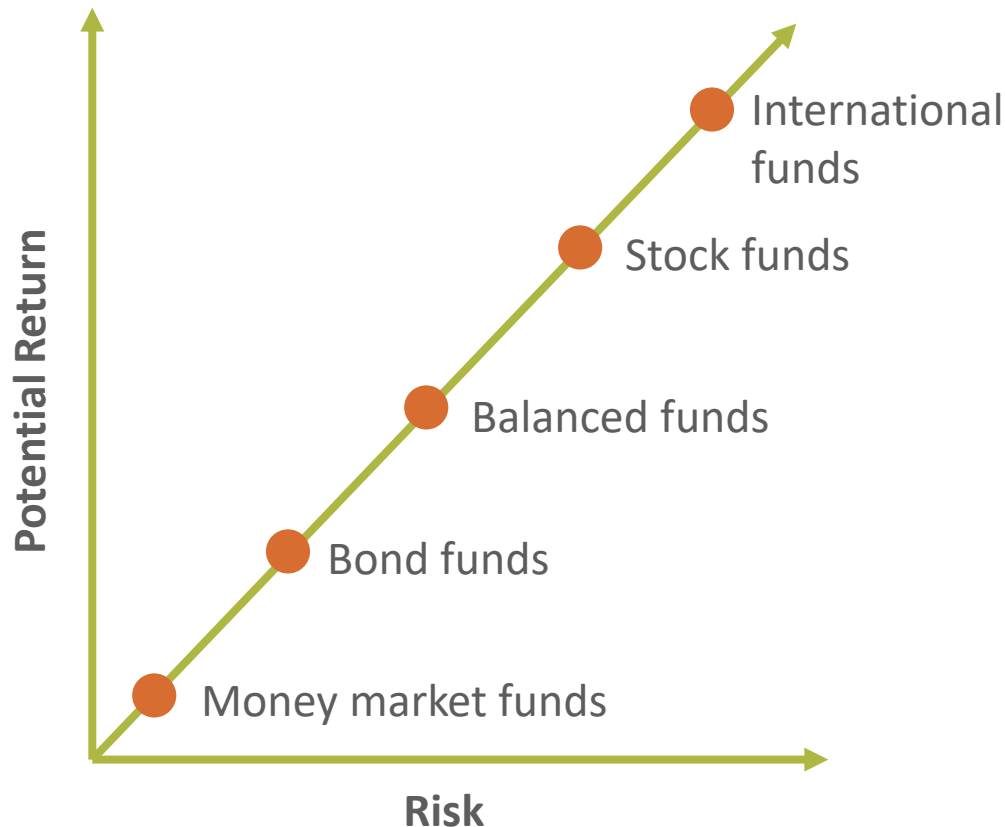


Investment Options — Mutual Funds

Before investing, investors should carefully consider a fund's investment objectives, risks, and charges and expenses. These can be found in the prospectus available from the fund, which should be read carefully before investing.



Investment Options — Mutual Funds



- Three major investment categories:
 - Money market funds
 - Bond funds
 - Stock funds
- Mutual funds fall all along the risk-return spectrum (e.g., balanced funds, international funds)
- Active vs. passive management

Investment Options — Mutual Funds

Advantages

- Diversification
- Professional management
- Small investment amounts
- Liquidity

Disadvantages

- Value of shares can fluctuate daily
- Portion of fund dollars may be tied up in cash for liquidity needs
- Potential tax inefficiency
- Mutual fund fees and expenses

Investment Options — Exchange-Traded Funds (ETFs)

- Most ETFs are based on an index
- Can be traded throughout the day, like stocks
- A simple way to invest in a market segment
- May provide tax efficiency and lower costs



Investment Options — Exchange-Traded Funds (ETFs)

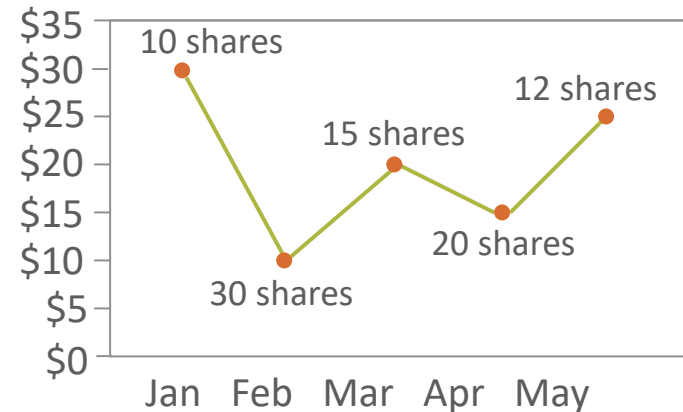
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Investment Methods — Dollar Cost Averaging

- Invest same dollar amount at regular intervals over time
- You buy more shares when price is low, fewer shares when price is high
- Average cost of shares will be lower than average market price per share during your investment time period

Five Hypothetical Investments



Average market price per share
 $(\$30 + \$10 + \$20 + \$15 + \$25) \div 5 = \underline{\$20}$

Investor's average cost per share
 $\$1,500 \text{ invested} \div 87 \text{ shares bought} = \underline{\$17.24}$

This is a hypothetical example and does not reflect the performance of any specific investment. Dollar cost averaging can't guarantee you a profit or protect you against a loss if the market is declining.

Asset Allocation — Considerations

Factors:

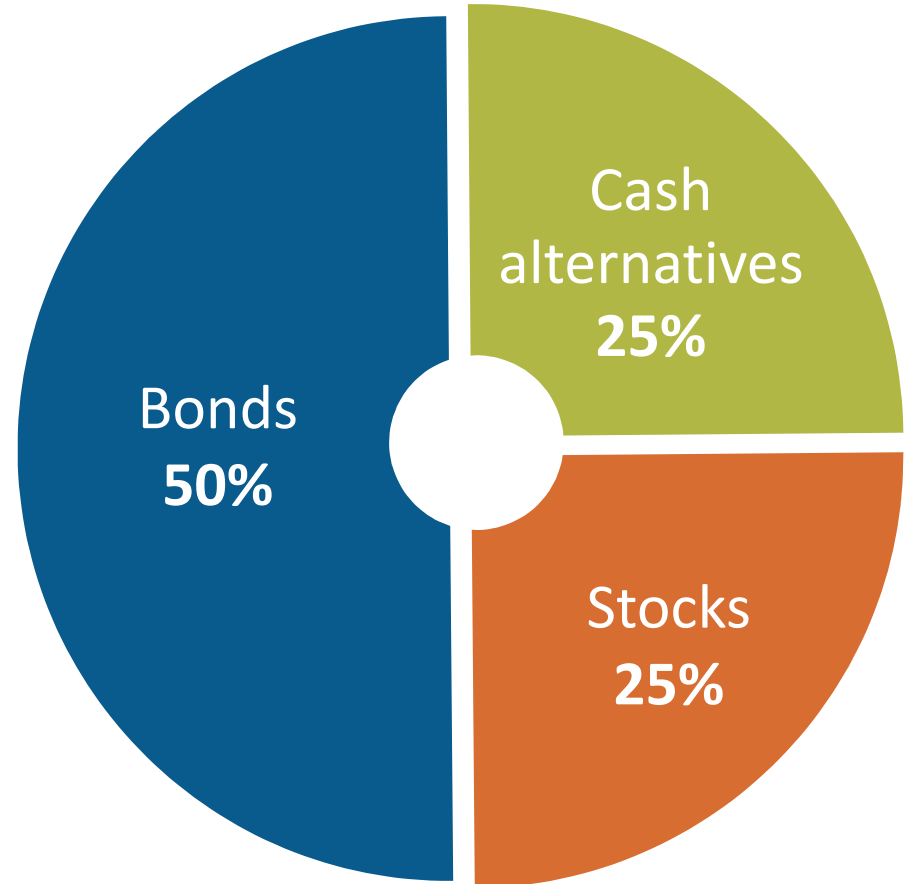
- Diversification
- Risk tolerance
- Time frames
- Personal financial situation
- Liquidity needs



Asset Allocation — Sample Allocation Model

Conservative

A conservative asset allocation model will tend to focus on preserving principal

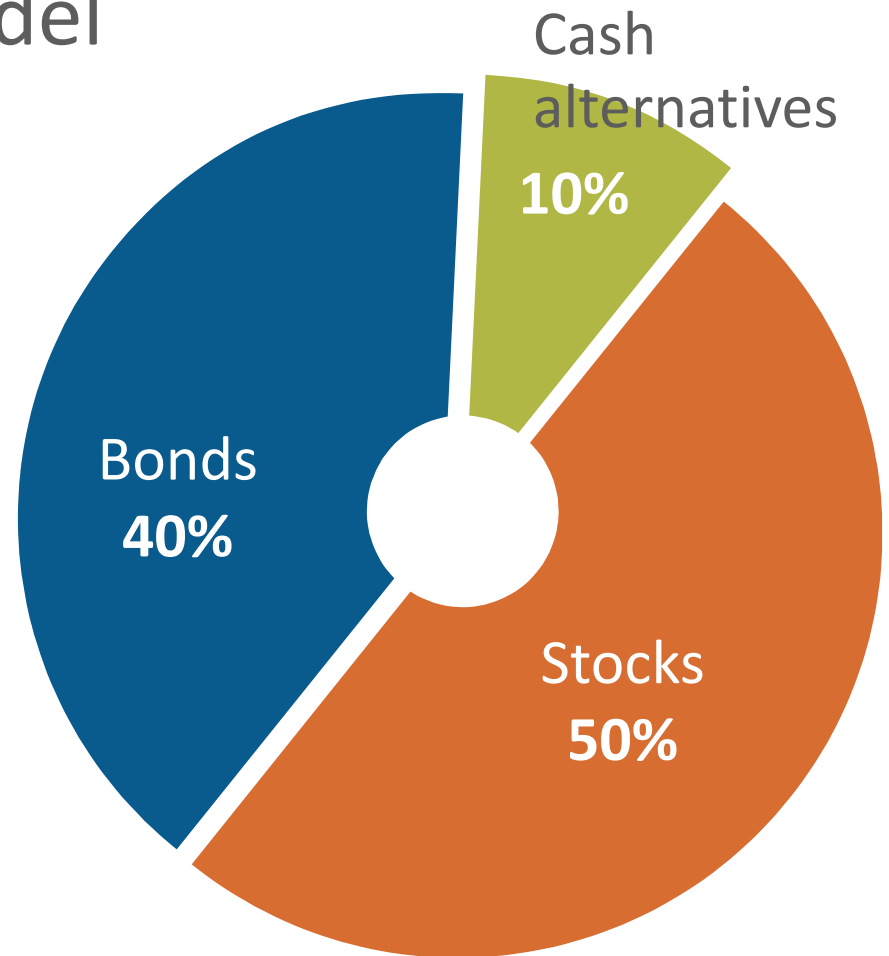


These asset allocation suggestions should be used as a guide only and are not intended as financial guidance. They should not be relied upon. Past performance is not a guarantee of future results. Actual results will vary.

Asset Allocation — Sample Allocation Model

Moderate

A moderate asset allocation model will tend to balance predictable income with potential growth

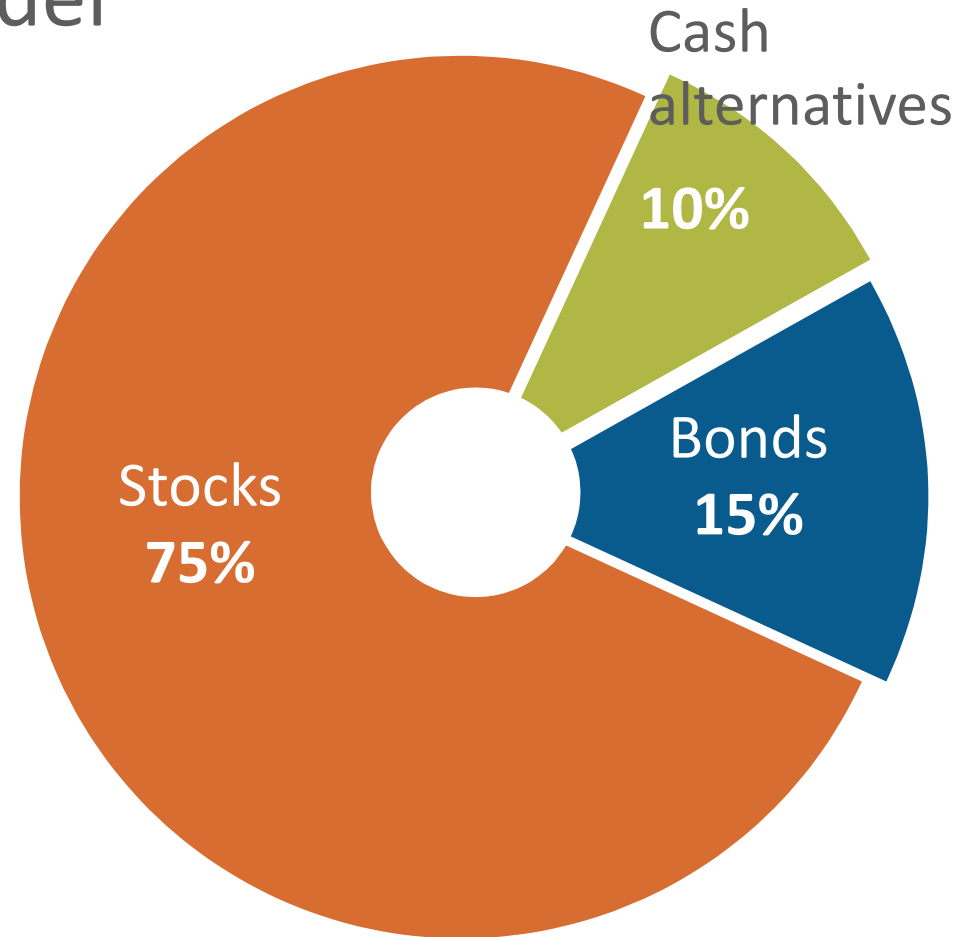


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Asset Allocation — Sample Allocation Model

Aggressive

An aggressive asset allocation model will tend to focus primarily on potential growth



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The Role of a Financial Professional

- Help you determine your investment goals, timelines, and risk tolerance
- Create an asset allocation model
- Select specific investments
- Manage, monitor, and modify your portfolio



Thank You



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