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A SALUTE TO SMART INVESTING

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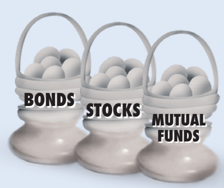
- Saving for Retirement

- Savings Plans

- Risk & Return
- Asset Allocation
- Investment Scams
- Investment Strategies



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A SALUTE TO SMART INVESTING

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Balancing Risk and Return

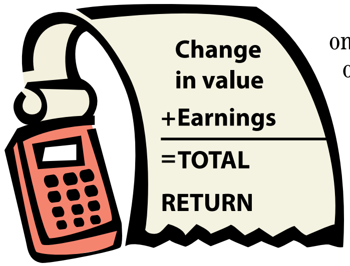
Investing has lots of return potential, but risk comes with the territory.

Successful investing requires taking some risk. But that doesn't mean you should avoid it. Smart investing can make the difference between achieving your financial goals and having to postpone or abandon them.

If you're wondering what risk means in this context, it's basically one of two things: losing money or losing buying power.

MAKING MONEY

When you invest, you're interested in **total return**. This is the amount your principal increases or decreases in value, plus any earnings you receive.



Say you spend $1,000 on shares of a stock and receive $50 in dividends. If you sell your shares for $1,200, your return is $250 ($200 + $50 = $250). But, if the stock loses value and you have to sell for $800, you have a negative return of $150 ($50 – $200 = –$150).

When you want to compare how one investment is performing compared to another, you look at **percent return**. You find this number by dividing your total return by the amount you invested. In this case, it's 25% ($250 ÷ $1,000 = 0.250). Next consider **annualized return**. If you owned this stock for three years before selling, your annualized return would be 8.3%. To find this number, divide your percent return by the appropriate number of years (0.250 ÷ 3 = 0.083).

KEEPING TRACK

While there's no reason to check the return on your investments every day or every week, it's smart to keep track of how they're doing overall. If one or two consistently provide weaker returns than their peers, you may want to replace them.

A NO-GO OPTION

If you're offered a guaranteed, or no-risk, investment that isn't an insured bank deposit, it's not legitimate. Investment results can never be guaranteed.

TAKING RISKS

Even though risk is always a factor, risk levels vary. In general, the more potential an investment has to provide a high return, the more risks the investment poses.

But, that doesn't mean you should buy only the lowest-risk investments. In fact, one of the biggest risks you can take is not taking enough risk. Investing only in the safest products, such as CDs, is likely to mean your return won't be high enough to outpace inflation over the long term, leaving you with less than you need or expected to have.

For example, if inflation is 3% and you earn an annualized 8.3% return on a stock investment, your **real return**, or your return after inflation, is 5.3%. But if you're earning 2.5% in a money market account, your real return is a negative 0.5%.

The key is seeking a balance between risk and potential return that suits your goals and your tolerance for risk. For example, you might emphasize insured savings for short-term goals and buy stocks, stock ETFs, or stock mutual funds for longer-term goals.

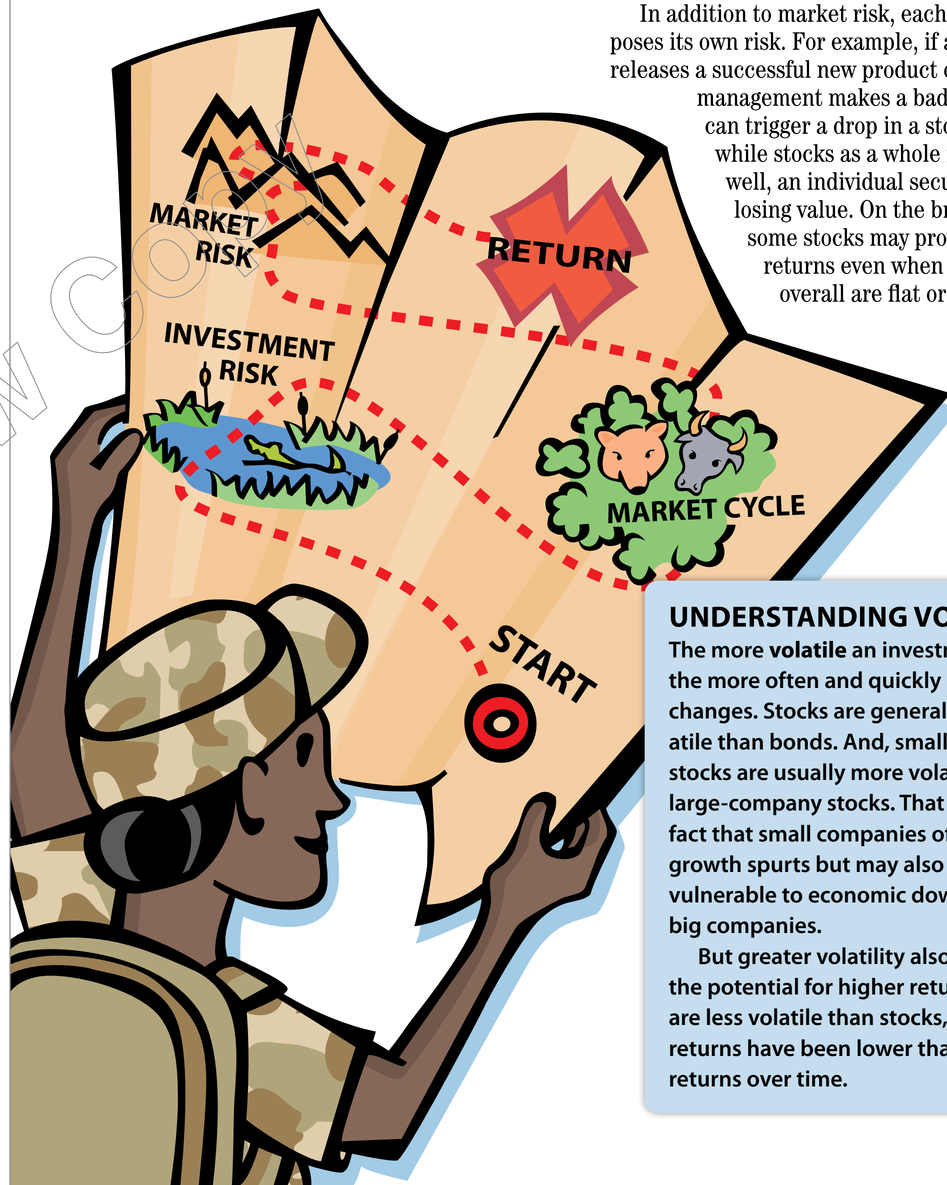
GOING TO MARKET

The investment markets aren't predictable, and you can never be sure what will happen a year from now—or even tomorrow. That may make you uneasy. But, time has shown that prices and returns tend to move up and down in a recurring pattern. Moving from a peak of strong performance down through a valley of losses and back to another high is known as a full **market cycle**.

When prices rise for a prolonged period, it's called a **bull market**. Bull markets don't last for a specific amount of time, and prices don't increase at the same rate or to the same extent from one bull market to the next. **Bear markets**, on the other hand, occur when prices reflected in a broad market index fall 20% or more from the most recent peak and remain flat or fall some more.

There is always the possibility that the market as a whole, or a particular asset class, will experience a gain or a decline. With stocks, bear markets typically occur when investors sell their shares because they anticipate worsening economic conditions.

In addition to market risk, each security poses its own risk. For example, if a competitor releases a successful new product or a company's management makes a bad decision, that can trigger a drop in a stock's price. So, while stocks as a whole might be doing well, an individual security could be losing value. On the brighter side, some stocks may provide strong returns even when stock prices overall are flat or falling.



UNDERSTANDING VOLATILITY

The more **volatile** an investment is, the more often and quickly its value changes. Stocks are generally more volatile than bonds. And, small-company stocks are usually more volatile than large-company stocks. That reflects the fact that small companies often have growth spurts but may also be more vulnerable to economic downturns than big companies.

But greater volatility also means the potential for higher returns. Bonds are less volatile than stocks, but their returns have been lower than stock returns over time.