INVESTING BASICS: TABLE OF CONTENTS

Why Take This Course?

Do you ever wish you knew more about personal finance? No matter where you are in your financial journey, there always is more to learn. SAM's free online courses are not intended as financial advice, but as a starting point to raise awareness, to increase skills and knowledge related to personal finance, and to guide you to helpful resources.

Research shows that financial education is most effective when it is relevant to a decision you are faced with right now. This course covers:

- Assessing your current long-term savings and investments.
- Identifying your risk tolerance level.
- Tips for choosing the right savings and investment options.

Disclaimers

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INTRODUCTION

Wealth is what you accumulate, not what you make.

How wealthy are you? Think of it this way: If you were to stop working tomorrow, how long could you support your current lifestyle? That is how wealthy you are.

Regardless of how much you earn, your wealth can grow if you start treating money as something that can work for you — not against you.

Meet Valerie

Many people shy away from investing because of fear and mistrust of the financial markets, but more often it's the fear of not knowing how to start investing. That's how Valerie feels. At age 47, she knows she should be investing, but she doesn't understand how and she doesn't know if she has the funds to begin investing.

Valerie has a leg up on her investing plan because she saves regularly, although it is a very small amount. Right now, her monthly financial plan includes:

- Basic living expenditures for herself and her sister who lives with her.
- Savings to cover emergency car repairs, since her car is getting older and she knows that the risk of something going wrong is growing.
- Saving in a basic savings account.

Valerie doesn't have dependent children, parents or a spouse needing funds from her income, which is good because she can only cover so much right now.

GETTING STARTED

The Difference Between Saving and Investing

"Poor people see a dollar as a dollar to trade for something they want right now. Rich people see every dollar as a 'seed' that can be planted to earn a hundred more dollars … then replanted to earn a thousand more dollars."

T. Harv Eker, *Secrets of the Millionaire Mind*

When you listen to the evening news and hear reports that the stock market had a great day, do you find yourself wishing you were investing? If so, you're probably not alone. Only about 55 percent of Americans invest in the stock market, according to a Gallup poll.

Valerie sometimes feels like she should be investing, but she is intimidated. What Valerie doesn't realize is that she is well on her way to growing her wealth because she already is saving on her own and she is taking steps to learn about investing.

Saving and investing often are used interchangeably, but there is a difference.

- **Saving** is setting aside money you don't spend now for emergencies or for a future purchase. It's money you want to be able to access quickly, with little or no risk, and with the least amount of taxes. Financial institutions offer a number of different savings options.
- **Investing** is buying assets such as stocks, bonds, mutual funds or real estate with the expectation that your investment will make money for you. Investments usually are selected to achieve long-term goals. Generally speaking, investments can be categorized as income investments or growth investments.

Consider this …
If you deposited $2,000 in a savings account at 3 percent annual interest, it would grow to $3,612 in 20 years (before taxes). The same $2,000 invested in a stock mutual fund earning an average 10 percent a year would grow to $13,455 in 20 years (before taxes).

Making a choice between either saving or investing will depend on your goal(s) for the money and your risk tolerance.

How Do You Beat Inflation?

When it comes to building wealth, time is much more powerful than the amount you invest or even the returns you earn. But it also matters where you put your money.

Valerie has her money set aside in a savings account at her bank that pays a 0.06 percent interest rate.

Try this calculator to see how much inflation has affected the value of the dollar over the past 100 years.

Investing Fights Inflation

Because of inflation, the same items you purchase today will cost more in the future.

What do you think?

Even though Valerie is putting away money on a regular basis, is she "beating inflation" by keeping her money in her bank's low-interest savings account?

The rate of inflation is constantly changing — over the past 10 years, the inflation rate fluctuated from as low as 0.1 percent to as high as 4.1 percent, but has averaged higher than 1 percent. So, while Valerie can take advantage of interest compounding as she makes a plan for her new investing strategy, her money is not growing at a fast enough rate in her savings account to beat inflation. In other words, her money is losing purchasing power.

Inflation and the Time Value of Money

Valerie has a basic idea of inflation — that $100 today probably will not buy the same amount of goods that $100 will buy next year — but she's not sure how investing will help.

Investing takes advantage of compound interest over time, so the more time you invest — in general — the more opportunity your money has to grow. This chart shows the impact of time (and investing early) on the value of money.

Starting to invest at age 18. Total amount invested: $20,000			Starting to invest at age 31. Total amount invested: $70,000	
7% APR	Year-End Balance	Age	7% APR	Year-End Balance
$2,000	$2,140	18	Starting later to invest $2,000 annually for 35 years	$0
$2,000	$4,430	19		$0
$2,000	$6,880	20		$0
$2,000	$9,502	21		$0
$2,000	$12,,307	22		$0
$2,000	$15308	23		$0
$2,000	$18,,520	24		$0
$2,000	$21956	25		$0
$2,000	$25,633	26		$0
$2,000	$29,567	27		$0
$2,000	$31,637	28		$0
Stopping early after investing $2,000 annually for 10 years	$33,852	29		$0
	$36,221	30		$0
	$38,757	31	$2,000	$2,140
	$41,470	32	$2,000	$4,430
	$44,372	33	$2,000	$6,880
	$47,,479	34	$2,000	$9,502
	$50802	35	$2,000	$12,307
	$54,358	36	$2,000	$15,308
	$58,163	37	$2,000	$18,520
	$62,235	38	$2,000	$21,956
	$66,591	39	$2,000	$25,623
	$71,,252	40	$2,000	$29,567
	$76240	41	$2,000	$33,777
	$81,577	42	$2,000	$38,281
	$87,287	43	$2,000	$43,101
	$93,,397	44	$2,000	$48,258
	$99935	45	$2,000	$53,776
	$106,931	46	$2,000	$59,680
	$114,416	47	$2,000	$65,998
	$122,,425	48	$2,000	$72,758
	$130995	49	$2,000	$79,991
	$140,164	50	$2,000	$87,730
	$149,976	51	$2,000	$96,012
	$160,474	52	$2,000	$104,872
	$171,707	53	$2,000	$114,353
	$183,727	54	$2,000	$124,498
	$196,588	55	$2,000	$135,353
	$210,349	56	$2,000	$146,968
	$225,073	57	$2,000	$159,395
	$240,828	58	$2,000	$172,693
	$257686	59	$2,000	$186,922
	$275,724	60	$2,000	$202,146
	$295,025	61	$2,000	$218,436
	$315,677	62	$2,000	$235,867
	$337,774	63	$2,000	$254,518
	$361,418	64	$2,000	$274,474
	$386,718	65	$2,000	$295,827
$386,718			$295,827	

Investments are assumed to be made annually and at the beginning of the investment period.
Balance amounts are rounded to the nearest dollar and are not adjusted for inflation.

The Rule of 72

One quick way to estimate your potential return is to use the Rule of 72. Just divide 72 by the expected annual rate of return to get the number of years it will take your money to double in value. For example, if your investment is expected to grow by 9 percent annually: 72 ÷ 9 = 8. Your investment will double in approximately eight years.

The same rule can be used to calculate inflation. If inflation is at 6 percent, divide 72 by 6. You can expect your money to be worth half as much in 12 years.

Note that even though the rate is 6 percent, you are not dividing by 0.06, as you would in other percentage calculations. You are using the whole number.

The Rule of 72 works fairly well for the range from six to 10. Outside that range, add or subtract 1 from 72 for every three points above or below eight. This sounds confusing, but it gets easier to understand with examples:

Rate of Return (%)		Divide into	Approximate Number of Years to Double Investment
2	6 points below 8	70	35 years
3		71	23.6 years
4		71	17.75 years
5	3 points below 8	71	14.2 years
6		72	12 years
7		72	10.3 years
8		72	9 years
9		72	8 years
10		72	7.2 years
11	3 points above 8	73	6.6 years
12		73	6.1 years
13		73	5.6 years
14	6 points above 8	74	5.3 years

Check Your Knowledge

If Valerie had a savings account that offered a 1 percent rate of return, how long would it take for her investment to double in value?

A 1 percent rate of return would be divided into 70, so 70 ÷ 1 = 70 years. And that does not account for inflation. If the rate of inflation averaged 4 percent, then Valerie's money would have lost half its purchasing power after approximately 17.75 years.

HOW IT WORKS

The Magic of Compounding Interest

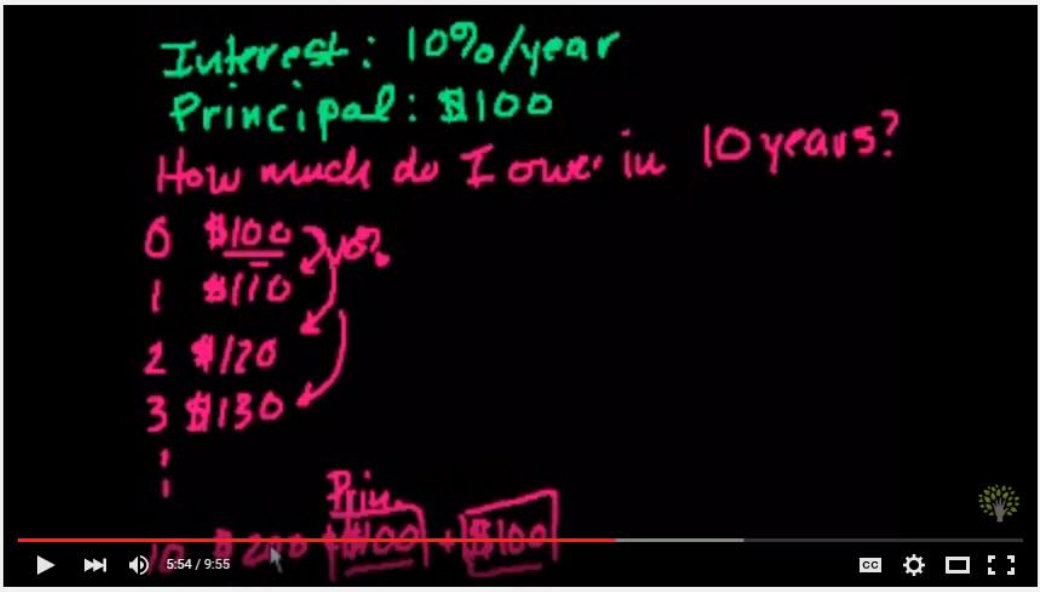
The more frequently your money earns interest, the faster and bigger your balance will grow. As interest is added to your account, you earn interest on the original balance, plus the previously earned interest.

The final return on your money is called the Annual Percentage Yield (APY).

When interest is compounded, the amount paid in a year is actually more than the simple interest rate that is given. Financial institutions show the return as the APY — the actual return on an investment when compound interest is taken into account.

Use this calculator to see how compound interest adds up.

Watch this Khan video below to learn more about interest compounding. The direct link is: https://www.youtube.com/watch?t=63&v=GtaoP0skPWc



Introduction to interest | Exponential and logarithmic functions | Algebra II | Khan Academy

[*This video is content of the Khan Academy. All Khan Academy content is available for free at www.khanacademy.org. Neither State of Vermont nor NEFE are associated or affiliated with the Khan Academy.*]

Choosing Savings Products

Putting your money in a savings account at a bank or credit union can offer a low-risk savings option. Accumulating your savings in a bank account offers the following benefits as you are building funds for future purchases or other types of investments:

- **Safety** – The money is safe from theft and buying binges. Plus, the money is insured by the Federal Deposit Insurance Corporation (FDIC) so that if anything happens to the financial institution, you still can get your money.
- **Interest** – Although interest rates are typically low, your money will earn interest over time. And, compounded interest is a way to have your money make money for you.
- **Ease of access and easy tracking** – With online banking, it is easy to check your balances and retrieve your money when you need it.

Typical savings options include the following:

Type	Pros	Cons
Savings account	Low balance requirement. Can add/remove money easily. Interest is typically earned monthly or quarterly. Money is FDIC insured.	Low interest rate. Unlikely to "beat inflation." May incur fees or penalties for low balances
Money market account (MMA)	Higher interest rate than savings accounts. Can add/remove money easily. Interest typically is earned monthly. Money is insured.	Limits on number of monthly withdrawals. Higher balance requirements than savings accounts. May incur fees for low balances.
Certificate of deposit (CD)	Higher interest rate than savings accounts or MMAs. Interest rate remains the same for a specific period of time (i.e., 6 months). Interest may accumulate more often than a savings account or MMA.	Money is locked in at a specific interest rate for a specific period of time. Penalties for early withdrawal.
U.S. savings bond	Low minimum required deposit ($100 and multiples thereof) Fixed interest rate for up to 30 years.	Interest accumulates, but only is paid when bond is cashed. Penalties for withdrawal in the first five years . Cannot withdraw money for a year.

Remember, interest rates for these types of accounts almost always will be lower than investment products such as stocks and bonds. Because of compounding interest, your money will add up, but at a much slower rate.

Shop around at banks and credit unions to compare savings products. Be sure to ask about:

- Minimum balance requirements
- Current annual percentage yield (APY)
- Compounding frequency
- Any fees or penalties

The Risks and Rewards of Investing

Every place that people put their money involves some type of risk — even Valerie's basic savings account. Although Valerie doesn't have to worry about her existing savings still being in her bank account tomorrow, she still is risking her future wealth by losing out to inflation.

With stocks, you can lose part or even all of your investment in a short period of time. Yet, over the long term, stocks on average have consistently and substantially outperformed inflation.

Check out the historic chart below from DOW website at:
http://www.macrotrends.net/1319/dow-jones-100-year-historical-chart

Determine Your Risk Tolerance

You need to understand how much risk you're willing to take and which types of risk most worry you. Your risk tolerance (the degree of uncertainty you are willing to take on to achieve potentially greater rewards) is determined by a combination of factors, including your investment goals and experience, how much time you have to invest, your other financial resources and your "fear factor."

Where do you rate your risk tolerance? Use this quiz from Rutgers University to help you determine your risk comfort level.

Accurately gauging your risk tolerance can be tricky. A financial planner can help you assess where you stand. A financial planner might ask questions such as:

- Are you more concerned about losing money, or losing purchasing power?
- How much money are you willing to lose?
- How worried do you think you would be in a severe market decline?
- What kinds of investments might keep you awake at night?
- Do you intend to track your investments daily (a possible indication of unease)?
- How varied do you want your portfolio to be?

Investment Pyramid: Risk/Return Trade-Offs

Investments at the top of the pyramid tend to be "speculative" and some are also "illiquid" (meaning they are harder to quickly convert into cash without loss of value). While they offer more potential reward, they also carry greater risks for loss of principal than investments at the base of the pyramid.

Less risky investments at the bottom of the pyramid are more "liquid" and offer stable (although lower) rates of return.

* If held to maturity. Otherwise, they are subject to volatility due to interest rate risk as with any other type of bond.

How to Manage Investment Risk

Controlling risk is key to your investment strategy. One of the best ways to manage risk is to spread your investments and savings out across a variety of channels. This is important because if you have all — or even most — of your money in one place (whether it's the stock market, real estate or even municipal bonds issued by your home town), you're at a higher risk to lose it all if something goes wrong.

There are three main ways to control risk: Diversification, investing consistently and investing over a long period of time.

Diversification

A well-balanced investment portfolio involves spreading investment funds among different types of assets and investing in different securities within each type of asset. This reduces risk, because even though one or more investments might falter, others will gain.

When you think about it, it makes sense that diversification among different types of assets helps reduce risk.

Diversifying means spreading investments across different industry sectors (e.g., technology and health care) and securities (e.g., stocks and bonds), and using a variety of investment products to protect the value of your overall portfolio in case a single security or market sector takes a serious downturn.

Think of it this way: If all of your wealth was in a single company's stock and that stock suddenly plummeted 50 percent, you would lose half of your savings. However, if your investments were spread out over several stocks, as well as real estate, bonds, and other products, then the loss would not affect you nearly as much.

Investing Consistently (Dollar-Cost Averaging)

One way to make the most of investments over time is to commit to investing a certain dollar amount on a regular basis. For example, let's say you are going to invest $100 per month in Company XYZ's stock. The value of the stock will fluctuate from month to month based on the company's performance, the demand for the stock, and other factors. Regardless of whether the stock is high or low, you buy as many shares of Company XYZ's stock as you can with your $100.

One month, your $100 might buy you two shares, the next month it might buy just one share. But no matter what, you consistently invest your $100. This is called "dollar-cost averaging."

"Dollar-cost averaging" means you invest a specific amount of money at a regular time interval (e.g., monthly or bi-weekly), regardless of what the market is doing. Sometimes you'll buy high and sometimes you'll buy low, but since markets generally rise over time, you'll often do well over the long term. Let's look at another example. Say you have $30 to invest each month:

Month	**Investment**	**Price per Share**	**Number of Shares**
Month 1	$30	$30	1
Month 2	$30	$15	2
Month 3	$30	$10	3
Month 4	$30	$30	1
Month 5	$30	$15	2
Month 6	$30	$30	1
Average price per share: ($30 + $15 + $10 + $30 + $15 + $30) divided by 6 = $21.66 Average cost per share: Amount invested divided by total shares = $180 ÷ 10 = $18			

Over the span of the whole six months, you were able to buy shares at a better price than the average. However, six months is not long enough to see real returns on stock market investments. In order to see real benefits of dollar-cost averaging, you would ideally hold your investments for 10 or 20 years or longer. That's why it's important to view investing in the stock market as a long-term savings and wealth-building tool, not a get-rich-quick tactic.

The key to dollar-cost averaging is to choose carefully which companies to invest in. This approach is best for buying stock in industries or companies that you expect to have sustained growth over time, rather than risky startup companies – unless you are willing to take on higher risk.

Investing Over Time

Research shows that investing for the long term reduces investment risk because, even though the price of a given investment may rise and fall within a short period of time, it generally will gain back any losses over the long term. Investing is a long-term strategy for long-term goals (typically five, 10, 20 years or longer).

Withstanding short-term price fluctuations often generates greater long-term rewards for stocks versus other asset classes. Stocks fluctuate in value more than CDs, so you can lose part or even all of your investment in a short period of time. Yet, over the long term, stocks, on average, consistently and substantially outperform cash and the thief of cash: inflation.

What Should You Invest In?

Most stocks are examples of growth investments that you buy in hopes of selling for a higher price later. But there are other types of investments, including real estate (your home, commercial property), precious metals (such as gold) and energy (such as oil and gas). Some investments, such as rental property and fixed-income securities (such as government bonds), are not meant to be sold, necessarily, but are meant to be maintained as a consistent source of income.

Explore Growth Investments

"The real key to making money in stocks is not to get scared out of them."
Peter Lynch, retired, Fidelity Management & Research Co.

The primary goal of growth investments is to sell the assets at a higher price than you paid for them. Some investments qualify as both growth and income investments. Compared to income investments, growth investments typically offer more potential for bigger gains … and losses.

Some common growth investments include:

Type	Description	General Risk Factors
Stock Mutual Funds	Stock mutual funds let you invest in a variety of stocks. . As an individual investor, you own shares in the fund that is managed by a professional manager. The earnings from the fund then can be reinvested for you. Mutual fund shares can be purchased through a broker, by mail or online.	Minimum buy-ins are often low, but fees and commissions can vary widely. Risk is reduced through fund portfolio diversification.
Exchange-traded funds (ETFs)	Exchange-traded funds are similar to mutual funds that pool money from many investors to buy securities. But while most mutual funds can only be bought or sold once a day at market closings, ETFs can be bought and sold any time the markets are open, just like individual stocks or bonds. Most often, an ETF tracks an index like the Standard & Poor's stock market index. ETFs are bought and sold through brokers.	Lower operating costs than mutual funds. More tax efficient (meaning less tax liability than other investments). Subject to market volatility. May have high broker fees.

Stocks	When you purchase stock in a company, you provide money for the company to operate its business. The goal is to sell your stock at a time in the future for a higher price than you paid for it. Stocks can be bought through a registered broker or by using online discount brokerage firms.	An increasing stock price is not guaranteed. Could lose money if shares are sold during a market downturn for less than the purchase price.

Active Trading vs. Long-Term Investing

When most beginning investors think of the stock market, they think of the fast-paced buying and selling of stocks to make quick profits. While trading (transferring assets, such as stocks, to make a profit on the sale) is one way to approach investing, it is not the only way.

Traders generally try to benefit from short-term changes in the market by frequently buying and selling shares based on trends.

Trading can be seen as occupying the opposite end of the spectrum from long-term investing. The goals of most investors will be best met by a more conservative (and less active) approach. But, again, it all comes down to what your goals are.

Before You Pick Stocks

1. You need money to invest that does not limit your ability to meet other financial needs.
2. You need to be willing to lose some of that money.
3. The riskier the investment, the higher the potential losses and rewards.

Trading (market timing) is very difficult to do. You have to be right twice —once when you buy the stock and again when you sell it. Even professionals with years of experience have a hard time making money this way.

Picking Stocks — An Art, Not a Science

You can experience the excitement of picking stocks and following their progress without the dramatic ups and downs of constant active trading. The most important thing to remember is that there is no magic formula to making money in the stock market. Even the most seasoned investors choose their stock investments using theories or strategies, with varying levels of success, depending on a wide range of factors.

Bulls and Bears

You might have heard the terms “bull” and “bear” markets. In the simplest terms, “bull” means rising and “bear” means declining.

So, if you are “bullish” on a certain stock, it means that you believe its value is increasing. If someone says it’s a “bear market” they mean that the markets are headed downward.

Stock Analysis Methods

Investors rely on different methods for estimating the future value of a stock. Some examples include:

Fundamental Analysis.

A method for determining the true (or intrinsic) value of a company by estimating all future profits and adjusting for inflation.

"Profit" means what is left over after all operating costs have been covered. Keep in mind that profits for the company do not necessarily translate to money in shareholders' pockets (if your goal is to earn money on dividends). On the other side, if a company consistently delivers high dividends to shareholders, that money is not being reinvested into the company to promote future growth.

To determine a company's "fundamentals," investors examine the company's past and current cash flow, discounted for inflation, and consider the company's projected rate of growth.

Qualitative Analysis

This method widens the criteria to include factors beyond earnings that could contribute to a company's future success or failure — and to the rising or falling price of shares. These factors can include the company's plans for new products, its current management, potential opportunities or challenges in the company's industry sector (i.e., technology) and many other aspects that can't be seen in earnings alone.

Technical Analysis.

By contrast to other methods, investors who use technical analysis often do not consider the long-term future growth or viability of a company. Often, technical analysts (sometimes called chartists) know very little about a company's history, management or products because investment decisions are made using charts of past trends to predict future movements, based solely on the chart data.

Chartists look for specific patterns (or indicators) in chart reports – for example, the "head and shoulders" or the "ascending triangle." Technical analysts employ a wide variety of patterns to make predictions, but all chart patterns examine the price of a stock over time to identify trends. Successfully spotting these patterns takes practice, and even experienced chartists still must rely on their own subjective opinions.

Two Common Stock-Picking Strategies

The factors that determine whether the stock market or individual stocks go up or down generally cannot be predicted, so investors have developed several strategies for determining what to invest in. Here are just two examples:

- *Value Investing* involves finding companies that are trading for less than they currently are worth.

- *Growth Investing* means finding companies that you believe will grow in the near future.

Value Investing

With value investing, you want to find companies that look to be undervalued in the current market. Using your chosen method or combination of methods (such as analyzing fundamentals or qualitative factors) to determine a company's value, you would choose stocks that seem to be a good bargain at their current value.

Growth Investing

Rather than looking for stocks that currently are undervalued, growth investors look for indicators (such as earnings per share and the price-earnings ratio) that a stock will grow in the future. This method can tend toward a new product or growth industries – such as new technologies – that the investor believes will grow.

Before you rush out to buy your first stocks, you will want to do further research into these and other methods on your own or with a financial planner to determine the best approach based on your risk tolerance, timelines and unique investing goals.

Explore Income-Producing Investments

Income investments provide regular earnings such as monthly interest, quarterly dividends or even rent payments. Steady, predictable income is the goal for income investments. Choose wisely to create a balanced portfolio.

Some common income-producing investments include:

Type	Description	General Risk Factors
Bonds	• You lend money to a government entity or corporation with a promise that you will be repaid on a certain maturity date. • Interest is paid on the money you lend. • The interest rate generally does not change. • Corporate bondholders are less likely to lose money than stockholders in the case of a company bankruptcy. • Bonds can be bought from banks, brokers, and dealers (usually with a fee) and, for U.S. Treasury bonds, directly from the U.S. Treasury.	• **U. S. Treasuries**: Little risk because they are guaranteed by the U. S. government. Higher amount of inflation risk. • **U.S. Government Agency Securities:** Mortgage backed bonds may have higher interest rate risk than Treasury securities. • **Municipal Bonds:** Tax free. Can vary in risk. • **Corporate Bonds:** Risks range from low to high, depending on the corporation issuing the bond. The risk of the bond being called (redeemed by the issuer before it is mature) makes it riskier than government-issued bonds. If a company goes bankrupt, bondholders are considered creditors who must be repaid first. Bonds can be bought from banks, brokers and dealers (usually with a fee) or directly from the U.S. Treasury.

Real estate	• Monthly rent payments provide regular income with the potential to sell the property later for more than you paid (growth). The best way to purchase real estate is through a qualified real estate agent.	• Closing costs and realtor fees can make real estate investments costly. • Maintenance, repairs, homeowners insurance and other house-related costs can add up. • No guarantee that the real estate market will remain strong if your plan is to sell.
Dividend stocks	• Regular dividends (payments) are usually paid to stockholders four times each year (quarterly), either in cash or shares of stock. Depending on the performance of the stock, you may be able to sell it later for more than you paid (growth). Registered brokers or online, discount brokers can be used to facilitate stock purchases.	• If the company fails, you may not get your dividend and the stock price could go down. • Market volatility can devalue your investment. • Dividends paid to shareholders take away from profits reinvested in the company (less growth).
Business Investments	• Starting your own business can pay off with regular income payments. You get to keep all the profits after taxes and business expenses. The Small Business Association (SBA) and SCORE can help you plan and get loans for starting your own business.	About 50 percent of new businesses fail in the first five years. The SBA identifies the following risks: • **Market risk:** the risk posed by current market trends and conditions. • **Financial risk:** the risk associated with the financial outlays facing a new business. • **Management risk:** the risk of ineffective management of sales, operations, cash flow and customer service.

THINGS YOU SHOULD KNOW

Now that Valerie has a good background for making her first investment decisions, she realizes she needs some objective advice. She's afraid she could get taken advantage of or end up losing a lot of money if she trusts the wrong person. Luckily, there are ways for her to find out more about financial advisors and how to protect herself.

Working with an Advisor

Taking care of your finances is like taking care of your health. You need to do regular check-ups. But, just like going to a doctor for your physical, not everyone wants to do their own financial planning, In fact, many of us prefer to have the assistance of a licensed financial practitioner.

Use these tips to help you identify a qualified, knowledgeable financial planner:

Make sure the planner is interested in your needs. You don't want someone who offers the same type of plan to everyone, and you don't want someone who is just interested in collecting fees or commissions from selling products.

Tools to Check on an Investment Professional

When you are using an investment professional, you will want to be thorough in your research. The U.S. Securities and Exchange Commission (SEC) has compiled several tools to help you verify the information your investment advisor has provided.

Protect Yourself

When it comes to protection, you will always need to rely upon yourself. Remember:

- Avoid anyone using high-pressure sales tactics. Do your homework and invest at the right time for you.
- A reputable investment professional will not:
  - Ask you over the phone to send money to purchase an investment, based just on a sales pitch.
  - Ask you to make a check out to him or her.
  - Ask you to send money to an address that is not the official address of the firm or designated in a prospectus (a legal document providing details about an investment offering).
  - Give you guarantees that you will not lose money or offer to share in any losses you suffer.
  - Suggest you make dramatic changes that are not in line with your investment goals.
- Collect and verify all paperwork about a transaction for your records. It should contain the date, time, amount and price of each investment you buy or sell.
- Be alert to recommendations that are based on “inside information,” limited-time offers, or any other such confidentiality.
- If something sounds too good to be true, it probably is.

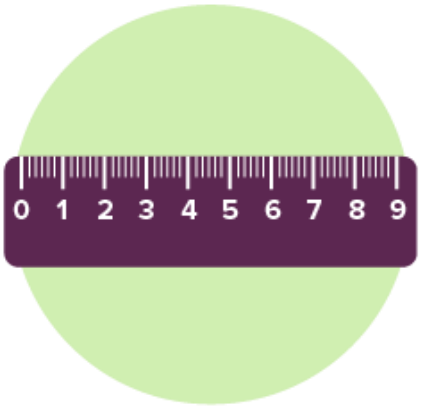
MAKE A "SAM" PLAN

Use the SAM action steps to analyze your current investing situation and take purposeful steps toward identifying or making changes.

Are you losing out to inflation? Will your current plans put you where you want to be in the future?

Consider your risk tolerance. Might you want to take on riskier investments to grow money faster, or would you benefit from diversifying more?

Set intentional goals to improve your investing and long-term savings.



Size Up Your Situation

Use these questions to help you start thinking about investments — even if you don't have any just yet.

1. How much do you have available to invest on a monthly basis? Be honest with your budget at this point in time. You can make adjustments to it later, but what could you set aside right now toward investing?
2. Consider any current investments or savings you have. Are they earning enough for you to keep up with the current inflation rate? (Find information about inflation rates here.)
3. What types of income investments do you currently have? Do you know the actual return on these investments?
4. What growth investments are in your portfolio? How well are they performing?
5. Do you have retirement plans that you can invest in at work? Are you invested in them currently? What returns are you getting from them? Are you maxing out on matching contributions (if available) from your employer?

With the answers to those questions in mind, think about your level of satisfaction with your answers and then ask yourself:

- How comfortable am I with my investments so far? Is there something else I could be doing to make a change in my investment strategy? Am I comfortable enough to make an investment change?
- What else could I be doing with my money? Are my retirement goals supported by my current investment strategies? Am I giving up something by continuing with my current investment strategy? If so, what is it?
- What's holding me back from making an investment change? What other information do I need?

Analyze Your Circumstances

With your current investment(s) and thoughts about anything you might want to change, it's time to make a plan.

What are Your Goals for Investing?

Before you can select appropriate investments, identify and rank your investment objectives.

Rank these objectives from 1 (most important) to 10 (least important) and use this information when choosing investment products or when working with a financial professional.

_____ Minimize the risk of loss of principal.

_____ Maximize the potential for large short-term gains.

_____ Ensure slow, stable growth to fund long-term future needs, such as retirement or a child's education.

_____ Maximize liquidity in the event funds are needed in a hurry.

_____ Maximize current income to provide for current needs.

_____ Reduce income taxes.

_____ Build savings toward short- or mid-term major purchases, such as a down payment on the purchase of a home.

_____ Maximize the value of your estate for your heirs.

_____ Minimize the amount of estate taxes owed upon your death.

_____ Protect assets from the claims of creditors or others.

Make Your Investing Plan

Once you have your objectives outlined, it's time to get started. There are three steps you can take to start investing or to make changes to your investment portfolio.

Secure enough money to invest.

- After paying your essential and necessary expenses, have something left over to set aside for investing. Plug your spending leaks to free up cash for saving or investing.
- Take advantage of matching funds from your employer. This is like free money that you can use to your investment advantage.
- Evaluate your situation every year to find new ways to save and invest.

Make a plan to save and invest.

- Set long-term savings and investing goals.
- Decide your best investing options and strategies.
- Intentionally include saving and investing in a spending plan.
- Contribute to tax-advantage savings plans.

Invest to put money to work for you.

- Know what you are investing in. Use these eight questions to prompt your thinking about your investment choice.
- Think long term.
- Take some risk to beat inflation.
- Pay attention to your risk tolerance.
- Take advantage of compound interest.
- Use diversification and dollar-cost averaging in your investment strategy.
- Reinvest all earnings, until such time as you actually need the cash from the investment.

Revisit your investments annually to make sure they are still achieving the goals you set out. No one strategy will fit every phase of your life, so it's important to give your investments an annual check-up.

Tips for Smart Investing

Wealth building takes a firm commitment to making your money work for you and making smart decisions. Follow these cautions when you are on the investment pathway.

Be Realistic

Investing is not just about seeking the highest possible returns. Consider your investment objectives to make informed, realistic investment decisions that will help you accomplish your financial goals. Set your investment objectives using the SMART model for goal setting.

Follow a Detailed Plan

Develop a plan to eliminate the urge to buy or sell investments without careful thought. Write it down, and set dates to review it periodically. Establishing your plan will help you in good times and bad, and it will help you scrutinize those wild tips you get from your favorite family member. Include:

- Your investment goals and time frames
- The returns you need to meet your goals, and any income needs you have from investing
- The types of investments that fit your goals
- Your plans for diversification
- The risks you are comfortable taking to achieve your financial goals

Steer Clear of Trouble

Do your homework before investing so you feel comfortable with your decisions.

Avoid Trusting Others Blindly.

This is your money. Think for yourself and research the expertise of anyone offering advice before you follow it.

Avoid the Fairy Tales.

If something sounds too good to be true, it probably is. Red flags should go up if anyone promises a large guaranteed return on an investment.

Avoid Relying on Past Performance.

Choosing investments on their past performance is like driving using only the rearview mirror. Past performance is an achievement, not a predictor of what will come in the future.

Avoid Borrowing to Invest.

If your investment doesn't pan out, then you will still owe the money you've lost to the lender. Rather, stick to your investment goals and set aside savings that you specifically designate for investing.

Avoid Holding Only One Investment.

Diversify. Changes in markets can happen quickly — before you can even begin to react. Diversifying your portfolio will help protect you from these swings, giving you time to make informed decisions.

Avoid Flipping Stocks.

Trying to "beat the market" by frequently buying and selling stocks is a losing proposition. In fact, nearly 82 percent of daily traders lose money. Bankrate.com states that the easiest part of day trading is making mistakes.

Avoid Getting Emotional.

Having a plan and sticking to it can help you avoid mistakes and impulsive decisions.

INVESTING RESOURCES

Consumer Protection and Assistance

The U. S. Securities and Exchange Commission (SEC) is charged with protecting investors as well as maintaining and promoting a market that can be trusted. There are many different types of publications related to investing on its website.

Additionally, there are clubs, organizations and agencies dedicated to helping investors.

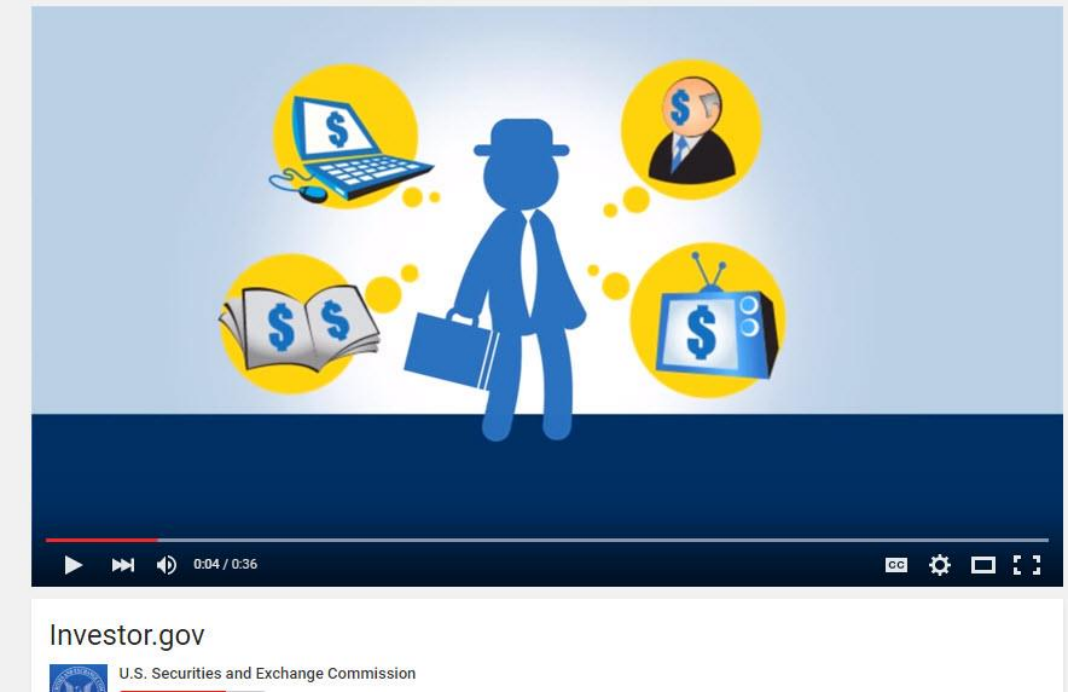
Investment Clubs

In investment clubs, people pool their money to make investments. Members make collective decisions to buy or sell, based on studying different investments.

Though they are usually organized as partnerships, each investment club decides whether to register and comply with securities laws. And, there may be required buy-in amounts to be part of the club. To learn more about investment clubs in your area, visit the website for BetterInvesting.org.

Investor.gov

Investor.gov is a website sponsored by the SEC's Office of Investor Education and Advocacy. It provides online resources to help you become a better investor and avoid fraud. Check out the video below. The direct link is: https://www.youtube.com/watch?v=kDFrmMfjRHk



Although geared toward seniors, Investor.gov offers guides to protect yourself against investment fraud that can be helpful to anyone.

Financial Industry Regulatory Authority (FINRA)

FINRA provides investor protection and helps to regulate the securities industry. By bringing disciplinary actions and assessing fines against unscrupulous brokers and firms, FINRA helps bring integrity to the investment markets.

If you need to file a complaint against a sales person, brokerage firm or other securities-related professional, you will want to go to FINRA. Learn more about it at: https://www.youtube.com/watch?v=cTtgQTqYtAk