LESSON PLAN

LESSON TITLE:	INVESTMENT PRINCIPLES
INSTRUCTOR:	
TEACHING METHOD:	INFORMAL LECTURE & DISCUSSION which is included in the first 30 pages of the lesson plan. The remaining pages can be used as handouts or as instructor resource materials.
INSTRUCTIONAL AIDS:	USAA Booklet -- <u>Risk and the New Investor;</u> or <u>What is a Mutual Fund?</u> brochure, and <u>Basic Investments Booklet</u> and assorted handouts
CLASS TIME:	COMPREHENSIVE 8 HOURS
LESSON OBJECTIVE:	The objective is to provide the participants with a fundamental understanding of investments and show them how to develop a suitable investment program to achieve their financial goals.

-The Importance of Financial Goals and the Time Value of Money

-Determine personal risk tolerance

-Identify investment risks

-Identify the objective of various investment vehicles

-Matching Investments with Personal Goals

-Investment Strategies to Reduce Risk

-Identify various retirement investment vehicles (i.e., IRA, Keogh (401(k)), SEP, etc.)

LESSON PLAN MAIN TOPICS:

1. Goal Setting
2. Personal Risk Tolerance
3. Investment Risk
4. Investment Vehicle Objectives
5. Matching Investment with Personal Goals
6. Investment Strategies to Reduce Risk
7. Retirement Investment Vehicles

LESSON OUTLINE

A) INTRODUCTION

B) SUBJECT MATTER

- I. The Importance of Financial Goals
  - A. Steps to determining your Financial Goals
  - B. Time Value of Money

II. Determine Personal Risk Tolerance

- A. Explain Risk Tolerance
- B. Goals vs Risk
- C. Personal Risk Tolerance Test

III. Identify Investment Risk

- A. Unsystematic Risk
- B. Systematic Risk
- C. Business Risk
- D. Financial Risk
- E. Interest Rate Risk
- F. Purchasing Power Risk
- G. Market Risk
- H. Liquidity/Marketability Risk
- I. Political Risk

IV. Identify the Objectives of various Investment Vehicles

   A. Debt vs Equity Investments

   B. Debt Investments: Savings Bonds, Money Market Account, CD's, U.S. Treasury Securities, Corporate & Municipal Bonds

   C. Equity Investments: Stocks, Real Estate & Mutual Funds

V. Matching Investments with Personal Goals

   A. Research before Investing

   B. Monitor your Plan

VI. Investment Strategies to Reduce Risk

   A. Dollar-cost Averaging

   B. Asset Allocation -- Diversification

   C. Avoiding Common Investment Mistakes

VII. Identify various Retirement Investment Vehicles

   A. Annuities

   B. Employer-sponsored Retirement Programs

   C. Individual Retirement Accounts (IRA's)

C) Review & Summation

TEACHING PLAN

INTRODUCTION

ATTENTION: To encourage class participation consider conducting an ice-breaker at the beginning of the class. An example would be to ask a variety of investment questions or a short investment quiz. This would encourage class participation and give you an idea of the knowledge level of the group.

MOTIVATION:

OVERVIEW: Main Topics

TRANSITION:

SUBJECT MATTER

I. The importance of Financial Goals.

A. Before you begin to invest, you need to know why you want to invest. You need to have a specific goal in mind. When considering to invest, these are the stages you should go through to reach your goal.

Stage 1: Identify your available income.

Lump sums -- invested assets such as money market accounts, savings bonds, etc.

Discretionary income -- is the amount you can spend each month after you pay all your expenses.

Think about other sources of income that may be available within the next few months:

Tax refunds, pay raises, reenlistment bonus, etc.

Stage 2: Establish your financial goals.

Specify exactly what you want to do and include a completion date. For example, $20,000 for a down payment on a home when I retire in 10 years.

Rank goals in order of importance.

Estimate cost to complete goal. Do not forget to consider inflation. We need to consider inflation for a moment. How does inflation affect our cost to complete a goal? Inflation reduces our purchasing power. A dollar today will not buy a dollar tomorrow. Economists tell us that a certain amount of inflation is good. It stimulates the economy and keeps it from stagnating. Economists think that 3-4% annual inflation is good. The historic rate of inflation is 5%.

You should consider inflation when you have goals with a target date of 5 years or more.

Stage 3: Determine whether goal can be met.

Calculate a lump sum and monthly payment to reach your goal. Decide what average interest rate can be maintained to reach your goal, and remember that depends on your risk tolerance level. Review available income and decide whether the goal can be met by lump sum or monthly payments. If the goal can be met, allocate resources and decide which investment mode. If the goal cannot be met, review budget and consider making changes, or redefining your goal.

Remember, you have to do this for each goal!

Stage 4: Review goals regularly to insure they are being met, make corrections if necessary. Make sure you are getting the average interest rate expected. You may need to change to another investment to get your desired rate of return.

FORMULA:

PV x FACTOR = FV

PV - Present Value
Factor - inflation rate or rate of return x number of years to complete goal (from tables)
FV - Future Value

B. Time Value of Money -- Magic of Compound Interest

(DISTRIBUTE TIME VALUE OF MONEY -- RATE OF RETURN HANDOUTS)

Time can be your greatest ally in achieving financial independence and success. Here are two examples:

Example A: Take case of Individual A who starts saving $2000/year at age 21 to age 30 then stops. Compare to Individual B who starts saving $2000/year at age 31 and continues until age 65. Assuming identical rates of return of 9%.

Individual A's account = $620,296 for saving for 10 years

Individual B's account = $431,422 for saving for 34 years

Example B: Three triplets have determined that they each will need $500,000 at age 65 to supplement their pensions and achieve their retirement goals. Assume 8% rate of return.

Triplet A waits until age 40 to start saving -- result: A must save $533.79/month for 25 years. Out-of-pocket contributions total: $160,137

Triplet B starts saving 5 years earlier at age 35 -- Result: B must save $341.35/month for 30 years. Out-of-pocket contributions total: $122,886

Triplet C starts saving 10 years earlier at age 30 -- Result: C must save $222.27/month for 35 years. Out-of-pocket contributions total: $93,353.40

The excuse is often heard that "I just cannot afford to save."

Look at the figures again, if you cannot afford $222/month, how easy will it be to save $341/month? Or, for that matter, how easy will it be to save $534/month? The truth is:

YOU CAN'T AFFORD NOT TO SAVE, SAVE WHATEVER YOU CAN NOW!

II. Determine Personal Risk Tolerance

(HAND OUT RISK QUIZ)

A. Before you invest you should know what level of risk you can safely assume. THERE ARE NO RISK-FREE INVESTMENTS, the greater the potential reward, the higher the risk. Therefore, you have to be honest about your personal risk tolerance; for couples, it's important to discuss the amount of risk you are both willing to take.

B. Always keep in mind when investing what your goal is for that particular investment. You would not necessarily want to put your children's college fund into an investment that is considered to be very risky. Nor, would you want to put your Emergency Fund into a vehicle that has the potential to lose the entire principal.

C. Have participants take the Risk Quiz. After the test, students should have a good idea about what kind of investor they are: conservative, moderate or aggressive. This in-turn will allow the participants to better match goals/objectives with investment vehicles.

III. Identify Investment Risk.

A. Unsystematic risk is the portion of total risk that is unique to a firm, industry or property. This risk can be reduced through diversification. Business risk and financial are two types.

B. Systematic risk is not diversifiable. It affects the prices of all comparable investments. Economic, political, and sociological changes affect systematic risk. Market risk, interest rate risk, and purchasing power risk are systematic risks.

C. Business risk is the risk associated with the nature of the business itself. Can the particular company pay debts that come due or pay investors' dividends? This risk can be lessened by buying investment quality stocks and bonds, and by diversifying throughout the business.

D. Financial risk is the risk associated with the mix of debt and equity used to finance a firm or property. The larger the proportion of debt used, the greater its financial risk. This risk can be reduced by choosing companies that have low debt ratios, or proven records of paying off debts.

E. Interest rate risk is caused by the general level of interest rates. This risk especially affects fixed rate investments. When interest rates rise, the value of your bond drops because investors can buy another bond at a better rate. When interest rates drop, your bond becomes a better buy to another investor.

F. Purchasing power risk refers to the impact of inflation on the economy. When you invest, you give up the right to buy a good or service at today's price. With inflation, tomorrow's price may be more than the return earned on the investment.

G. Market risk is the loss or gain of capital resulting from changes in the prices of investments. A drop in the stock market is a good example. A large drop hurts stocks across the board.

H. Liquidity/Marketability risk is the ease of being able to find a market for your investment. A good example is collectibles. Many people collect David Winter Cottages, Stamps, Baseball cards. Some of these collectibles have become quite valuable at the right time and market. You would not want to put your emergency funds into baseball cards and have a crisis in the middle of a holiday or vacation.

I. Political risk is where the political environment affects the value of the investment. Imposition of wage and price controls, government efforts to settle labor strikes, and election of officials who change defense-spending and tariff policies can affect investments negatively or positively.

IV. Identify the Objectives of various Investment Vehicles

A. Basically there are two types of investments:

Debt Investments - Lending your money at a stated interest rate for a particular length of time. Types range from certificates of deposit to government bonds to corporate and municipal bonds. Most can be held to maturity or traded by the purchaser. Not all debt investments guarantee stability of principal.

Equity Investments- Represent a share of ownership. They carry no fixed yield. Fluctuation in value is an integral part of equity investments. When the issuing company makes money, the shareholders generally make money. Equity investments can also drop in value.

- Remember, no one investment works best all the time; look at a variety of investments to meet your different goals.

B. Debt Investments:

EE SAVINGS BONDS - EE Savings Bonds are issued by the Federal government to finance debt. The bonds are designed to encourage saving by people of modest means. EE bonds are issued at a 50% discount (a $50 bond cost $25). The bonds earn a variable rate of interest based on 85% of the average rate on five year treasury securities.

Advantages:

- guaranteed minimum interest rate
- tax break -- no state or local tax
- if used for children's college education then tax exempt
- you can name a beneficiary
- no commission

Disadvantages:

- cannot serve as collateral for loan
- no secondary market
- if bonds are redeemed before 5 yrs, a penalty is assessed
- cannot be used for an IRA

Minimums:

- denominations: $50, 75, 100, 200, 500, 1000, 5000, 10,000
- limited to $15,000 cash purchase in any one calendar year

HH SAVINGS BONDS: HH Savings bonds work the same way as EE bonds. The only way to get HH bonds is to roll EE bonds over into HH bonds. HH bonds can be bought in denominations of $500, 1000, 5000, and 10,000.

MONEY MARKET ACCOUNTS: a generic term describing a variety of high-interest earnings accounts (compared to passbook savings accounts) that have limited check writing privileges. Such accounts usually have daily compounding and are offered by banks, savings and loan associations, credit unions, stock brokerage firms, financial supermarkets, mutual funds, and other financial institutions.

Advantages:

- liquid, can remove money when needed
- safe, if deposited in FDIC insured bank
- usually earn higher interest rate than in passbook savings account

Disadvantages:

- usually a minimum opening amount of $2500
- limited check writing and transactions. A fee is charged for exceeding these limits
- may not earn a return high enough to compete with inflation

Risk level: low

Ideal investment for:

- first investments
- risk avoiders
- emergency fund
- ”short-term” parking

CERTIFICATES OF DEPOSIT: With a certificate of deposit, you deposit your money into an account for a specified amount of time, which is determined before you buy the certificate, and the bank guarantees you a specified rate of return. The term of the CD can run from several days to several years, the most common being 1 month, 3 months, 6 months, 1 year, and 3 years.

Advantages:

- the rate of return is guaranteed
- yields are higher than bank accounts
- pay no charge for your investment

Disadvantages:

- long term CD’s can suffer from interest rate risk
- there is a penalty for early redemption
- interest earned is taxable

* Look in Money or Kiplinger’s to find the best CD rates!

BOND INVESTMENTS:

Fixed asset investments

> Fixed Value and Fixed Yield: value of the instrument and the yield do not change during the period (e.g., $5,000 CD @ 8% for 36 months).
>
> Fixed Value and Variable Yield: value of the instrument remains the same but the yield fluctuates based on a factor in the economy. Normally, the factor is the Federal reserve interest rates (e.g., savings bonds, savings accounts, etc.).
>
> Variable Value and Fixed yield: value of the instrument itself fluctuates while the yield or interest rate on the instrument remains stable. Again, the fluctuating value is based on a factor in the economy that is usually the Federal Reserve rates. (E.g., municipal and corporate bonds and government treasury notes and treasury bills.)
>
> Risk: Your primary risk in the bond market is interest rate risk. When the value (or price) of the bond itself fluctuates with the interest rates in the general economy, your bond may be worth more or less depending on the movement of interest rates. For example, a 20 year $1000 bond with an 8% annual rate (annual return of $80) will only be worth $750 if interest rates rise to 12% within the next year or, it will be worth $1250 if interest rates decline to 6%.

REMEMBER: Rising interest rates reduce bond values and falling rates increase bond values.

LANGUAGE OF BONDS

INDENTURE: A written legal agreement between bondholders and the debtor as to the terms of the debt.

DENOMINATION: The face value, stated value, or par value (usually $1000) of a bond.

MATURITY DATE: The date the face amount is due or retired.

SECURED VS UNSECURED BONDS: A secured bond pledges specific assets as collateral in the indenture while unsecured have no collateral and are backed only by the good faith and reputation of the issuing agency (also known as a debenture).

CALLABLE BONDS: Bonds that can be bought back before maturity. Call dates must be specified in the prospectus. Bonds will most likely be called when interest rates fall. Buy bonds with long-term call dates (5-10 years).

CURRENT YIELD is the measure of the current annual income (e.g., $1000 bond bought at a discount of $740 paying $70 per year has a current yield of 9.45% even though the yield stated on the face of the bond is 7%).

CONVERTIBLE- Some bonds have a convertible feature that allows the investor to exchange the bond for a specified number of shares of common stock at a specified price. The price is higher than the current market price of stock when the convertible was issued. These bonds pay slightly lower interest. Convertibles work best when the interest rates drop and the price of the stock rises.

SINKING FUND PROVISION - Money is set aside to redeem a certain portion of a bond issue before maturity. The bonds are randomly selected, and do not earn interest once they are called. A strong sinking fund can be a sign of the corporation's confidence that the debt can be repaid. This can also be a measure of the risk associated with the bond.

CURRENT YIELD -- percentage that the investor earns annually. The annual interest payment divided by the price of the bond.

YIELD TO MATURITY - More accurate measure of the return. It includes the current income generated by the bond as well as any change in its value when it is held to maturity.

YIELD TO CALL -- Estimate of the return earned on a bond that is held until redemption

** NEVER BUY A BOND AT A PREMIUM WITHOUT CHECKING THE CALL DATE.

CALCULATING TAXABLE EQUIVALENT YIELD:

To calculate what a taxable investment would have to yield to equal the yield on a tax-exempt investment, use the following simple equation:

Take yield you are receiving from Tax-exempt investment -- Divide tax exempt yield by (1 - Your tax bracket) to get taxable equivalent yield.

TAX EXEMPT YIELD / (1 - TAX BRACKET) = EQUIVALENT TAXABLE YIELD

Example 1: A tax-exempt investment earning 6%, for someone in the 15% tax bracket:

$$.06 / (1 - .15) = .06 / .85 = .0705 \text{ or } 7.05\%$$

Example 2: A tax-exempt investment earning 6%, for someone in the 28% tax bracket:

$$.06 / (1 - .28) = .06 / .72 = .0833 = 8.33\%$$

- Tax-exempt investments are of greater value to individuals in the higher tax brackets.

Grading bonds: bonds are graded based on default risk (credit risk). The risk is evaluated by Standards and Poors (S&P) Corporation or Moody's Investors' Services and rated as follows:

MOODY'S	S&P	
AAA	AAA	High quality investment
AA	AA	
A	A	
BAA	BBB	Medium-quality investment
BB	BB	Junk bonds start here
	B	
B	CCC	Lack characteristics of a desirable
CAA	CC	investment
CA	C	
C	DDD	In default with little prospect of retaining investment standing
	DD	
	D	

US TREASURY SECURITIES

The US government sells securities in the form of treasury bills, notes and bonds to finance its debt. The securities are backed by the government. Interest is exempt from state and local tax.

Treasury bills- sold at discount from face value. Bills do not have a stated interest rate. The yield is the spread between the purchasing price and the face value. Bills mature in 13,26, or 52 weeks. Minimum investment is $10,000.

Treasury notes- mature in 1-10 years, and pay a fixed interest rate twice a year. Minimum investment is $1000 for notes maturing in four years or more and $5000 for those maturing in less than four years.

Treasury bonds- mature in 10 years or more, up to 30 years. Bonds pay a stated rate of interest, which is paid twice a year. Minimum investment is $1000.

Advantages:

- usually the longer the maturity, the higher the interest rate
- very safe, backed by the US government
- wide range of maturities
- very active secondary market

Disadvantages:

-subject to interest rate risk

Risk level: low

Ideal investment for: investors who desire liquidity and safety

Where to buy: commercial banks, Federal Reserve banks, stockbrokers, or by mail from the Bureau of Public Debt.

CORPORATE BONDS

Many corporations issue long-term debt to finance long-term investments, such as the expansion of plant and equipment. Long-term debt allows the corporation to acquire the assets now and pay for them over the years. The debt is retired by the cash flow that is generated by the increased plant and equipment. Bonds have a maturity date, which is the date that the debt must be paid. The owner of the bond receives interest in return for the use of the money. This interest is referred to as the bond's coupon rate and is fixed. The return earned depends on the interest received, the purchase price, and what the investor receives upon selling the bond or redeeming it. There is an active secondary market for trading bonds.

Advantages:

- higher interest rate than savings accounts
- safe return of capital
- regular income
- low purchase cost
- ease of management

Disadvantages:

- principal does not appreciate
- must take interest, interest cannot be reinvested
- because bonds are subject to call, you may not get the return expected
- interest rates affect the value of the bond
- wide variation of returns requires careful examination
- To adequately diversify, 10 or more different bonds should be bought, requiring a large amount of capital.

Minimum Investment:

- $1000 (commission will be lower if you buy several of the same issue)

Risk level: Medium

Ideal investment for:

- income-oriented investors
- investors who have sufficient capital and need to diversify portfolio
- when interest rates are expected to go down

C. Equity Investments:

STOCKS

(HANDOUT: GETTING STARTED WITH STOCKS)

Stockholders are owners in the corporation. They are entitled to all earnings after claims have been paid and receive voting rights. Stocks are traded on the New York and American Stock Exchanges and over-the-counter.

Study was conducted in 1990 by Ibbotson Associates, an Investment Research Firm, on chance of suffering a loss with stocks.

Holding period -- Five years or less --	1 in 7 chance of loss
Holding period -- Ten years --	1 in 20 chance of loss
Holding period -- Over ten years --	practically nil

Preferred stocks- usually considered a fixed income investment because the dividends rate is fixed. Preferred stockholders do not have voting rights.

Blue Chip stocks- are high-grade, investment quality issues of major, well-established companies that have long records of earnings growth and dividend payments in good times as well as bad. The ability to pay steady dividends over bad years can be a strong indication of financial stability.

Growth stocks- the stock of a company whose sales and earnings are expanding faster than the general economy and faster than those of most stocks. The company is usually aggressive in nature and reinvests much its earnings back into the company for further expansion. Growth stocks pay small dividends and their current yield is usually low for this reason. Investors are hoping for capital gains. Growth stocks can be volatile.

Income stocks- usually yield higher dividends than growth stocks.

Defensive stocks- regarded as stable and relatively safe, especially in periods of declining business activity.

Cyclical stocks- earnings tend to fluctuate sharply with the business cycle.

Advantages:

- potential for great profit
- liquidity and marketability
- dividends can be reinvested for dollar-cost averaging

Disadvantages:

- potential for loss of capital
- may not provide enough income
- market can be volatile

LANGUAGE OF STOCK INVESTING

Earnings per share (EPS): amount of income a company makes on a per share basis after taxes and dividends to preferred stockholders but before common stockholders.

Price/earnings ratio (P/E ratio) : an indicator of how the market is valuing the stock and an indicator of investor confidence in a stock's five year future. Generally, low P/E stocks have higher dividend yields, less risk, lower prices, and slower earnings growth rate while high P/E stocks have lower dividends, higher prices, and faster earnings growth rate.

Cash dividends: distribution in cash by a corporation usually paid to common stockholders.

Dividends payout ratio: percentage of total earnings paid out to stockholders as cash. The lower the payout ratio, the greater the odds the company's earnings will sustain future dividend payments. (E.g., A company earned $34,000 and paid out $11,000 retaining 23,000 for company growth for a ratio of .32 (32% of earnings)). If you want growth, invest in companies with lower payout ratios.

Market value/price: the current price that a willing buyer would pay a willing seller for the asset

Beta: a measure of an investment's price stability or volatility in relation to the market for similar investments as a whole. All stocks (total) in the market have a beta of +1.

A Beta of 0 suggests the price of the stock is independent of the market

A Beta of +1.1-2.0 or higher indicates a security moves in the same direction as the market but by a greater percentage.

Risk Level:

- common stock: Medium to high
- preferred stocks: Low to medium

Where to buy: full-service or discount brokerage firms.

MUTUAL FUNDS

(HANDOUT: MUTUAL FUND QUIZ, MUTUAL FUND MYTHS & REALITIES, & HOW TO SELECT A MUTUAL FUND)

A mutual fund is a company that makes investments in institutions on behalf of individuals with similar financial goals. Pooling is the key to mutual fund investing. By pooling the financial resources of thousands of shareholders--each with a different amount to invest--investors gain access to the expertise of the county's top money managers, wide diversification of ownership in the securities markets, and a variety of services otherwise available only to institutions and wealthy families and individuals. The total number of shares outstanding changes from day to day as the mutual fund issues new shares when more money is invested in it and as the fund redeems, or buys back, shares from investors.

Professional money managers take this pool of money and invest it in a variety of stocks, bonds, or other securities selected from a broad range of industries and government agencies and authorities. Each mutual fund investor then owns a percentage of the portfolio developed by the fund's money managers. Fund managers make the decisions on when to buy, when to sell, and when to hold securities based on their extensive research. They consider the financial health of individual companies, taking into account general economic and market trends, and gather data from a variety of economic and statistical resources. When the securities appreciate--or pay out dividends or interest--all the fund's investors reap their proportionate share. Investors who put $1,000 in the fund get the same rate of return or yield per share as those investing $100,000. The money managers select securities that best meet their fund's investment objective, as explained in the fund's prospectus. Investment objectives are usually described in terms of one or more main goals. These may include stability -- protecting the principal (initial amount invested) from loss; growth--increasing the value of the principal; and income--generating a continuous flow of income through dividends.

The investment objective set forth by the fund is important to both the manager and the investor. The fund manager uses it as a guide when choosing investments for the fund's portfolio. Investors use it to determine which funds are suitable for their needs. Mutual funds' investment objectives cover a wide range, from higher returns with corresponding higher risk to immediate income available from more stable investments. The Investment Company Institute classifies mutual funds into 21 major categories of investment objectives. To achieve these objectives, fund managers may invest in as many as 50 to 200 or more different securities, seeking diversification among companies, industries, and other organizations and institutions to reduce investment risk. The reason: to avoid putting all one's investment eggs in one basket. Some funds may choose to diversify their investments within a specialized segment of the securities markets. For example, funds may invest in a particular industry, such as health care services, technology, energy, or utilities. Other funds may invest in particular segments of the economy, such as small businesses or real estate. Still other funds may develop portfolios of companies that meet certain social criteria. Some funds may even invest in other mutual funds. A mutual fund whose investment selections have a narrow focus tends to be more volatile than the markets as a whole. Although these specialty mutual funds are less diversified than many other mutual funds, investing in them will provide greater diversification within that sector than investing in just one or two individual securities.

The Institute compiles lists of 15 different specialty fund categories. Descriptions of those categories, as well as an index of funds within each category, are included in ICI's annual Directory of Mutual Funds.

EARNING MONEY THROUGH FUNDS

Mutual funds can make money for their shareholders in three ways. One, they pay shareholders dividends and interest earned from the fund's investments. Two, if a security held by a fund is sold at a profit, funds pay shareholders capital gain distributions. And three, if the value of the securities held by the fund increases, the value of each mutual fund share increases proportionately. For example, if a fund's investment objective is current income, it will invest in stocks or bonds that produce current dividends or interest. Then the fund passes through to its shareholders the dividends from those earning. Capital gains are realized when a fund sells a security for a higher price than it originally paid. The fund usually passes that gain through to its shareholders as a capital gain distribution. (If the gain is not passed along, investor profit from an increased value of their fund shares.)

Shareholders can have dividends and capital gains reinvested in additional shares of the fund or they can have the fund send them a check for the amount of earnings. If the securities held in the fund's portfolio increase in value, but the fund holds on to those securities instead of selling them, this increases the value of the fund's total portfolio and thus the fund's price per share. When investors pool their money in a mutual fund, their dollars buy shares in that fund.

To determine the price of these shares, at the end of each business day the fund adds up the value of all securities held in its portfolio, after expenses, and divides the total by the number of shares outstanding. Unlike a traditional corporation, mutual funds can issue an unlimited number of shares. In addition, shareholders have the right to redeem part or all of their holdings at any time. Each day, the fund must determine both the value of its portfolio and how many shares are outstanding. That simple calculation gives the fund its Net Asset Value or NAV. Because it represents the value of a single share in the fund, the NAV is important to know when the fund shareholder is either redeeming shares or purchasing new ones.

To determine the value of their holdings, individual fund shareholder simply multiply the number of shares they own by the NAV. NAV may not seem to change much over time, dividend and capital gain reinvestments can contribute toward buying many more shares than originally purchased. So even if the price of each share does not change a great deal, owning many more of them represents an increase in the value of the shareholder's investment.

Under the Internal Revenue Code, mutual funds that meet certain requirements serve as conduits through which the income and gain earned by a fund from its portfolio securities can flow through the fund to it shareholders without any tax being paid by the mutual funds. Instead, individual shareholders generally treat long-term capital gains earned by the fund as capital gain income, and the remainder of the fund's income (including the dividends and taxable interest that the fund earns) as ordinary income. Generally, tax-exempt interest is exempted from income tax. For tax purposes, shareholders receive a yearend statement from the fund showing clearly what part of the money distributed to them represents ordinary income and what part represents long-term capital gains.

The distinction between ordinary income is important because: (1) long-term capital gain income is taxed at a maximum rate of 28 percent while ordinary income can be taxed at higher rates and (2) capital gains can be offset by capital losses. Shareholders also receive regular statements from the fund that not only show them how their investments are doing, but also report on the fund's progress, its portfolio holding, expenses, changes in management, and other relevant data.

HOW A FUND IS ORGANIZED

A mutual fund is owned by its hundreds or thousands of shareholders. A board of directors elected by the shareholders is responsible for carrying out the fund's investment policies and objectives. The board is authorized to appoint officers to manage the daily operation of a fund or to delegate that function to a management company. The management company, which is often the organization that created the fund, may offer anywhere from one to a dozen or more mutual funds, each with a different investment objective. Some of these funds may have separate "classes," or fee structures to meet different investor needs. The management company may also offer other financial products and services.

The management company usually serves as the fund's investment adviser of the money manager. The investment adviser is usually paid for the services of managing the fund and selecting its portfolio through a fee based on the total value of assets managed. Such investment management fees average about one-half of one percent annually. Other fund operating expenses are usually in the same range, for a total of about one percent per year for all the fund's costs of operations. Along with the investment adviser, the fund may also contract with a custodian, a transfer agent, and a principal underwriter. The custodian is usually a bank and its functions include safeguarding the fund's assets, making payments for the fund's portfolio of securities, and receiving payments when securities are sold. The transfer agent performs the shareholder record keeping services. It will issue new shares, cancel redeemed shares, and distribute dividends and capital gains to shareholders. The principal underwriter arranges for the distribution of the fund's shares to the investing public.

HOW FUNDS ARE DISTRIBUTED

Fund shares are distributed to the public in a variety of ways. There are two basic avenues: funds that market their shares directly to the public and those that market their shares through a sales force. Funds that market shares directly often use advertising and direct mail to reach investors. Their shares are usually distributed with a low or no sales commission.

In some cases, the fund's directors may authorize use of a small percentage of fund assets to support distribution efforts. This is known as a "12b-1 fee," named for the Securities and Exchange Commission (SEC) rule that permits it. Fund shares marketed through a sales force are available through brokers, financial planner, insurance agents, and, in some cases, through a sales force employed by a fund organization specifically to market the shares of its associated funds. These sales people may be compensated for their services to the investor through a direct sales commission included in the price at which the fund's shares are offered, through a 12b-1 distribution fee paid by the fund, or in both ways. An underwriter may act either as a wholesaler, selling fund shares to securities dealers, or as a retailer selling directly to the public.

All mutual fund activities are highly regulated. Mutual funds must register with the SEC pursuant to the Investment Company Act of 1940. The activities of mutual funds and their relationship with the public are regulated under this and other federal securities laws, as well as the securities laws of all the state--called "blue sky" laws--where securities are sold.

THE LANGUAGE OF MUTUAL FUNDS

Automatic reinvestment: an option available to mutual fund shareholders in which fund dividends and capital gain distributions are automatically flowed back into the fund to buy new shares and thereby increase holdings.

Redemption price: the price at which a mutual fund's shares are redeemed (bought back) by the fund. The bid or redemption price usually equals the current net asset value per share.

Capital gain distributions: payments to mutual fund shareholders of profits realized on the sale of securities in the fund's portfolio. These amounts are usually distributed to shareholders annually.

Closed-end mutual fund: issue a limited number of shares and do not redeem them (buy them back). Instead, closed-end shares are traded in the securities markets, with supply and demand determining the price.

Dollar-cost averaging: investing equal amounts of money at regular intervals regardless of whether securities markets are moving up or down. This practice reduces average share costs to the investor, who acquires more shares in periods of lower securities prices and fewer shares in periods of higher prices.

Exchange privilege: enables mutual fund shareholders to transfer their investment from one fund to another within the same fund family as shareholder needs or objectives change. Usually funds let investors use the exchange privilege several times a year for a low or no fee per exchange.

Investment objective: the goal, such as long-term capital growth, current income, growth and income, etc., Which an investor or a mutual fund pursues. Each fund's objective is stated in its prospectus.

Management fee: the amount paid by mutual funds to their investment advisers.

Net asset value (NAV) per share: the market worth of a mutual fund's total assets -- securities, cash, and any accrued earnings -- after deducting liabilities--divided by the number of shares outstanding. NAV is expressed as the value of a single share in the fund.

Open-end mutual fund: the statutory terminology for a mutual fund that redeems (buys back) its shares on demand.

Prospectus: The official booklet that describes a mutual fund. The prospectus contains information as required by the U.S. Securities and Exchange Commission of such subjects as the fund's investment objectives and policies, services, investment restrictions, officers and directors, how shares are bought and redeemed, fund fees and other charges, and the fund's financial statements. A more detailed document, known as "part b" of the prospectus provides the "statement of additional information," is available at no charge upon request.

Rollover: The movement of money from a pension plan into an IRA or other tax-qualified plan without a tax penalty. The plan participant first receives the money as a lump-sum distribution and must "rollover" the funds within 60 days to avoid paying taxes on the sum.

Sales charge: an amount charged on the purchase of fund shares sold by brokers or other members of a sales force. The sales charge may not exceed 8.5 percent of the initial investment. (The charge may vary depending on the amount invested.) The charge is added to the net asset value per share when determining the offering price.

Note: Some funds sold by brokers and other sales personnel charge an annual 12b-1 fee. In some cases, funds also may have a declining contingent deferred sales charge or back-end load--i.e., a charge imposed when shares are redeemed during the first few years of ownership. Funds that are sold directly to investors charge small commissions, or none at all.

Variable annuity: an investment contract sold to an investor by an insurance company. Capital is accumulated, often through investment in a mutual fund, and converted to an income stream at a future date, perhaps retirement. Income payments vary with the value of the account.

Withdrawal plans: a program in which shareholders receive payments from their mutual fund investments at regular intervals.

MUTUAL FUND OBJECTIVES

Aggressive growth funds: seek maximum capital gains as their investment objective. Current income is not a significant factor. Some may invest in stocks of businesses that are somewhat out of the mainstream, such as fledging companies, new industries, companies fallen on hard times, or industries temporarily out of favor. Some may also use specialized investment techniques such as option writing or short-term trading.

Growth funds: invest in the common stock of well-established companies. Their primary aim is to produce an increase in the value of their investments (capital gains) rather than a flow of dividends. Investors who buy a growth fund are more interested in seeing the fund's share price rise than is receiving income from dividends.

International equity funds: invest in equity securities of companies located outside the US. Two thirds of their portfolios must be so invested overseas at all times to be categorized here.

Balanced funds: generally have a three-part investment objective: 1) to conserve the investors' initial principal, 2) to pay current income, and 3) to promote long-term growth of both principal and income. Balanced funds have a portfolio mix of bonds, preferred stocks, and common stocks.

Growth and income funds invest mainly in the common stock of companies that have had increasing share value but also a solid record of paying dividends. This type of fund attempts to combine long-term capital growth with a steady stream of income.

Income-equity funds seek a high level of current income for their shareholders by investing primarily in equity securities of companies with good dividend-paying records.

Precious metals/gold funds maintain two thirds of their portfolios invested in securities associated with gold, silver, and other precious metals.

Bond funds, like income funds, seek a high level of income. They do so by buying bonds of corporations, US Treasury Bonds, bonds issued by a federal agency, or bonds issued by states and municipalities.

Flexible portfolio funds may be 100 percent invested in stocks or bonds or money market instruments, depending on market conditions. These funds give the money managers the greatest flexibility in anticipating or responding to economic changes.

Global bond funds invest in the debt securities of companies and countries worldwide, including the US.

High-yield bond funds maintain at least two-thirds of their portfolios in lower-rated corporate bonds (BAA or lower by Moody's Rating Service and BBB or lower by Standard & Poor's Rating Service). In return for a generally higher yield, investors must bear a greater degree of risk than for higher-rated bonds.

Taxable money market funds seek to maintain a stable net asset value by investing in the short-term, high-grade securities sold in the money market, such as treasury bills, bank certificate of deposit, and commercial paper (the short-term IOU’s of large US corporations). Money market funds limit the average maturity of their portfolio to 90 days or less.

US government income funds invest in a variety of government securities. These include US. Treasury Bonds, federally guaranteed mortgage-backed securities, and other government notes.

Municipal bond funds invest in bonds issued by states and municipalities to finance schools, highways, hospitals, airports, bridges, water and sewer works, and other public projects. In most cases, income earned on these securities is not taxed by the federal government, but may be taxed under state and local laws. For some taxpayers, portions of income earned on these securities may be subject to the federal alternative minimum tax.

State municipal bond funds--long-term work just like other long-term municipal bond funds except their portfolio contains the issues of only one state. A resident of that state has the advantage of receiving income free of both federal and state tax. For some taxpayers, portions of income from these securities may be subject to the federal alternative minimum tax.

Tax-exempt money market funds -- invest in municipal securities with relatively short maturities. Investors who use these funds seek investments with minimum risk. For some taxpayers, portions of income from certain of these securities may be subject to the federal alternative minimum tax.

State tax-exempt money market funds work just like other tax-exempt money market funds except their portfolios contain the issues of only one state. A resident of that state has the advantage of receiving income free of both federal and state tax. For some taxpayers, portions of income from these securities may be subjected top the federal alternative minimum tax.

Charges

- Sales charge
- Hidden fees
- Redemption fees
- Management fees

Advantages

- Automatic reinvestment
- Automatic electronic funds transfers (EFT)
- Check writing
- Telephone transactions
- Switching/exchange privileges
- Systematic withdrawal
- Collateral for loans
- IRS approved retirement plans

Disadvantages

- potential for loss of capital
- can be as volatile as stock market

Selecting a fund (SEE ATTACHED WORKSHEET)

Risk level: Medium

REAL ESTATE

Real Estate can be a hedge against inflation. When inflation rises, real estate values usually rise also. Historically, the best real estate investment has been owning your own home. Do your research before buying a home, because a home and real estate are non-liquid investments. It might be very hard to find a buyer when you need to sell.

V. Matching Investments with Personal Goals

A. Research investments carefully before investing. Take the time to be thorough in your evaluation. Avoid hot tips.

B. Monitor your plan. At least once a year, conduct a review of your plan. Whenever there are any major changes, for example, the birth of a child, you should review your plan.

VI. Investment Strategies to Reduce Risk

A. Dollar-cost Averaging -- method of investing a fixed amount of money at regular intervals. By following a consistent investment pattern, you will buy more shares for each dollar when the prices are low and fewer shares when prices are high. Over time your average cost should be lower and return greater than if you tried to time market swings.

Eggs example:

Let's say that eggs are 30c a dozen & you go to the store & buy a dozen. How many eggs do you get? 12. Next week you go the store & eggs are 40c a dozen & you buy a dozen. How many eggs do you get? 12. Again, you go to get eggs & this time they are 20c a dozen. How many do you get? 12

So you have bought 3 dozen or 36 eggs and have spent 90c, so your average price is 30c a dozen.

What would happen if you were to buy eggs in a different way? Since your average cost is 30c a dozen, what would happen if each time you went to the store you bought 30c worth of eggs?

At 30c a dozen - 30c buys 12 eggs
At 40c a dozen - 30c buys 9 eggs
At 20c a dozen - 30c buys 18 eggs
90c 39 eggs (Avg. 28c a dozen)

You have spent 90c again, but you have 3 more eggs. This is an example of Dollar-cost Averaging.

Draw example on board with first scenario on left and second scenario on right:

Eggs:	Dozen	30c	30c worth = 12	
	Dozen	40c	30c worth = 9	
	Dozen	20c	30c worth = 18	
	36 eggs	90c	90c	39 eggs (3.25 dozen)
	Average 30c/dozen		Average 28c/dozen	

B. Asset Allocation - Diversification

By placing your assets in different areas you reduce your level of risk. Over the long term you should experience gains that will keep pace with inflation. Individual years can vary. When diversifying, choose investments that are suitable for your goals, remembering your time horizon.

C. Avoiding Common Investment Mistakes

Failure to establish goals and to keep them in focus

Failure to pay yourself first with each paycheck

Procrastination - failure to get started

Failure to respect your risk tolerance & allowing emotion to take the upper hand in investment decisions.

VII. Identify various Retirement Investment Vehicles

A. Annuities -- tax-deferred retirement accounts offered by insurance companies.

Investor pays premiums to receive regular payments for a designated period of time.

Different payout options are available. Make sure to research the payout options before selecting one. Ten-year certain option is a popular option, which guarantees that even if the owner of the annuity dies after only one year, the annuity payments would continue to a beneficiary for the remainder of the ten-year period.

Different types of annuities available: Single-premium, flexible-premium, fixed-rate, variable rate

Characteristics of annuities:

- interest accumulates tax-free until payments start
- no annual limits on contributions as with IRA's
- no tax deduction
- rate of return can be low to moderate
- penalties for early withdrawal
- high surrender fees

B. Employer-sponsored Retirement Programs

Many employers offer retirement savings programs such as 401(K) plans. Under this type of arrangement, the employee can save a percentage of their salary, which accumulates tax-deferred until withdrawal. Contributions made to these plans are not counted as income, therefore, they are not subject to current income tax. Many employers "match" employee contributions up to a certain percentage.

Withdrawals are not permitted before age 59 1/2. Money withdrawn prematurely is subject to a 10% penalty, plus is taxed as income.

C. Individual Retirement Accounts - IRA's

IRA's are tax-deferred retirement plans established by individuals on their own behalf

Maximum contribution is $2,000/year: no minimum.

Working spouse can also save $2,000 in IRA; non-working spousal IRA is allowed up to $250.

Contribution may be deductible -- amount of deduction depends upon income, tax filing status, and participation in company retirement plans.

Example: Taxpayer in 15% tax bracket. puts $2,000 in IRA = $300 tax savings

Singles can take partial deduction between $25,000-$35,000

Married can take partial deduction between $40,000-$50,000

Above these amounts, if they have a retirement plan, they can not take any deduction.

Almost any type of investment can be used to fund an IRA: savings accounts, CD's, stocks, bonds, mutual funds.

10% penalty for withdrawal before age 59 1/2, plus you must pay income tax on amount withdrawn.

Must start taking withdrawals at age 70 1/2

Rollover of IRA from one investment to another is allowed.

REVIEW & SUMMATION

1. Review Main Points

2. Answer any questions.

3. Distribute critiques

* Handouts for Class. The following are the handouts for this class. There is supplemental information that you can use as handouts and the information will better prepare you.

Lesson plan developed by Stephanie Roper, Beale AFB, CA

FURTHER SOURCES OF INFORMATION

General: Money, Kiplinger's, Changing Times, and Forbes magazines (check library or book store for appropriate issues.

In Depth: Morningstar Mutual Fund Sourcebook, Wiesenberger Investment Company Service, and Mutual Fund Forecaster (check library).

Specific: Mutual Fund Prospectus, Statement of Additional Information, and Annual Report. Obtain most recent edition directly from the mutual fund you are interested in.

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Quinn, Jane Bryant. *Making the Most of Your Money*. New York: Simon & Schuster, 1991

Risk and the New Investor. The USAA Foundation, 1991

What is a Mutual Fund? Investment Company Institute.

Your Air Force Family Support Centers:

Paula Gradwell	*Sembach FSC*
Kim Miller	*Bolling FSC*
Dennis Suckstorf	*RAF Chicksands*

* Some information and charts were pulled off *Internet* and the contributing author’s name was “Mike." Thanks Mike!

RISK QUIZ

The following quiz is designed as a starting point for financial discussions. It should not be used to make specific investment decisions. Always consider your current financial situation and your investment time horizon when devising a portfolio. When taking the quiz, if you have not experienced the situation described, answer the question as you would if you faced that issue today.

1. I would never invest in the stock market because it is too risky.
   A. agree strongly
   B. agree
   C. neither agree or disagree
   D. disagree
   E. disagree strongly

2. I do not expect to earn more in the coming years.
   A. agree strongly
   B. agree
   C. neither agree or disagree
   D. disagree
   E. disagree strongly

3. For my retirement plan, I would choose investments that offered guaranteed returns and stability.
   A. agree strongly
   B. agree
   C. neither agree or disagree
   D. disagree
   E. disagree strongly

4. If I were picking stocks to invest in, I would not choose companies that were developing breakthrough products such as the next penicillin.
   A. agree strongly
   B. agree
   C. neither agree or disagree
   D. disagree
   E. disagree strongly

5. The following number of dependents rely on me for financial support:
   A. four or more
   B. three
   C. two
   D. one
   E. only myself

6. The time remaining until I expect to retire is approximately:
   - A. currently retired
   - B. Less than 5 years
   - C. 5 to 14 years
   - D. 15 to 24 years
   - E. 25 years of more

7. My total net worth (the value of my assets less debts) is:
   - A. Less than $15,000
   - B. $15,001 to $50,000
   - C. $50,001 to $500,000
   - D. $150,001 to $350,000
   - E. more than $350,000

8. The amount I have saved to handle emergencies, such as a job loss or unexpected medical expenses, equals:
   - A. one months' salary
   - B. two to six months' salary
   - C. seven months' to one year's salary
   - D. one to two years' salary
   - E. more than two years' salary

9. I would rather invest in stock mutual funds than individual stocks because a mutual fund provides professional management and diversification.
   - A. agree strongly
   - B. agree
   - C. neither agree or disagree
   - D. disagree
   - E. disagree strongly

10. I want and need to reduce the overall level of debt in my personal finances.
   - A. agree strongly
   - B. agree
   - C. neither agree or disagree
   - D. disagree
   - E. disagree strongly

SCORING

Give yourself one point for every "A," two points for every "B," three points for every "C," four points for every "D," and five points for every "E."

41 and higher: You probably have high risk tolerance and a long-term investment horizon. Higher-risk investments include aggressive growth stocks and stock funds, initial public stock offerings, sector mutual funds, foreign stock and stock funds, junk bonds or junk bond funds, or single-country international mutual funds. Investments such as these may be very volatile. Be sure to diversify at least some of your portfolio into more conservative investments

36 to 40: You have an above-average tolerance for risk. Consider mixing high-risk and lower-risk investments for long-term goals, such as a combination of growth stocks or funds, international funds, and high-yield bonds or bond funds.

31 to 35: You have an average tolerance for risk. When investing for long-term goals, consider a mix of long-term investments that have a history of strong and steady performance. Blue-chip stocks and stock funds, high-grade corporate bonds and bond funds, growth and income funds. Asset allocation or balanced funds all provide growth potential with moderate risk.

30 and below: You probably have a below-average tolerance for risk and a short-term investment horizon. Appropriate investments for you may include your home, high-quality bonds and bond funds, money market funds, and government-backed securities.

(This is the beginning of booklet handout)

ASSESS YOUR RISK TOLERANCE LEVEL

Before you invest you should know what level of risk you can safely assume. These two tests can help you determine your risk tolerance level. The first set of questions is designed to help you identify our own attitude toward risk. The second set of questions will consider your family situation and your ability to bear risk.

Attitude Toward Risk

1. *Do you like to gamble?*
2. *Do you perform well under pressure?*
3. *Are you relatively immune to excessive worry?*
4. *Would you prefer to buy a risky stock rather than placing your money in a safe savings account?*
5. *Do you have confidence in most of your own decisions?*
6. *Do you prefer to manage your own investments?*
7. *Are you able to successfully control your emotions when investing?*

If you have six or seven **yes** answers you probably are in the aggressive category. You are probably willing to accept high levels of market risk to achieve high returns on your investments. If you only have one or two **yes** answers, you probably are an extremely conservative investor and do not want to bear any market risk. If you have between three and five **yes** answers, you are probably a conservative to moderate investor. Conservative investors are not willing to sacrifice principal to receive higher-than-average returns. Moderate investors are still willing to assume some market risk.

The second test evaluates your ability to bear risk. You may be an aggressive investor according to the above test, but you may not be able to assume much risk because of family obligations, such as putting a child through college, saving for retirement, etc. Using these tests in tandem will give you a better overall picture of your risk tolerance level.

Ability to Bear Risk

1. *Do I have sufficient income to meet my basic needs?*
2. *Do I have an adequate level of life, health and casualty insurance?*
3. *Have I saved three month's expenses in an emergency fund?*
4. *Am I free from large financial burdens?*
5. *Can I afford to lose any principal from my portfolio?*

If your answer to all of these questions is **yes,** you can place yourself in the aggressive category. If you have any **no** answers, you need to be very conservative with your money.

You have now placed yourself in a risk category based on both your attitude toward bearing risk and your financial ability to bear risk. But what if the two categories differ? Place yourself in the less risky category. This system is not infallible and each goal will require careful weighing of time and priority in addition to the risk factor. Your ability to bear risk will change over time also, so from time to time review this test.

Adapted from the Dow Jones-Irvin Guide to Mutual Funds, by Donald D. Rugg and Norman B. Hale. 1983.

Risk and Investments

Unsystematic risk is the portion of total risk that is unique to a firm, industry or property. This risk can be reduced through diversification. Business risk and financial are two types.

Systematic risk is not diversifyable. It affects the prices of all comparable investments. Economic, political, and sociological changes affect systematic risk. Market risk, interest rate risk and purchasing power risks are systematic risks.

Business risk is the risk associated with the nature of the business itself. Can the particular company pay debts that come due or pay investors dividends? This risk can be lessened by buying investment quality stocks and bonds, and by diversifying throughout the business.

Financial risk is the risk associated with the mix of debt and equity used to finance a firm or property. The larger the proportion of debt used, the greater its financial risk. This risk can be reduced by choosing companies that have low debt ratios, or proven records of paying debts off.

Interest rate risk is caused by the general level of interest rates. This risk especially affects fixed rate investments. When interest rates rise, the value of your bond drops because investors can buy another bond at a better rate. When interest rates drop, your bond becomes a better buy to another investor.

Purchasing power risk refers to the impact of inflation on the economy. When you invest, you give up the right to buy a good or service at today's price. With inflation, tomorrow's price may be more than the return earned on the investment.

Market risk is the loss or gain of capital resulting from changes in the prices of investments. A drop in the stock market is a good example. A large drop hurts stocks across the board.

Liquidity/Marketability risk is the ease of being able to find a market for your investment. A good example is collectibles. Many people collect David Winter Cottages, Stamps, Baseball cards. Some of these collectibles have become quite valuable at the right time and market. You wouldn't want to put your emergency funds into baseball cards and have a crisis in the middle of a holiday or vacation.

Political risk is where the political environment affects the value of the investment. Imposition of wage and price controls, government efforts to settle labor strikes, and election of officials who change defense-spending and tariff policies can affect investments negatively or positively.

Diversification can reduces the risk exposure in a portfolio by investing in assets whose risks or returns are not influenced by the same factors.

INVESTMENTS FOR THE BEGINNING INVESTOR

EE SAVINGS BONDS

DESCRIPTION: EE Savings Bonds are issued by the Federal government to finance debt. The bonds are designed to encourage saving by people of modest means. EE bonds are issued at a 50% discount (a $50 bond cost $25). The bonds earn a variable rate of interest based on 85% of the average rate on five year treasury securities.

Advantages:
-guaranteed minimum interest rate
-tax break - no state or local tax
-if used for children’s college education then tax exempt
-you can name a beneficiary
-no commission

Disadvantages:
-cannot serve as collateral for loan
-no secondary market
-if bonds are redeemed before 5 yrs, a penalty is assessed
-cannot be used for an IRA

Minimum:
-denominations: $50, 75, 100, 200, 500, 1000, 5000, 10,000
-limited to $15,000 cash purchase in any one calendar year

HH SAVINGS BONDS

DESCRIPTION: HH Savings bonds work basically the same way as EE bonds. The only way to get HH bonds is to roll EE bonds over into HH bonds. HH bonds can be bought in denominations of $500, 1000, 5000, and 10,000.

MONEY MARKET ACCOUNT

DESCRIPTION: Is a generic term describing a variety of high-interest earnings accounts (compared to passbook savings accounts) that have limited check writing privileges. Such accounts usually have daily compounding and are offered by banks, savings and loan associations, credit unions, stock brokerage firms, financial supermarkets, mutual funds, and other financial institutions.

Advantages:
-liquid, can remove money when needed
-safe, if deposited in FDIC insured bank
-usually earn higher interest rate than in passbook savings account

Disadvantages:
-usually a minimum opening amount of $2500
-limited check writing and transactions. A fee is charged for exceeding these limits
-may not earn a return high enough to compete with inflation

Risk level: low

Ideal investment for:
-first investments
-risk avoiders
-emergency fund
-"short-term" parking

CERTIFICATES OF DEPOSIT

DESCRIPTION: With a certificate of deposit, you deposit your money into an account for a specified amount of time, which is determined before you purchase the certificate, and the bank guarantees you a specified rate of return. The term of the CD can run from several days to several years, the most common being 1 month, 3 months, 6 months, 1 year, and 3 years.

Advantages:
-the rate of return is guaranteed
-yields are higher than bank accounts
-pay no charge for your investment

Disadvantages:
-long term CD's can suffer from interest rate risk
-there is a penalty for early redemption
-interest earned is taxable

* Look in *Money* or *Kiplinger's* to find the best CD rates!

US TREASURY SECURITIES

DESCRIPTION: The US government sell securities in the form of treasury bills, notes and bonds to finance its debt. The securities are backed by the government. Interest is exempt from state and local tax.

Treasury bills- sold at discount from face value. Bills don't have a stated interest rate. The yield is the spread between the purchasing price and the face value. Bills mature in 13,26, or 52 weeks. Minimum investment is $10,000.

Treasury notes- mature in 1-10 years, and pay a fixed interest rate twice a year. Minimum investment is $1000 for notes maturing in four years or more and $5000 for those maturing in less than four years.

Treasury bonds- mature in 10 years or more, up to 30 years. Bonds pay a stated rate of interest, which is paid twice a year. Minimum investment is $1000.

Advantages:
-usually the longer the maturity, the higher the interest rate
-very safe, backed by the US government
-wide range of maturities
-very active secondary market

Disadvantages:
-subject to interest rate risk

Risk level: low

Ideal investment for: investors who desire liquidity and safety

Where to buy: commercial banks, Federal Reserve banks, stockbrokers, or by mail from the Bureau of Public Debt. Banks and brokers charge a fee.

CORPORATE BONDS

DESCRIPTION: Many corporations issue long-term debt to finance long-term investments, such as the expansion of plant and equipment. Long-term debt allows the corporation to acquire the assets now and pay for them over the years. The debt is retired by the cash flow that is generated by the increase plant and equipment. Bonds have a maturity date, which is the date that the debt must be paid off. The owner of the bond receives interest in return for the use of the money. This interest is referred to as the bond's coupon rate and is fixed. The return actually earned depends on the interest received, the purchase price, and what the investor receives upon selling the bond or redeeming it. There is an active secondary market for trading bonds.

Terms- there are some specific terms that are used in connections with bonds.

Callable- Many corporations can redeem the bond without the holder's consent after 5 or 10 years. This can happen if you bought your bond at a high interest rate and the rates are dropping. The corporation will want to take the lower rates for debt. Make sure your broker finds out when the bond is callable and the yield to call.

Convertible- Some bonds have a convertible feature which allows the investor to exchange the bond for a specified number of shares of common stock at a specified price. The price is higher than the current market price of stock when the convertible was issued. These bonds pay slightly lower interest. Convertibles work best when the interest rates drop and the price of the stock rises.

Sinking fund provision- Money is set aside to redeem a certain portion of a bond issue before maturity. The bonds are randomly selected, and don't earn interest once they are called. A strong sinking fund can be a sign of the corporation's confidence that the debt can be repaid. This can also be a measure of the risk associated with the bond.

Current yield- percentage that the investor earns annually. The annual interest payment divided by the price of the bond.

Yield to maturity- More accurate measure of the return. It includes the current income generated by the bond as well as any change in its value when it is held to maturity.

Yield to call- Estimate of the return earned on a bond that is held until redemption

Advantages:
-higher interest rate than savings accounts
-safe return of capital
-regular income
-low purchase cost
-ease of management

Disadvantages:
-principal does not appreciate
-must take interest, interest cannot be reinvested
-because bonds are subject to call, you may not get the return expected
-interest rates affect the value of the bond
-wide variation of returns requires careful examination
-in order to adequately diversify, 10 or more different bonds should be bought, requiring a large amount of capital.

Minimum Investment:
-$1000 (commission will be lower if you buy several of the same issue)

Risk level: Medium

Ideal investment for:
-income-oriented investors
-investors who have sufficient capital and need to diversify portfolio
-when interest rates are expected to go down

STOCKS

DESCRIPTION: Stockholders are basically owners in the corporation. They are entitled to all earnings after claims have been paid and receive voting rights. Stocks are traded on the New York and American Stock Exchanges and over-the-counter.

Preferred stocks- usually considered a fixed income investment because the dividends rate is fixed. Preferred stockholders do not have voting rights.

Blue Chip stocks- are high-grade, investment quality issues of major, well-established companies that have long records of earnings growth and dividend payments in good times as well as bad. The ability to pay steady dividends over bad years can be a strong indication of financial stability.

Growth stocks- the stock of a company whose sales and earnings are expanding faster than the general economy and faster than those of most stocks. The company is usually aggressive in nature and reinvests a good deal of its earnings back into the company for further expansion. Growth stocks pay small dividends and their current yield is usually low for this reason. Investors are hoping for capital gains. Growth stocks can be volatile.

Income stocks- usually yield higher dividends than growth stocks.

Defensive stocks- regarded as stable and relatively safe, especially in periods of declining business activity.

Cyclical stocks- earnings tend to fluctuate sharply with the business cycle.

Advantages:
-potential for great profit
-liquidity and marketability
-dividends can be reinvested for dollar-cost averaging

Disadvantages:
-potential for loss of capital
-may not provide enough income
-market can be volatile

Risk Level:
-common stock: Medium to high
-preferred stocks: Low to medium

Where to buy: full-service or discount brokerage firms.

MUTUAL FUNDS

DESCRIPTION: Mutual funds are investments companies who pool money of individual investors with similar investment goals into a fund. A fund manager is responsible for investing the money according to the goals outlined in the prospectus. The fund issues shares to establish the proportion of ownership. The price of the shares will fluctuate according to how well the assets in the portfolio perform.

Advantages:
-diversification
-systematic supervision
-professional management
-switching privileges
-small minimum investment
-wide range of objectives and investment vehicles

Disadvantages:
-potential for loss of capital
-can be as volatile as stock market

Risk level: Medium

FOLLOWING INVESTMENTS NOT RECOMMENDED FOR BEGINNING INVESTORS
FOR INFORMATION ONLY

LIMITED PARTNERSHIPS

DESCRIPTION: Limited partnership is someone who makes a passive investment in oil, real estate, or any other venture. A general partner runs the business and accepts liability for any lawsuit. After a specified number of years, the investment is supposed to be sold and the proceeds distributed.

Risk level: High

REAL ESTATE INVESTMENT TRUST

DESCRIPTION: This is another investment for the passive investor. This trust allows investors to invest in real estate and usually requires minimum investment of $5000. The trust buys and manages properties, or buys mortgages, and hold them for long term. REITs trade like stocks on the stock exchange. By law, virtually all earning must be distributed annually to investors.

Risk level: High

PUTS AND CALLS (OPTIONS)

DESCRIPTION: Options are a cross between trading in stocks and trading in commodities. They permit holders to control for a specified period of time a relatively large amount of stock with a relatively small amount of capital. An option represents the right to buy or sell a specific stock at a specific price (called the strike price) for a limited time. You do not need to own the stock to buy an option.

Calls- Investors buy calls in anticipation of an increase in the price of a specific stock. If that happens, the call may also rise in price and you can sell at a profit.

Puts- In a broad sense, are the opposite of calls. It is an option to sell a specified number of shares of specified stock at specified price before a specified date. The put buyer profits when the price of the underlying stock declines significantly. Then he sells the put at a profit, with the holder buying the stock at the lower current market price and selling it at the higher exercise or striking price.

Risk level: High

TIME VALUE OF MONEY

Before you begin to invest, you need to know why you want to invest. You need to have a specific goal in mind. The following are the stages you should go through when considering to invest to reach your goal.

Stage 1: Identify your available income.

Lump sums- invested assets such a money market accounts, savings bonds, etc...
Discretionary income- is the amount you can spend each month after you pay all your expenses.

Think about other sources of income that may be available within the next few months:
Tax refunds, pay raises, reenlistment bonus, etc...

Stage 2: Establish your financial goals.

Specify exactly what you want to do and include completion date. For example, $20,000 for a down payment on a home when I retire in 10 years.

Rank goals in order of importance.

Estimate cost to complete goal. Do not forget to consider inflation. We need to consider inflation for a moment. How does inflation affect our cost to complete a goal? Inflation reduces our purchasing power. A dollar today will not buy a dollar tomorrow. Economists tell us that a certain amount of inflation is good, it stimulates the economy, keeps it from stagnating. Economists think that 3-4% annual inflation is good. The historic rate of inflation is 5%.

You should take inflation into account for goals with a target date of 5 years or more.

Stage 3: Determine whether goal can be met.

Calculate a lump sum and monthly payment to reach your goal. Decide what average interest rate can be maintained to reach your goal and remember that depends on your risk tolerance level. Review available income and decide whether the goal can be met by lump sum or monthly payments. If the goal can be met, allocate resources and decide on which investment mode. If the goal cannot be met, review budget and consider making changes, or redefining your goal.

Remember, you have to do this for each goal!

Stage 4: Review goals regularly to insure they are being met, make corrections if necessary. Make sure you are getting the average interest rate expected. You may need to change to another investment to get your desired rate of return.

FORMULA:

PV x FACTOR = FV

PV- Present Value
Factor- inflation rate or rate of return x number of years to complete goal (from tables)
FV- Future Value

(Time Value of Money Charts are attached at the end of the file!)

WORKSHEET

1. Susan Jones is worried about the effect inflation will have on her future purchasing power. She would like to know how much an $18,000 car (present value) will cost in the year 2014 (10 yrs) if inflation averages 5%. (Use chart 1)

2. Lt. Samson has just had a child and is interested in starting a college fund for her. She wants to know how much a year of college (currently averaging $8500) will cost in 18 years assuming an 8% inflation rate. (Use chart 1)

3. Sgt Casey would like to start saving $100 a month and is interested in figuring out what future values he would accumulate at different interest rates. (Use chart 2)

	in 3 yrs	in 10 yrs
at 0%		
at 5%		
at 8%		
at 10%		

4. Sgt Flanders would like to save for a down-payment of 20% for a $18,000 car in 2 years. She figures she would need $3600 and could invest it a 8%. How much would she need to save each month?

5. Sgt David, his spouse and child would like to go home on leave at the mid-point of his assignment in two years. He estimates that it would cost $2500 for airfare. He would like to save monthly for this expense and would add it to his money market account currently earning 8%. How much would he need to save each month?
(This is the end of the booklet)

HOW TO INVEST - A CHECKLIST

a. Identify your personal investment philosophy - risk factors

b. Identify your desired total return

c. Keep an eye on local conditions

d. Set a time horizon for your investment objectives

e. Choose your preferred investment medium

f. Study available alternatives

g. Choose an investment for its components of total return

h. Invest in companies that will out earn competitors

i. Develop a plan for investing and stick to it by setting target prices and making a list of probable strategies, tactics, and actions

j. Diversify your portfolio

k. Invest regularly: dollar cost averaging vs value cost averaging

l. Reinvest your earnings

Mutual Fund Quiz *

Fund performance

1. The best measure of a mutual fund's performance is:

    a. the amount of capital-gains distributions
    b. the change in its net asset value
    c. its total return
    d. its yield

Money-market funds

2. Most people know that mutual funds, including money-market funds, are not insured by Uncle Sam. *True or false:* No investor has ever lost a penny of principal in a money-market fund.

    a. True
    b. False

3. *True or false:* The only risk associated with investing in a money-market fund is that the fund could get caught holding short-term lOUs of a company that defaults on its debt.

    a. True
    b. False

4. *True or false:* Investing in U.S. Treasury bond funds is as safe as putting your money in the bank.

    a. True
    b. False

5. *True or false:* The entire return from a municipal-bond fund is exempt from federal income taxes.

    a. True
    b. False

Stock funds

6. Since 1926, the long-term historical return of the U.S. stock market, as measured by Standard & Poor's 500-stock index, has been an annualized 10.3%. Stocks performed substantially above the norm in the 1980s. During that decade, how much did the average stock fund gain on a compounded annualized basis?

   a. 15.5%
   b. 16.9%
   c. 17.9%
   d. 19.0%
   e. 20.6%

7. An important axiom of investing is that high returns are normally accompanied by high risks. Put another way, what goes up quickly can also fall quickly. In 1993, the average emerging market stock fund returned 70%. In the first four months of 1994, emerging-market funds mostly submerged, losing an average of:

   a. 4.6%
   b. 7.1%
   c. 9.8%
   d. 12.1 %
   e. 143%

General knowledge

8. By April 1994, assets under management in all mutual funds, including money-market funds, totaled:

   a. $254 billion
   b. $980 billion
   c. $1.7 trillion
   d. $3.9 trillion

9. Which of the following does *not* appear in a fund's prospectus?

   a. a description of investment objectives and methods
   b. data about management fees and other expenses
   c. a discussion of risk
   d. information on how to redeem fund shares o e. a list of securities held by the fund

10. Which of the following is *not* required by federal law?

   a. Funds must place assets with qualified banks or other custodians.
   b. Funds must describe certain fundamental policies that cannot be changed without a share-holder vote.
   c. Funds must register with the Securities and Exchange Commission (SEC).
   d. Funds must determine the fair market value of securities they hold.
   e. Funds must issue quarterly reports to shareholders.

11. The National Association of Securities Dealers (NASD) is also involved in regulating mutual funds. Among other things, the NASD sets maximum sales charges. For funds sold with front-end commissions, the top load permitted by the NASD is

   a. 6/25%
   b. 7.0%
   c. 7.5%
   d. 8.5%
   e. 9.5%

12. *True or False*: Under NASD rules, a salesperson may *not* describe a fund as “no-load” if it levies an annual 12b-1, or distribution fee greater that .25%.

   a. True
   b. False

Answers

1. c, total return. That measure, defined as dividends and capital-gains distributions plus or minus the change in net asset value per share, essentially incorporates all the other choices.

2. a, True. No investor has ever lost a penny of principal in a money-market fund. In the 1970s one fund that claimed it was a money-market fund but was not was devalued from the standard $1 per share to 94 cents. But that fund had extended its maturities far beyond what is considered acceptable for a money-market fund. In 1989 and 1990 several funds were caught holding commercial paper—short-term lOUs—the issuers of which had defaulted. In each case, however, the fund sponsors stepped in and made shareholders whole by acquiring the defaulted paper at face value.

3. *b,* False. Beside credit risk -- the chance that a debt issuer could default-investors in money funds are exposed to market risk. In theory, a money-market fund could fall below the hallowed $1-per-share barrier if short-term interest rates suddenly skyrocketed. Tighter rules on taxable money-market funds were imposed by the SEC in 1990--the maximum average maturity of a money fund was reduced from 120 days to 90 days, and funds were forced to limit investments in lower-quality paper-making what had been safe investments even safer. Money-fund investors also face “reinvestment risk” -- the chance that interest rates will fall and that your money will have to be reinvested at continually lower yields. This is far less of a problem today, with taxable money fund yields averaging 3.2%, than it was in 1989, when yields averaged almost 9%.

4. *b,* False. While it’s true that there is no credit risk in owning Treasury securities-Uncle Sam controls the printing presses, after all-holders of Treasury-bond funds are subject to interest-rate risk. If rates rise after you invest, a fund’s NAV will probably decline. The longer the fund’s maturity, the bigger the drop will be.

5. *b,* False. Municipal-bond funds, like other mutual funds, may have realized capital gains during the year. They generally distribute those gains to shareholders. Capital-gains distributions *are taxable*

6. *a,* 15.5%. For stocks, the 1980s were one heck of a decade.

7. *d*, Emerging-market funds lost an average of 12.1 % during the first four months of 1994.

8. *d,* $2.1 trillion. As a point of comparison, mutual funds had $371 billion in assets under management at the end of 1984. Answer a, $254 billion, represents assets under management at Fidelity Investments alone.

9. *e*. A fund's prospectus does not include a list of securities held by the fund. That information is found in the fund's annual and semiannual reports to shareholders.

10. *e,* Funds are not required to issue quarterly reports to shareholders. They are required to issue shareholder reports semiannually.

11. *d,* 8.5%. Only nine funds levy the maximum load: AIM Summit, Common Sense Growth, Common Sense Growth & Income, Delaware Decatur, Eagle Growth Shares, Fidelity Destiny I and Destiny II, Idex and Idex 3. (The top load of the Destiny funds is actually 8.67%; as "contractual" funds they are permitted to exceed the 8.5% maximum.)

12. *a*, True. Funds use 12b-1 fees to pay for marketing expenses, including sales commissions for funds sold by brokers and financial planners.

Adopted from "You Think You Know A Lot About Mutual Funds."
Kiplinger's Personal Finance Magazine. July 1994, pp. 73-79.

MUTUAL FUND MYTHS AND REALITY

MYTH

The term "mutual fund" is synonymous with the stock market.

REALITY

In recent years stock funds have comprised one third or less of total mutual fund assets. Of the $1.9 trillion in total mutual fund assets at the end of September 92, bond funds held $733 billion (38.3 percent), stock funds held $632 billion (33.0 percent), and money market mutual funds held $548 billion (28.6 percent).

MYTH

Mutual funds dominate the US stock market.

REALITY

According to the Federal Reserve Board, at the end of June stock mutual funds held only 9.8 percent of the nation's 5.74 trillion in corporate equities. Far larger amounts were held directly by individuals (49.6 percent) and private pension plans (18.1 percent).

MYTH

Mutual funds are an overnight success story, mainly the result of the current financial environment of very low interest rates and high stock market averages.

REALITY

Strong and steady growth of the mutual fund industry is not new. In the 1980s fund assets rose from $95 billion to nearly $1 trillion -- an average annual increase of 26 percent. This compares to an annual average increase of about 20 percent so far in the 1990s.

MYTH

The increase in mutual fund assets represents "new money" drawn to funds from other investments and financial institutions.

REALITY

While the inflow of "new money" is large, it represents only part of the increase in total mutual fund assets. For example, assets of stock and bond funds have increased by $776 billion since 1990, but only $446 billion (57 percent) of that total represents net new cash inflows. The remaining $330 billion (43 percent) is the result of appreciation (rising values) and reinvested earnings of existing stock and bond funds.

MYTH

If maturing bank CDs are an important source of new money moving into mutual funds, then much of the recent growth of mutual funds is coming from unsophisticated first-time investors who will panic and bail out the moment that any serious correction hits the stock or bond markets. Consequently, mutual funds will make any market drop even worse.

REALITY

While no one is able to clearly predict the consequence of future market corrections, this mythical scenario suffers from several mistaken assumptions.

First, evidence from recent surveys indicates that most of the movement out of CDs into funds is by people who already own mutual funds, rather than by investment novices.

Second, on October 19, 1987, when the Dow Jones Industrial Average dropped 508 points, only two percent of stock fund assets were redeemed, and two-thirds of those redemption's were handled from existing cash positions of mutual funds. Therefore, the cash positions of stock funds served as a "buffer" in October 1987 and prevented greater selling of shares into a falling market, which would have been the case if mutual funds had not existed. More and more stock fund shareholders have considered subsequent market declines to be "buying opportunities," collectively redeeming ever fewer shares and investing increasingly more new money, thus raising the possibility that the next market correction is as likely to see net inflows as net outflows.

In addition, many mutual fund investors have a long-term perspective. Holdings in IRA, 401K, and other retirement mutual fund accounts already exceed $400 billion in assets and are growing rapidly.

Educating investors about mutual funds is always important and should be a continuous process. On the other hand, exaggerating a lack of investor sophistication may be a disservice to the investing public in general.

MYTH

Mutual funds are not as heavily regulated as other financial institutions, such as banks.

REALITY

Although mutual funds are not guaranteed or insured by the government, mutual funds are heavily regulated under federal and state securities laws -- especially the Investment company Act of 1940. Although you can lose money in mutual funds, no fund has collapsed or "gone bankrupt" in the 53 years since passage of the 1940 Act. In fact, the regulatory structure is designed to prevent fund bankruptcy.

YOUR TOOL KIT
THE WHAT AND HOW OF GETTING STARTED IN STOCKS

SPADEWORK--YOUR STOCK RESEARCH

Basic stock research is necessary to alert you to strong stocks and to keep you away from troubled ones. Here are some basic research tools:

- Annual and quarterly company reports, along with most recent 10-K or 10-Q disclosure documents.
- Value Line Investment Survey.
- Check to see what your broker provides.

YOUR WORKSHOP LIBRARY

- How To Buy Stocks, by Louis Engel and Brendan Boyd (Bantam, $5.99).
- Kiplinger's Invest Your Way To Wealth, by Theodore J. Miller (Kiplinger, $21.95).
- Making The Most Of Your Money, by Jane Bryant Quinn (Simon & Schuster, $27.50).

THE RULE BOOK

You should use strict investing rules. There is no right or wrong way to invest, but you add to your chances of success if you adopt an investing style that is both logical and comfortable.

Some pointers for success:

- Diversify. Protect yourself with a range of stocks rather than just one.
- Set targets. Make goals for yourself and monitor your investing progress.
- Consider dollar-cost averaging.

WORD TO THE WISE

- Do not try to time the market.
- Do not act on impulse.
- Do not let tax consequences dictate your decisions.

YOUR PARTNERS
Try an investment club. The National Association Of Investors Corp. (NAIC), which charters such clubs, has 215,000 members in 10,000 clubs. Contact the NAIC at 1515 E. Eleven Mile Rd., Royal Oak, MI 48067.

YOUR YARDSTICK

STOCK EXCHANGE - Where your stock is bought and sold and where its daily activity is listed.

52-WEEK HIGH-LOW - The most and least your stock has sold for in the past year.

STOCK - Names are often abbreviated.

SYMBOL

DIVIDEND - A stock's current annual dividend payout.

YIELD - The portion of the stock's current price the dividend represents.

P/E - Short for "price-earnings ratio," calculated by dividing the stock's price by its earnings per share for the latest 12-month period. Think of it as the amount in dollars an investor is paying for each dollar of a company's earnings per share.

VOLUME - The number of shares that were traded the previous day.

HIGH-LOW - High and low prices during the trading day.

CLOSE - The closing price of the stock.

CHANGE - Gain or loss compared with the previous day's close.

DIVIDENDS--THE PAYOFF

These are the tangible rewards you get while owning a stock-your share of a company's profits. If you arrange to have dividends directed to the money-market account at your brokerage, they will serve as building blocks for your next stock purchase. You can have the company reinvest your dividends in additional shares. You do this through a dividend-reinvestment plan--or DRIP. Once you enroll, many of these companies also let you buy additional shares directly from their treasurer's office (without brokerage fees, usually). How do you know which companies have DRIPs? One way is to check the footnotes at the bottom of each company report in Value Line Investment Survey. There are several directories of DRIP plans too:

- Common Stock DRP Report (SAM Designs, Suzanne Mitchell, Box 7969, Tyler, TX 75711, 903-592-5465; $19.95 plus $1.50 tax for Texas residents).

- Directory Of Companies Offering Dividend Reinvestment Plans (Box 763, Laurel, MD 20725; $28.95 plus $2 shipping).

YOUR RECORD BOOK--INCOME TAXES

Dividend income is taxable each year as it is earned, even if you never lay hands on the money because you are taking advantage of an automatic dividend reinvestment plan. You control when a capital gain is taxed (or a capital loss is deducted) because that happens in the year you sell. When you sell a loser, you can deduct the loss up to the amount of any capital gains you take that year plus another $3,000. The extra $3,000 can offset income tax on your salary. Keep good records. Get annual statements. Keep the original purchase slips. Your purchase price includes the commission and incidental charges shown on the confirmation slip. Your sale price is after the deduction of the broker's commission and other charges.

YOUR CONTRACTOR THE BROKER

This is the most indispensable tool of all because you need a broker to buy a stock. Brokers break down into two types: full service and discount. There are also regional brokers whose knowledge of stocks in particular geographical areas is sometimes superior.

BLUE PRINT FOR BUYING

-Open an account, either in person or by mail.

-Put something in your new account.

-Make your first stock purchase. Give any instructions to the broker. State whether you want to enter a market order or a limited order.

-Wait for written confirmation of your trade in the mail.

-Pay your broker.

BLUEPRINT FOR SELLING

- Sell when your stock reaches a predetermined target price.
- Sell when you have a more compelling investment idea.
- Sell when your rationale for owning the stock no longer applies.

TIPS

- Your first investment should be an experiment. Start with something you know or use. Put a little money in and see what happens. You do not have to make a fortune on your first investment.

- Train yourself to look at the management figures. Do not become taken by glamour. I recommend buying a stock that has been up at least 50% in the past five years.

- People have to decide how much they are willing to speculate. Some people are cut out for it in terms of money and emotions and some are not. If you do not have the time or the knowledge to keep up on your stock and the market, you would be better off buying into a fund.

- You just have to study and keep track of what is going on.

SELECTING A MUTUAL FUND WORKSHEET

Which mutual fund is "right" for me? The following worksheet will help you to narrow down your selection. Compare and select individual mutual funds from a group in the same category with the same objective(s).

	A	B	C	D
Name of Fund				
Type of Fund				
Your Objective(s)				
Fund's Objective(s)				
Total Return[1]				
Performance: 1 yr				
Performance: 3 yr				
Performance: 5 yr				
Performance: 10 yr				
Yield[2]				
Minimum Investment[3]				
Maximum Cost/Fees				
Sales Charges				
Redemption Fees[4]				
Management Fees[5]				
12b-1 Fees[6]				
Expense Ratio[7]				

	A	B	C	D
Actual Expense Last Year[8]				
Portfolio Turnover Rate[9]				
Beta Factor[10]				
Investment Policies and Risks				
Unusual Problems and Risks				
Is Fund Within My Comfort Zone				
Services I Need				
Services Provided				
Telephone (1-800 #)				
Address				
Notes				

Footnotes

1 Percentage Rate: measures performance; assumes reinvestment of distributions (dividends, interest income and capital gains) by buying new/additional shares; also referred to as average annual total return for a specified period; all figures are based on past earning; gives you a track record; no guarantee for future performance.

2 Income from dividends and interest over last 12 months expressed as a percentage

3 Minimum investments needed (e.g., to open a regular accumulation account, an IRA, or an automatic withdrawal account) sometimes IRA investments and regular investment accounts can be for smaller amounts than regular accounts.

4 Level: fee stays the same; disappearing: gradually declining (e.g., over 3, 5, or 7 years) when cashing in your shares.

5 Average is .5% to 1% of fund's net asset value (NAV) per year.

6 Levied annually to cover advertisement and marketing costs.

7 Expenses as a percentage of assets, which include 12b-1 fees.

8 Contained in annual report (in dollars and cents) and in some prospectus's.

9 Measures the level or frequency of buying and selling of investments owned by the fund; provides an indicator of risk level (higher the turnover rate, more volatile/risky the fund).

10 Beta measures volatility of a stock or mutual fund. S&P 500 is given a Beta of 1. A fund with a beta of 1.25 fluctuates 25% more, and one with a Beta of .85 fluctuates 15% less than the S&P index. Beta is used to judge an investment's risk.

MONTHLY INVESTMENTS
(Compounded Annually)
GROWTH OF $1.00 PER MONTH INVESTED AT VARYING COMPOUNDING RATES AND TIME PERIODS

YR	5°/0	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	18%	20%
1	12	12	12	13	13	13	13	13	13	13	13	13	13	13
2	25	26	26	26	26	27	27	27	27	28	28	28	29	29
3	39	39	40	41	41	42	42	43	44	44	45	46	47	48
4	53	54	55	56	58	59	60	61	62	63	65	66	69	71
5	68	70	72	73	75	77	79	81	83	85	87	90	94	99
6	84	86	89	92	95	98	101	104	107	110	113	117	124	132
7	100	104	108	112	116	120	124	129	133	138	143	149	160	171
8	118	123	128	133	139	145	151	157	164	171	178	185	201	219
9	136	142	149	156	164	172	180	189	198	207	217	228	251	276
10	155	163	172	181	191	201	212	224	236	249	263	278	309	344
11	175	185	197	208	221	234	249	264	280	297	315	335	378	426
12	196	209	223	237	253	270	289	308	329	352	376	402	459	525
13	218	234	251	269	289	319	333	358	385	414	445	479	555	643
14	242	260	281	303	327	354	382	414	448	484	525	568	668	785
15	266	288	313	340	369	402	437	476	519	565	616	672	801	955
16	292	318	347	379	415	454	498	546	599	657	722	793	958	1 160
17	318	349	384	422	465	513	565	624	689	762	843	933	1,144	1 405
18	347	383	423	469	519	576	640	712	792	882	982	1,095	1,363	1,699
19	376	418	465	519	579	647	723	810	908	1,018	1,143	1,283	1,622	2,052
20	407	456	510	573	643	724	8i6	920	1,038	1,173	1,327	1,502	1,927	2,476
21	440	495	559	631	714	809	918	1,043	1,186	1,351	1,539	1,755	2,287	2,985
22	474	537	610	694	791	903	1,032	1,181	1,353	1,553	1,783	2049	2711	3,595
23	511	582	665	762	875	1,005	1,158	1,335	1,542	1,783	2,063	2,390	3,213	4,327
24	548	629	724	835	966	1,119	1,298	1,508	1,755	2,045	2,386	2,785	3804	5,206
25	588	680	787	915	1,065	1,243	1,453	1,702	1.996	2,345	2,757	3,244	4 502	6,260
26	630	733	855	1,001	1,174	1,380	1,626	1,919	2,269	2,686	3,183	3,776	5,325	7,526
27	674	789	927	1,093	1,292	1,531	1,818	2,162	2,577	3,075	3,673	4,393	6,297	9,044
28	720	849	1,005	1,193	1,421	1,696	2,030	2,435	2,924	3,518	4,237	5,109	7,444	10,866
29	768	912	1,087	1,301	1,561	1,879	2,266	2,739	3,317	4,023	4,886	5,939	8 ,797	13,052
30	819	979	1,176	1,418	1,714	2,079	2,528	3.081	3,762	4,600	5,632	6,903	10393	15,676
31	872	1,050	1,271	1,544	1,881	2,300	2,819	3,463	4,263	5,256	6,489	8,020	12,277	18,825
32	928	1126	1,372	1,680	2,063	2,542	3,142	3,892	4,830	6,005	7,476	9,316	14500	22603
33	987	1,206	1,481	1,826	2,261	2,809	3,500	4,372	5,471	6,859	8,610	10,820	17 ,124	27 ,137
34	1,048	1,290	1,597	1,985	2,478	3,103	3,898	4,909	6,195	7,832	9,915	12,564	20,219	32,577
35	1,113	1,380	1 721	2156	2713	3426	4339	5,511	7013	8941	11 415	14588	23872	39,106
36	1 181	1 475	1 854	2 341	2970	3781	4829	6185	7938	10206	13 140	16935	28 182	46,941
37	1 252	1 576	1,996	2,541	3,250	4,172	5,373	6,940	8,983	11,648	15,124	19,657	33,267	56,342
38	1,327	1,683	2,148	2,757	3,555	4,602	5,977	7,785	10,163	13,291	17,406	22,815	39,269	67,624
39	1,406	1,797	2,311	2,990	3,887	5,075	6,647	8,732	11,498	15,165	20,029	26,479	46,350	81,162
40	1,489	1,917	2.486	3 242	4 250	5,595	7,391	9,793	13,005	17,301	23,047	30,729	54,706	97,408
41	1,575	2,044	2,672	3,514	4,645	6,167	8,217	10,981	14,709	19,736	261517	35,658	64,567	116,902
42	1,666	2,179	2,871	3,807	5,075	6,796	9,134	12,311	16,633	22,512	30,507	41,377	76,202	140,296
43	1,762	2,323	3,085	4,124	5,545	7,488	10,151	13,802	18,809	25,677	35,096	48,010	89,931	168,368
44	1 862	2474	3,313	4,467	6,056	8,250	11,280	15,471	21,267	29,284	40,373	55,704	106,132	202,055
45	1 968	2635	3,558	4,837	6,614	9,087	12,534	17,340	24,044	33,397	46,442	64,630	125,249	242,480
46	2,079	2,806	3,819	5,236	7,222	10,009	13,925	19,433	27,183	38,085	53,422	74,984	147 807	290,989
47	2,195	2,986	4,099	5,668	7,884	11,022	15,470	21,778	30,729	43,430	61,448	86,994	174425	349,200
48	2,317	3,178	4,398	6,133	8,606	12,137	17,184	24,404	34,737	49,523	70,678	100,927	205,835	419,053
49	2445	3381	4719	6,637	9,394	13,363	19,087	27,346	39,265	56,470	81,293	117,088	242,899	502,877
50	2580	3596	5061	7,180	10,252	14.712	21,199	30.640	44,383	64.388	93,500	135,835	286,633	603,466

CHART 2: A quick-reference for determining the approximate value of a regular monthly investment, compounded annually, at a given rate of interest or growth for a sp
savings of $100 a month is invested monthly at 6% for 30 years (Line 30) multiply $100 x 979 (on Line 30 under the 6% Column) - $97,900. NOTE: This chart illustra
annually. Most financial calculators compound
monthly investments monthly rather than annually, therefore, this chart's results are more conservative

LUMP SUM INVESTMENTS

(Compounded Annually)

GROWTH OF PRINCIPAL AMOUNT OF $1.00 AT VARYING COMPOUNDING RATES AND TIME F

YR	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	18%
1	1.05	1.06	1.07	1.08	1.09	1.10	1.11	1.12	1.13	1.14	1.15	1.16	1.18
2	1.10	1.12	1.14	1.17	1.19	1.21	1.23	1.25	1.28	1.30	1.32	1.35	1.39
3	1.16	1.19	1.23	1.26	1.30	1.33	1.37	1.40	1.44	1.48	1.52	1.56	1.64
4	1.22	1.26	1.31	1.36	1.41	1.46	1.52	1.57	1.63	1.69	1.75	1.81	1.94
5	1.28	1.34	1.40	1.47	1.54	1.61	1.69	1.76	1.84	1.93	2.01	2.10	2.29
6	1.34	1.42	1.50	1.59	1.68	1.77	1.87	1.97	2.08	2.19	2.31	2.44	2.70
7	1.41	1.50	1.61	1.71	1.83	1.95	2.08	2.21	2.35	2.50	2.66	2.83	3.19
8	1.48	1.59	1.72	1.85	1.99	2.14	2.30	2.48	2.66	2.85	3.06	3.28	3.76
9	1.55	1.69	1.84	2.00	2.17	2.36	2.56	2.77	3.00	3.25	3.52	3.80	4.44
10	1.63	1.79	1.97	2.16	2.37	2.59	2.84	3.11	3.39	3.71	4.05	4.41	5.23
11	1.71	1.90	2.10	2.33	2.58	2.85	3.15	3.48	3.84	4.23	4.65	5.12	6.18
12	1.80	2.01	2.25	2.52	2.81	3.14	3.50	3.90	4.33	4.82	5.35	5.94	7.29
13	1.89	2.13	2.41	2.72	3.07	3.45	3.88	4.36	4.90	5.49	6.15	6.89	8.60
14	1 98	2.26	2.58	2.94	3.34	3.80	4.31	4.89	5.53	6.26	7.08	7.99	10.15
15	2.08	2.40	2.76	3.17	3.64	4.18	4.78	5.47	6.25	7.14	8.14	9.27	11.97
16	2.18	2.54	2.95	3.43	3.97	4.59	5.31	6.13	7.07	8.14	9.36	10.75	14.13
17	2.29	2.69	3.16	3.70	4.33	5.05	5.90	6.87	7.99	9.28	10.76	12.47	16.67
18	2 .41	2.85	3.38	4.00	4.72	5.56	6.54	7.69	9.02	10.58	12.38	14.46	19.67
19	2.53	3.03	3.62	4.32	5.14	6.12	7.26	8.61	10.20	12.06	14.23	16.78	23.21
20	2.65	3.21	3.87	4.66	5.60	6.73	8.06	9.65	11.52	13.74	16.37	19.46	27.39
21	2.79	3.40	4.14	5.03	6.11	7.40	8.95	10.80	13.02	15.67	18.82	22.57	32.32
22	2.93	3.60	4.43	5.44	6.66	8.14	9.93	12.10	14.71	17.86	21.64	26.19	38.14
23	3.07	3.82	4.74	5.87	7.26	8.95	11.03	13.55	16.63	20.36	24.89	30.38	45.01
24	3.23	4.05	5.07	6.34	7.91	9.85	12.24	15.18	18.79	23.21	28.63	35.24	53.11
25	3.39	4.29	5.43	6.85	8.62	10.83	13.59	17.00	21.23	26.46	32.92	40.87	62.67
26	3.56	4.55	5.81	7.40	9.40	11.92	15.08	19.04	23.99	30.17	37.86	47.41	73.95
27	3.73	4.82	6.21	7.99	10.25	13.11	16.74	21.32	27.11	34.39	43.54	55.00	87.26
28	3.92	5.11	6.65	8.63	11.17	14.42	18.58	23.88	30.63	39.20	50.07	63.80	102.97
29	4.12	5.42	7.11	9.32	12.17	15.86	20.62	26.75	34.62	44.69	57.58	74.01	121.50
30	4.32	5.74	7.61	10.06	13.27	17.45	22.89	29.96	39.12	50.95	66.21	85.85	143.37
31	4.54	6.09	8.15	10.87	14.46	19.19	25.41	33.56	44.20	58.08	76.14	99.59	169.18
32	4.76	6.45	8.72	11.74	15.76	21.11	28.21	37.58	49.95	66.21	87.57	115.52	199.63
33	5.00	6.84	9.33	12.68	17.18	23.23	31.31	42.09	56.44	75.48	100.70	134.00	235.56
34	5.25	7.25	9.98	13.69	18.73	25.55	34.75	47.14	63.78	86.05	115.80	155.44	277.96
35	5.52	7.69	10.68	14.79	20.41	28.10	38.57	52.80	72.07	98.10	133.18	180.31	328.00
36	5.79	8.15	11.42	15.97	22.25	30.91	42.82	59.14	81.44	111.83	153.15	209.16	387.04
37	6 08	8.64	12.22	17.25	24.25	34.00	47.53	66.23	92.02	127.49	176.12	242.63	456 70
38	639	9.15	13.08	18.63	26.44	37.40	52.76	74.18	103.99	145.34	202.54	281.45	538.91
39	6.70	9.70	13.99	20.12	28.82	41.14	58.56	83.08	117.51	165.69	232.92	326.48	635.91
40	7.04	10.29	14.97	21.72	31.41	45.26	65.00	93.05	132.78	188.88	267.86	378.72	750.38
41	7.39	10.90	16.02	23.46	34.24	49.79	72.15	104.22	150.04	215.33	308.04	439.32	885 45
42	7.76	11.56	17.14	25.34	37.32	54.76	80.09	116.72	169.55	245.47	354.25	509.61	1044.83
43	8 15	12.25	18.34	27.37	40.68	60.24	88.90	130.73	191.59	279.84	407.39	591.14	1232.90
44	8 .56	12.99	19.63	29.56	44.34	66.26	98.68	146.42	216.50	319.02	468.50	685.73	1454.82
45	8.99	13.76	21.00	31.92	48.33	72.89	109.53	163.99	244.64	363.68	538.77	795.44	1716.68
46	9.43	14.59	22.47	34.47	52.68	80.18	121.58	183.67	276.44	414.59	619.58	922.71	2025.69
47	9 .91	15.47	24.05	37.23	57.42	88.20	134.95	205.71	312.38	472.64	712.52	1070.35	2390.31
48	10.40	16.39	25.73	40.21	62.59	97.02	149.80	230.39	352.99	538.81	819.40	1241.61	2820.57
49	10.92	17.38	27.53	43.43	68.22	106.72	166.27	258.04	398.88	614.24	942.31	1440.26	3328.27
50	11 .47	18.42	29.46	46.90	74.36	117.39	184.56	289.00	450.74	700.23	1083.66	1670.70	3927.36

CHART 1: A quick-reference for determining the approximate value of the lump sum investment, compounded annually, at a giv for any number of years, up to 50. For example! to determine the ultimate value of $1!000 invested at 6% for 40 years: Refer to tl

(40 years). The factor is 10 29 which, multiplied by $1,000 equals approximately $10,290. 1f the rate of growih was increased to result would be $45,260 ($1,000 x 45.26).