

# Fundamentals of PERSONAL FINANCE



**Making  
informed  
financial  
choices**

**Your  
Investment  
Choices**



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## Your Investment Choices

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# Start With the Investment Basics



Everyone wants to have a strong investment plan. Investing makes your money work for you today, so you'll be financially secure tomorrow.



# A

nd while making a quick profit can be an exciting part of investing, understanding the basics is key to building a successful long-term strategy. If you question that insightful advice, check with those

people who put all their investment eggs in the dot.com stocks of the go-go '90s. How do their portfolios look now?

For many people there are so many investment options to choose from that it's very challenging to know just how to begin.

"Successful investing requires specific objectives and a plan to get there," says Chad Winklepleck, an investment representative with Edward Jones in Oregon, Wis. Having a plan is very important and too many people go into an investment blindly. A solid plan includes defining what your long-term goals are and coming up with a strategy to achieve those goals with the least amount of risk.

If you don't save and invest intelligently, you could be in for a real surprise.

According to the Office of Investor Education and Assistance, Securities and Exchange Commission (SEC), only 5% of investors believe they know everything they need to know to make good investment decisions.

And while most adults have high expectations for retirement, many will fail to maintain the lifestyle and standard of living to which they have become accustomed because they failed to plan and save. More than half—55%—of all current workers haven't even tried to figure out how much they need to save and accumulate for retirement, according to a recent Employee Benefit Research Institute study.

More disconcerting is the fact that two out of three American households—an estimated 65 million households—probably will fail to realize one or more of their major life goals because they've failed to develop a comprehensive financial plan.

# Making a Plan

**S**o you're interested in investing and think you have the means to do so, but with so many different avenues, where do you start?

There isn't any magic answer as to where to start, says Mark Schwartz, managing partner at TriCapital Advisors, North Bethesda, Md. The key is to follow one overall comprehensive plan. Where you start will depend on your particular situation. Start investing in all different areas if you can—saving a little bit for your retirement, a little bit for your children's college funding, and a little bit for whatever other goals you have. "You can't forsake one goal for another until the other is fulfilled—you should be working toward them simultaneously," Schwartz says.

The first step—a plan—will give you a clear sense as to how much money you're going to need to fund these various goals. You can break that down into a percentage basis if you wish. For example, if each month you have \$100 to invest, you might put 40% toward a retirement account, 40% toward a college fund, and the difference toward a combination of other goals that you have—like the vacation you have been wanting to take.

The two most critical factors in dealing with risk are your time horizon and discipline. If you have the time—at least five to 10 years—to let your money grow—and the discipline to follow a prudent strategy—common stocks, based on historical returns, offer the highest potential returns vs. other investment categories.

## Time horizon

The amount of time you have to reach your goals is just as important as the goals themselves. Everyone has different financial goals and different financial dreams, says Carl Sanger, owner of Serenity Wealth Management, LLC, in Massapequa, N.Y.

Sanger, a registered investment adviser, considers himself to be a bridge builder. Just as he does for his clients, you want to build a bridge from where you are right now to where you want to be in the future. To do this, you must set a certain amount of money aside into each investment area, be it stocks, bonds, or cash—based on a historical perspective of how much you can expect each area to gain. Over time and following a set strategy, you build your investment bridge, piece by piece.

The longer the time you have to ride the ups and downs of the stock market, the more risk you can assume, says Chris Witt, a MEMBERS Financial Services representative in Madison, Wis. If you have a longer amount of time—eight to 10 years—to meet your goals, you could be more stock-oriented. If you're looking at a shorter time frame—less than two to three years—you could be more stable and safer with your investments, and consider putting more of your money into bonds and money market accounts.

When people are closer to when they're going to start to need their investments to live on—those a few years from retirement or who have already retired—they most likely should fund accounts that are less subject to market volatility, Schwartz says. Investors in this predicament need to be