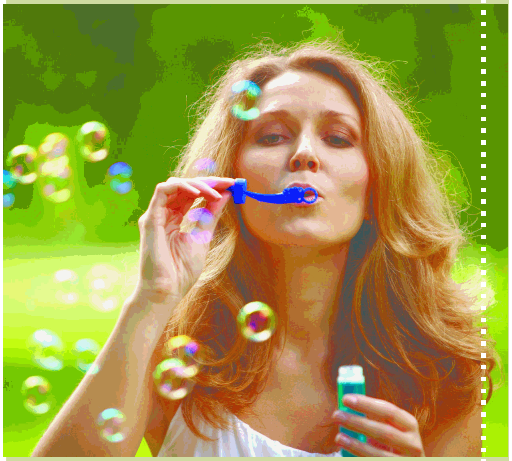
Money Matters



Understanding Investment Types

Most financial planning experts encourage investors to utilize almost the entire range of investment types for their retirement savings - from the most aggressive to the most stable.

Choose the right mutual fund for your retirement investing needs

Your retirement plan provides a wide variety of different investment options. Among these options, your plan may provide access to many different types of mutual funds, including target date mutual funds, investor profile mutual funds, and other mutual funds which we will refer to as “traditional” mutual funds for the purpose of this article. Where target date mutual funds and investor profile mutual funds implement automatic diversification and asset allocation, “traditional” mutual funds typically invest with a single focused purpose in mind. This single focused purpose is typically called the mutual fund’s “investment objective.” To use any mutual fund correctly, you need to understand its investment objective.

Mutual funds pool money from multiple investors (including you!) to buy a portfolio of investments geared to meet a stated investment goal. The fund’s portfolio is selected and managed by professional investment managers.

“Traditional” mutual funds fall into three main investment categories:

* Stocks & Equities
* Bonds & Fixed Income
* Money Market & Cash Equuivalents

Within each of these three broad investment categories, there is further differentiation based on the fund manager's investment objectives. Understanding these broad categories and the variation within will help you put together a diversified portfolio that meets your goals and risk tolerance.

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Stock & Equity Funds

Stock & Equity funds will invest most of their pooled monies in corporate stocks. These stocks represent an ownership interest in the underlying company. Stocks are categorized by size or market capitalization and location. For example, there are domestic and foreign stocks, and small, mid or large cap stocks. The value of a stock principally depends on how well the underlying company is doing and whether other investors are interested in buying the stock of that company. Some stocks provide returns in the form of paying dividends, while others provide returns only in the form of increased market value. Stocks are generally the riskiest type of investment, as stock values can rise and fall over short time periods. However, stocks have typically outperformed all other investment types over the long term. If you have a long investment window, stock funds may be the best investment type for you.

Bond & Fixed Income Funds

Bonds are debt obligations of corporations or governmental entities, and are often referred to as "fixed income" investments. When a corporation or governmental entity issues a bond, they are promising to repay the purchase amount, plus interest, over a fixed period of time. Think of a bond like a home mortgage, except this time the tables are turned. When you buy a bond, you are lending money to the issuing entity, and they will pay it back to you over time. The value of a bond can change over time, principally in relation to available market interest rates. Bonds are generally more stable and less risky than stock investments, and are the preferred primary investment type for older investors with fewer years until retirement. Virtually all investors will want to have some portion of their retirement savings invested in bonds.

Money Market or Cash Equivalent Investments

Money market and cash equivalent investments are considered to be the most stable of all investment types, other than plain cash. Unlike cash, these investments will generally provide a very low return, similar to interest paid by some banks on savings accounts. Most investors will want to keep at least a small portion of their retirement savings invested in money market or cash equivalent investments.

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