WHY IS INVESTING IMPORTANT?

There is an important difference between saving and investing. You should save for short-term goals, but you need to invest for long-term goals. Saving is basically a form of postponing consumption. Passbook accounts, money markets or short-term certificates of deposit (CDs) are good places to save for short-term needs such as family vacations, a new car or emergencies. You usually won't earn as much on these types of savings accounts as with some other types of investments, but you can get to the money quickly, easily and with little or no chance of loss of principal.

For long-term goals such as retirement or college education, you may want to consider investing in assets that historically have earned higher rates of return, such as stocks and bonds. However, there is no guarantee that these higher-risk investments will perform for any given time period in the future as they have in the past. That's why CERTIFIED FINANCIAL PLANNER™ professionals recommend diversifying your investment money among different types of investments in order to reduce the risk.

ARE INVESTING AND FINANCIAL PLANNING THE SAME THING?

Absolutely not. Investing is only one interlinked component of financial planning, though certainly an important one. In fact, most competent financial planners, such as CERTIFIED FINANCIAL PLANNER™ professionals, consider investing one of the last strategies to be implemented. The financial planning process first involves gathering and objectively analyzing data on your overall financial situation. A CFP® professional will examine your

estate plan, tax situation, insurance needs, and income and expenses in the context of your short- and long-term needs and goals, such as saving for a home, college or retirement. The planner will help you improve your cash flow (and make sure that cash flow is protected) so you will have extra money to save and invest. You'll need to establish an emergency fund if you don't already have one. Once a sound financial foundation is laid, the CFP® professional then can recommend and help you implement effective investment strategies.

ISN'T INVESTING, ESPECIALLY IN THE STOCK MARKET, RISKY?

All investments involve some degree of risk. Even so-called "safe" investments, such as savings accounts or federally backed CDs, are subject to some kinds of risk. These types of accounts may not keep up with inflation and taxes, meaning your investment may actually be worth less in real dollars in the future. Treasury bonds, like other types of fixed-interest investments, are subject to market and interest-rate risks.

Equity investments, such as stocks or real estate, face a variety of risks as well. Yet even these "riskier" investments can be part of a "conservative" portfolio. The key to minimizing risk while achieving higher returns is to invest regularly over time and diversify your investments and savings.

HOW DO I KNOW WHICH INVESTMENTS TO CHOOSE?

A CERTIFIED FINANCIAL PLANNER™ professional can first help you determine your current financial situation and personal goals. What do you want your investments to achieve? Are you investing for retirement, college education or to raise capital to start a small business? Your age, net worth, tax bracket, tolerance for risk and goals will determine what types of investments are the most appropriate in your financial situation. With these goals in mind, your CFP professional can help you prepare an investment policy statement.

WHAT'S AN INVESTMENT POLICY STATEMENT?

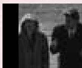
It's your investment road map. It keeps you steady through good times and bad. It can help you quickly eliminate investment ideas that don't fit, saving both time and costly mistakes. It also provides you with realistic expectations and a way to monitor the actual performance of your investments. The statement outlines, among other things,

- Your investment goals
- The minimum level of return you need to make to achieve those goals
- What types of investments you will and won't include
- What portion of the total portfolio each investment will comprise
- How long the assets will be in the portfolio
- The anticipated inflation rate and tax-bracket assumptions
- What portion of the investments need to remain liquid
- Potential tax consequences

Once the investment policy is in place, it's time to construct an investment portfolio.

WHAT'S AN INVESTMENT PORTFOLIO?

It is the combination of more than one investment asset, such as stocks, bonds, cash, real estate, precious metals and international investments. How you and your financial planner construct a portfolio is important because different types of investments do better in different economic conditions. By diversifying your investments in a portfolio, you are more likely to reduce volatility (risk) and enhance potential return. A CFP® professional can help you choose which asset classes to invest in and how much of your total portfolio to devote to a particular asset class.



WHY DON'T I JUST SELECT TODAY'S HOTTEST INVESTMENTS?

Today's hot investments are often tomorrow's cold turkeys. Avoid the fads and fancies. Invest for the long term. Too often, people randomly pick out investments as if they're pieces of a puzzle. They'll choose a hot mutual fund they read about in a personal finance magazine or buy a piece of real estate that a cousin recommended. But they don't know where the pieces go because they don't have their whole investment picture in front of them. Quite possibly, the pieces belong to different puzzles and therefore are inappropriate for their portfolio.

Individual investments should reflect the guidelines established in the investment policy statement. A conservative portfolio might be made up of 60 percent bonds, 20 percent stocks and 20 percent cash, while a more aggressive portfolio might have 70 percent stocks, 20 percent bonds, 5 percent cash and 5 percent in real estate or precious metals. By following your guidelines, you're less apt to get into trouble.

SHOULD I BUY INDIVIDUAL STOCKS AND BONDS OR MUTUAL FUNDS?

That depends upon several factors: your risk tolerance, the amount of money you have available to invest, and the time and interest you and your adviser have to study and monitor your investments. Each offers advantages and disadvantages, depending on your needs and circumstances.

Mutual funds, by pooling investments from many people, are able to buy many different securities (typically 50 to 150). Thus, for a small minimum investment, you get the advantage of diversity and professional investment management.

Picking individual stocks and bonds takes a lot of time and knowledge. Individual share prices tend to fluctuate more than the share price of a mutual fund, and it's more difficult to sufficiently diversify your portfolio by buying individual securities. However, the potential return is often greater for an individual security than a mutual fund.

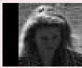
A CFP professional can help you select the most appropriate investment vehicles.

SHOULD I CONSIDER INVESTING OVERSEAS?

Two-thirds of the world economy lies outside of the United States, and some foreign markets have outperformed the U.S. market during the last two decades. Foreign stocks and bonds are more volatile, but they tend to perform better when the U.S. market performs poorly, and thus may reduce the overall risk of a portfolio. With many international mutual funds available now, it's relatively easy to purchase a part of the rest of the world if you and your adviser find such an investment appropriate.

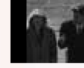
WHAT ABOUT REAL ESTATE, GOLD, AND OIL AND GAS?

While not for everyone, hard assets such as real estate, oil and gas, and precious metals may have a place in your portfolio. Unlike indirect investments such as stocks and bonds, many of these types of investments are purchased through direct participation such as limited partnerships. As a result, they offer unique advantages and disadvantages concerning such issues as liquidity and taxes. Again, it is important to consult with a CFP® professional and scrutinize these investments in light of your investment policy.



WHAT'S THE BEST WAY TO GO ABOUT INVESTING?

There's no one preferred way, but a very good way is to dollar-cost average. This means you invest a specific amount of money each month in mutual funds or other types of investment vehicles, regardless of whether the market is going up or down. This approach keeps you from trying to "time" the market: buying at its low and selling at its high, a difficult challenge. By diversifying and investing regularly, you are more likely to earn a reasonable return because most investment markets, over time, tend to rise in value. However, as with any type of investment, dollar-cost averaging involves risk. It does not ensure a profit and it does not protect against loss in a declining market. Because such a plan involves continuous investment in securities (such as mutual funds) regardless of fluctuating prices, the investor should consider his or her financial ability to continue purchases through low price levels.



HOW DO I AVOID INVESTMENT SCAMS?

One investment golden rule is, "If it's too good to be true, it probably is." The second rule is, never invest dollars as a result of telephone solicitations. The majority of investment scams are telephone "boiler room" operations. Always demand a detailed prospectus and other financial offering materials before making a decision, and refuse "buy now" sales pitches.

Check out the investment with a CFP professional before committing any money. Remember, the CFP professional, who is required to adhere to high ethical standards, can determine not only the legitimacy of the investment, but whether the investment fits your portfolio. You may also want to call the National Association of Securities Dealers (NASD) to investigate the background of the company offering the investment (800.289.9999).

WHAT COMMON INVESTMENT MISTAKES DO PEOPLE MAKE?

- They don't start soon enough. An investment of $100 a month beginning at age 25, compounding at a modest 8 percent annually (tax deferred, compounded monthly), and reinvesting all gains, will accumulate $349,000 by age 65.
- They don't develop an investment plan.
- They don't diversify their investments.
- They have unrealistic expectations. To earn higher returns you usually must take more risk. Lower risk usually means a lower return.
- They don't invest for the long term, which can reduce the risk of more volatile investments such as stocks.
- They do not take responsibility for their own investments. They don't educate themselves about investing, and they fail to keep a close eye on their investments. If your financial planner or investment adviser isn't willing to explain the fundamentals of investing and the advantages and disadvantages of a specific investment you're considering, don't work with that adviser.
- They fail to take full advantage of 401(k) plans, IRAs and other tax-advantaged savings plans.

HOW CAN A CFP® PROFESSIONAL HELP ME WITH MY INVESTMENTS?

Many CFP professionals are qualified stockbrokers or investment managers who can help you select specific securities. All CFP professionals should be able to help you make sure your investments fit your financial situation. For example, you should have adequate insurance and an emergency fund in place before you begin investing. Without those financial safety nets, you're putting your investments at risk. Specific investments may also bring undesirable tax or estate consequences. By examining these issues first, the CFP professional can help you balance your investments with your overall financial plan.

HOW DO I KNOW A CFP PROFESSIONAL IS QUALIFIED TO HELP ME?

Not everyone who calls themselves a financial planner is a CERTIFIED FINANCIAL PLANNER™ professional. To obtain the CFP certification, a person must study and demonstrate competency in six areas vital to comprehensive financial planning, including insurance, retirement, investments and estate planning by successfully completing the CFP™ Certification Examination. The emphasis of the educational program is the interrelationship of the financial areas and the need for an objective analysis of a client's circumstances and goals. The CFP professional must also meet educational, work experience, and ethical standards to maintain the right to use the CFP mark.

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