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Starting Your Investment Program With $1 to $1,000

Lesson Five: What's What in Savings and Investments? Investments

Lesson Handout

There is a long list of financial products that can help you reach your long-term goals. This lesson defines investment products that you can use to reach your long-term goals. Managing your income and outgo so you can have money automatically deducted into investments can help you reach your long-term goals.

Securities

The term "securities" includes a broad range of investments including stocks, bonds, and mutual funds. There are two broad categories of securities available to investors - equity and debt securities. Equity securities represent ownership of some part of a company. Debt securities represent a loan from the investor to a company or government entity.

Investors may invest in securities directly or indirectly. The *direct* form of ownership means you personally own an individual stock or bond. *Indirect* ownership means you own stocks or bonds through an Individual Retirement Account (IRA), mutual fund, unit investment trust, tax-sheltered annuity 403(b), 457, or 401(k) plan.

When purchasing securities, your money is in the account permanently. You put the money in and leave it for the long-term so it will grow to pay for your goals.

Stocks

Stock is an equity security. When you buy stock, you become an owner of a part of a company's assets. Your shares prosper or decline along with the company. If a company is successful, the price the investors are willing to pay for its stock will

often go up. Shareholders who bought stock at a lower price stand to make a profit. On the other hand, if a company does not do well, its stock will probably decrease in value and shareholders can lose money. Share values reflect gains and losses in value. Once you sell, the value of the stock at the time of the sale determines the value for tax purposes.

Table 5-1 illustrates how stock values fluctuate over time. If you purchased $500 worth of XYZ stock in February 2005 you would have purchased 75.47 shares at $6.625 per share. If you sold in June 2006, you would have lost $85. If you sold in June 2007, you would have gained $198. If you sold in May 2008, you would have gained $462. If you sold in February 2009, you would have gained $235.

Table 5-1

VALUE OF $500 WORTH OF XYZ STOCK

Date	Price Per Share	Number of Shares	Dollar Value	Gain (loss)
02/05	6.625	75.47	500	-0-
06/06	5.500	75.47	500	(85)
06/07	9.250	75.47	500	198
05/08	12.750	75.47	962	462
02/09	9.750	75.47	735	235

A *stock split* occurs when a number of new shares of stock are issued in exchange for each old share held by a shareowner. This results in a proportional change in the number of shares owned by each stockholder. With a *split-up*, one share is split into a larger number of shares. With a *reverse split* or *split-down*, a number of shares are combined to form a smaller number of shares. Stock splits reduce the per share market price for wider trading. Stock splits result in higher per share value (Nolan, 1991, p. 989).

Many profitable companies distribute part of their earnings to their shareholders as dividends. Dividends are usually paid on a quarterly basis. As owners, shareholders may have the right to vote on the selection of individuals to serve on the board of directors and other matters of significance to the company.

There are many classifications of stock. Some examples are blue chip, cyclical, defensive foreign, growth, income, small company, and value stock.

blue chip stock - Is the stock of a company that has a long history of earnings, growth, and dividend payments.

cyclical stock - Closely follows the general level of business activity in the economy. Examples include automobiles, steel, and paper stocks.

defensive stock - The opposite of a cyclical stock, these are companies that are resistant to changes in the business cycle. Sometimes called countercyclicals or recession-resistant stocks. Examples are food and utility stocks.

foreign stock - Is a company outside the United States.

growth stock - Is the stock of a company whose earnings are increasing at a faster rate than the increase in the general level of business activity.

income stock - Is the stock of a well-established company that is relatively mature. The company pays out a substantial part of its earnings as dividends, rather than reinvesting much of their earnings. Thus, they grow more slowly than growth stocks.

small company stock- Is the stock of a relative small company with market value of its outstanding shares between $300 million and $2 billion.

medium company stock-Is the stock of a medium size company with market capitalization between $2 billion and $10 billion.

large company stock - Is the stock of a large size company with market capitalization of $10 billion or more.

value stock - Is stock with share prices that are inexpensive compared to their current earnings.

Investors interested in current income will want to pursue income stocks. Investors more interested in capital appreciation and less interested in income will want to pursue growth stocks. Some investors may want to seek a balance of growth and

dividend payments.

There are two principal classes of stocks - common and preferred. Common stock dividends are issued at the discretion of the company's management. Preferred stock pays a fixed dividend.

Common stock can produce income through dividends and/or capital gains. Capital gains are gains from the sale of a capital asset at a higher price than its original cost. Capital gains are cash only when the stock is sold. Many people buy stock expecting the price to increase, thereby allowing them to sell at a profit when the price rises.

Preferred stock represents a special type of ownership in a company. Purchasers may expect to receive a stated dividend periodically. The amount of this dividend is declared when the stock is first issued. The board of directors of the issuing corporation can elect to not pay this dividend in any period.

Most preferred stock is cumulative. Cumulative means that all dividends not paid in a period accumulate and must be paid prior to giving common stockholders any dividends. Preferred stockholders also have preference over common stockholders if the corporation is liquidated. Because preferred stockholders have these privileges, they normally do not receive any voting rights. Preferred stock is traded in the marketplace, but most people buy it for the dividend return rather than for any anticipated market price appreciation.

Bonds

A bond represents a loan from the investor to a company or government entity. It is a certificate which is evidence of a debt. The issuer promises to repay a specific amount of money to the bondholder, plus a certain amount of interest, within a fixed period of time.

United States Government Bonds

U.S. government treasury obligations are the safest of all securities. Interest paid on any U.S. government security is free of state and local taxes. These include EE bonds, I bonds, Treasury notes, bonds and bills.

EE Bonds

The U.S. government sells series EE Bonds in denominations of $50, $75, $100,

$250, $500, $1,000, and $5,000. The maximum amount that can be bought in the name of any one person in any one calendar year is $5,000.

Interest earned on EE Bonds is exempt from state and local tax. Earnings are subject to federal income tax. Interest earnings are reported as they accrue. They are eligible for tax benefits upon redemption when used for qualified education expenses.

The fixed rate for bonds purchased through April 2010 is 1.20% (fixed rate). EE bonds earn interest for 30 years. The interest is paid when the bond is redeemed. Rates are announced each May 1 and November 1.

You can cash EE Bonds any time after 12 months. There is a three-month interest penalty if redeemed in the first five years.

EE Bonds are available in electronic and paper form. Electronic bonds can be purchased and held directly with Treasury in a Treasury Direct Account. Their website is http://www.savingsbonds.gov/tdhome.htm. Paper bonds can be purchased either through a financial institution or through payroll savings plans offered by thousands of employers.

I Bonds

I Bonds are issued at face value. They are $50, $75, $100, $200, $500, $1,000, $5,000 and $10,000. There is a $5,000 annual purchase limit in one calendar year. I Bonds are a low-risk, liquid savings product. While you own them they earn interest and protect you from inflation. You may purchase I Bonds via TreasuryDirect, http://www.treasurydirect.gov/ at most local financial institutions or through payroll deduction. As a TreasuryDirect account holder, you can purchase, manage, and redeem I Bonds directly from your web browser.

I bonds earn a guaranteed real rate of return. They are an accrual-type security. Interest is added to the bond monthly and is paid when you cash in the bond. The interest rate for I Bonds until April 2010 is 3.36%. They earn interest for 30 years. They can be cashed any time after 12 months. A 3-month interest penalty applies to bonds redeemed during the first 5 years. Interest earned on I Bonds is exempt from state and local income taxes. Interest earnings are reported as they accrue. They are eligible for tax benefits when used for qualified educational expenses.

Treasury Bills

Treasury bills, or T-bills, are sold in terms of 4, 13 and 26 weeks. Bills are sold at a discount from their face value. For instance, you might pay $970 for a $1,000 bill. When the bill matures, you would be paid $1,000. The difference between the purchase price and face value is interest. The interest or discount rate is determined at an auction on a regular basis. Interest income is exempt from state and local income taxes. Interest income is subject to federal income tax.

They are short-term securities that are purchased directly from the Treasury at http://www.treasurydirect.gov/ or through a bank or broker. The minimum purchase is $1,000. They are sold in multiples of $1,000.

Treasury Notes

Treasury notes, sometimes called T-Notes, earn a fixed rate of interest every six months until maturity. At maturity, the face value of the note is paid to the owner. Notes are issued in terms of 2, 3, 5, and 10 years. You can hold a note until it matures or sell it before it matures. You can buy Treasury notes directly from the U.S. Treasury at http://www.treasurydirect.gov/ or through a bank or broker. The minimum purchase is $1,000. They are sold in multiples of $1,000. The yield or interest rate is determined at auction.

Treasury Bonds

Treasury bonds are government obligations that mature in more than 10 years. They pay interest every six months until they mature. When the bond matures the owner is paid the face value. Bonds can be held to maturity or sold before maturity. The minimum purchase is $1,000. They may be purchased directly from the U.S. Treasury at http://www.treasurydirect.gov/ or through a bank or broker. Interest income is exempt from state and local income taxes. Interest income is subject to Federal income tax.

Treasury Inflation Protected Securities (TIPS)

Treasury Inflation-Protected Securities, or TIPS, provide protection against inflation. TIPS increase with inflation and decrease with deflation, as measured by the Consumer Price Index. When a TIPS matures, you are paid the adjusted principal or original principal, whichever is greater. TIPS are issued in terms of 5, 10 and 20 years. They can be held until maturity or sold before maturity. Interest income and growth in principal are exempt from state and local tax but subject to

federal income tax. You can buy TIPS from TreasuryDirect, bankers or brokers. The minimum purchase is $1,000. They may be purchased directly from the U.S. Treasury at http://www.treasurydirect.gov.

TIPS pay interest twice a year, at a fixed rate. The rates is applied to the adjusted principal; so, like the principal, interest payments rise with inflation and fall with deflation. Recent interest rates have been around 4.25% for 10 year TIPS.

Corporate Bonds

A corporate bond is a certificate promising to repay, no later than a specified date, a sum of money which the bondholder loans to the company. In exchange you receive periodic interest for the use of your money. At maturity, the face amount is returned to you.

The interest is usually a percentage of the amount loaned. When you buy a bond, you are buying a fixed rate security. The return is set from the beginning. The return is not usually dependent upon how successful the company is in business. Bondholders are entitled to receive the amount of interest originally agreed upon, as well as a return of the principal amount of the bond, if held for the specified time period.

Corporate bonds are issued in denominations of $1,000. This is the *face (par) value* of the bond. Par value is the amount the company agrees to repay to the bondholder when the bond matures. Bonds may trade at a *discount,* an amount less than their face value. They may trade at a *premium,* an amount greater than their face value. The value depends upon current market conditions and the general movement of interest rates.

While the interest on a bond is fixed, its market value is not. When interest rates rise, bonds lose some of their market value. The loss won't affect you if you hold on to your bonds until they mature. You may lose some of your investment if you sell early. When interest rates fall, the market value of bonds increases. Table 5-2 illustrates how the market value of a bond fluctuates with varying interest rate levels.

Table 5-2

PURCHASE OF $1000 BOND WHEN ISSUED

	Value of Bond	Interest Rate
Premium	$1,666.07	3% [1]
Par (at issue)	1,000.00	5% [2]
Discount	714.29	7% [3]

[1] $\frac{\$50}{.03}$ = $1,666.67 - price of bond; .03 X $1,666.67 = $50

[2] $\frac{\$50}{.05}$ = $1,000.00 - price of bond; .05 X $1,000.00 = $50

[3] $\frac{\$50}{.07}$ = $ 714.29 - price of bond; .07 X $ 714.29 = $50

The interest rate paid on corporate bonds depends on the current rate being charged to borrow money in the overall financial market and the company's credit rating. A company with a good credit rating will pay a lower interest rate on bonds because there's less risk involved.

Publicly-held corporate bonds are rated by several private rating agencies. These agencies use a combination of letters A through D to estimate the risk for prospective investors. For example, AAA (or AAA) is the highest quality bond while CC or D rated bonds are in default of payment. The ratings are not meant to be a measure of attractiveness of the bond as an investment, but rather how "safe" it is, if held to maturity.

There are two major types of corporate bonds - mortgages and debentures. *Mortgage bonds* are secured by a lien on the property of the company. Most utility bonds are mortgage bonds. *Debentures* are backed by the full faith and credit of the issuing company, but not secured by a lien on the corporation's property.

Bondholders are not owners of the company. They do not share in dividend payments, or vote on company matters.

Municipal Bonds

Municipal bonds are issued by states, cities, or certain local government agencies such as school districts. Municipal bonds are exempt from federal taxes. The interest is usually also exempt from state and local tax if the bondholder lives in the jurisdiction of the issuing authority. Because of the tax advantage, the interest rate paid on municipal bonds is generally lower than that paid on corporate bonds. Interest earned from municipal bonds is taxable. If municipal bonds are sold at a profit, the capital gain is taxed.

Municipal bonds are issued in denominations of $5,000. They are issued at face value and pay a fixed rate of interest semiannually.

The overall credit rating of the municipal entity offering the bonds strongly influences the interest rate paid. To attract bond buyers, an entity with a low credit rating will have to offer a higher interest rate than one with a high credit rating.

Zero Coupon Bonds

A zero coupon bond is sold at an extremely deep discount (a price lower than its face value). It does not pay interest semiannually like an ordinary bond. You receive the face amount when it matures. The difference between purchase price and par value is your interest. You earn interest, but it's not paid until you redeem the bond at maturity. For example, if you pay $377 for a $1000 bond with annual interest yield of 10% that matures in 10 years, you will earn $623. The $623 represents the interest you earn on the $377.

Because the Internal Revenue Service (IRS) expects you to declare average annual gain as taxable income, zero coupon bonds are best used in tax deferred savings plans like IRA's or retirement plans. This way you don't pay tax until you withdraw the money. You can buy zeroes backed by treasury securities, government agencies, corporations, and municipal governments.

Mutual Funds

A *mutual fund* is money pooled by many people for the purpose of investing toward a common goal. Mutual funds combine dollars of many shareholders to invest in a diversified list of securities. Each share represents a proportionate

interest in many individual companies. Mutual funds are popular among shareholders who do not have the background, time or inclination to select securities personally and manage their investment regularly. Each shareholder gets the benefit that could otherwise be available to only investors who have the resources to spread their investments among many business and industries.

There are different kinds of mutual funds with different investment objectives:

Balanced fund	- objective is a balanced portfolio that invests in bonds, preferred, and common stock.
Income funds	- objective is current income rather than growth of capital; usually invests in both stocks and bonds that normally pay higher dividends and interest.
Growth fund -	objective is long-term capital growth. Invests principally in common stocks with growth potential.
Growth and income	- objective is a balance between both income and long-term income growth
Aggressive growth -	objective is the highest possible capital gains growth
Special funds	- invest in a narrowly defined sector such as bonds, money market*, or gold.
Index funds -	funds designed to replicate a well-known index such as the S&P 500 or Russell 2000.

** Purchase money market instruments such as U.S. Treasury obligations, U.S. government agencies, CDs of banks, banker's acceptances and commercial paper.*

More specific categories of mutual funds by investment objective include aggressive growth, balanced, corporate bond, flexible portfolio, GNMA, global bond, global equity, growth, growth and income, high-yield bond, income-bond, income-equity, income-mixed, international, long-term municipal bond, money market, option/income, precious metals/gold, short-term municipal bond, state municipal bond—long-term, state municipal bond—short-term, U.S. government income. Specialty Funds include Asian & Pacific, convertible securities, energy stock, environmental securities, European, natural resources securities, social objectives, health & biotechnology securities, real estate securities, small company growth, technology securities, U.S. regional securities, and utilities.

The price of mutual fund shares is called *net asset value (NAV).* NAV is the price per share of a mutual fund. NAV is calculated by dividing the total value of securities that the fund owns by the number of shares that investors have purchased. When securities purchased by the mutual fund increase in price, the net asset value of the fund shares increases. If the securities held by the fund decrease,

your fund's NAV decreases. Your mutual fund performs as the securities it holds performs. The measure of performance is the increase or decrease in the fund's NAV.

Mutual Fund Fees and Expenses

There are fees and expenses when you buy and hold mutual funds.

Three Types Of Sales Charges Or Loads
There is usually a sales charge, or load, for the advice and service you receive when buying the fund. There are three types of sales charges or loads. They are front-end load, back-end load, and level load sales charges.

Front-end load: You pay the load up-front when you purchase the fund. If you invest $10,000 in a fund that has a 3% front-end load, $300 will be deducted for the load and $9,700 will be invested.

Back-end load: A percentage load is charged when you sell shares. This load declines annually until the load is phased out entirely over a period of years.

Level load: A certain percentage load is charged every year for a specific number of years.

Share Classes
Mutual funds are classified according to share classes. The classes are A, B, and C. A-shares have front-end loads. B-shares have back-end loads. C-shares have annual charges.

Annual expense ratio: The annual expense ratio measures the funds total annual expenses expressed as a percentage of the fund's net assets. Expense ratios may range from 1 to 2%.

12b-1 fees: The 12b-1 fee is a part of the annual expense ratio. It pays for distribution, marketing and advertising costs.

Redemption fees: The redemption fee is a fee for selling shares after holding them for a short period of time.

The Prospectus and Company Reports

A prospectus contains facts about an individual mutual fund and is available from

the fund free of charge. The company report, also free, provides established investors with the results of their mutual fund's performance and activity. It offers useful information for prospective investors as well.

Consider the following questions when selecting mutual funds:

a. Is the fund's investment objective in line with my goals?
b. Is the fund too risky for my taste?
c. Does the fund have the same investment style as a fund I already own?
d. How does the fund's record compare with that of other funds with a similar investment style?
e. Has the fund performed consistently well?
f. Did the fund have good results because of good management? Or because it was heavily weighted with a single stock or stock industry or waived all or part of annual fees?
g. Is the manager responsible for the record still around?
h. Has the fund grown so big that its past performance is unlikely to be repeated? Size of fund may be critical for smaller company stock funds, but not for others (large company or bond funds).
i. Have the fund's gains come from income or capital gains? Do you need income? If you don't need income, you may want to avoid taxes on income, and seek growth of capital.
j. Are the fund's fees and expenses reasonable? (load, annual expenses)

Annuities

An annuity is a contract between you and an insurance company. The insurance company promises to pay you a certain amount of money, on a periodic basis, for a specified period. You contribute funds to the annuity in exchange for the guaranteed income stream later in life. Typically, annuities are purchased by investors who wish to guarantee themselves a minimum income stream during their retirement years.

Most annuities are tax shelters. They reduce your taxable earnings for the current year. Your investment earnings grow tax-free until you begin to draw an income from them. This feature can be very attractive to young investors, who can contribute to a deferred annuity in the early years, take advantage of tax-free compounding in their investments, and then have income in retirement years.

Coverdell Education Savings Account (ESA)

The Coverdell Education Savings Account (ESA) is a way to save for a child's education. The education may be elementary/secondary (K-12) and post secondary education (college, graduate school, vocational school). It may be established for the benefit of any child under 18. You may contribute up to $2,000 annually if your income falls within eligible guidelines. The money contributed to the ESA is not deductible from taxes. The earnings accumulate tax deferred. Withdrawals from the account are tax-free if they are used to pay for qualified education expenses, such as tuition, books and fees.

529 Plans

A 529 plan is an educational savings plan operated by a state or an educational institution to help families save for future college educational costs. Many states have their own 529 plan. While each is a little different, all satisfy a few basic requirements that provide special tax benefits to the savers. The principal benefit of 529 plans is that your contributions grow tax-deferred and distributions are tax-free if they are used to pay for qualified post-secondary educational expenses. In addition to this federal tax advantage, some states allow for contributions to 529 plans to be exempt from state income tax.

Ownership of a 529 account remains with the person who establishes it. A beneficiary is designated for the account, but all distributions are controlled by the owner. This differs from some educational funding strategies where contributions are made by parents, but the account is controlled by the child once they reach the age of eighteen. With a 529 plan, if an intended beneficiary is not in a position to use the funds for educational purposes, the owner can transfer the account to another beneficiary. 529 accounts may even be rolled over to other state's plans should you or the beneficiary relocate or find a more suitable plan.

Since many states have their own 529 plan, the specifications for each state are somewhat different. Contact your state to find out more about the 529 plan that applies to you.

Unit Investment Trusts

A unit investment trust is a way you can achieve diversification with a modest investment. An investment company forms a trust composed of a portfolio of

professionally selected securities. They typically invest in debt securities. All of the securities are of the same type—all tax-free municipal bonds or all taxable corporate bonds which have similar maturity dates. Some trusts consist of securities which will mature in six months or one year. Other trusts have an average life of 12, 15, 25, or more years.

Investors buy units of the trust. Each unit costs approximately $1,000. A unit represents an undivided fractional ownership of the securities in the portfolio. Unit holders receive regular interest or dividend payments. Distributions of interest may be made on a monthly, quarterly, or annual basis.

Real Estate Investment Trusts (REIT)

A real estate investment trust (REIT) is a real estate company that offers common shares to the public. In this way, a REIT stock is similar to any other stock that represents ownership in an operating business. But a REIT has two unique features: its primary business is managing groups of income-producing properties and it must distribute most of its profits as dividends.

Other Equity Investments

Real estate is used for capital growth and income purposes. Many people own their own home or condominium. Some own a second home or vacation home. Others own rent-producing properties such as apartments, duplexes, or single family homes.

There are several advantages in owning real estate. The costs of property and property improvements may be recovered through depreciation. Owning real estate is a hedge against inflation. But its value can collapse during a recession. Good quality rental property can produce favorable cash flow.

There are also some disadvantages. There is low marketability. You may not be able to find a buyer or seller. The expenses of buying and selling are relatively high. There is lack of liquidity. You often have to have a large initial investment.

High interest rates may adversely affect your investment. You have to maintain the property which can be expensive.

Art, antiques, coins, stamps, gold, and silver are also equity investments. They are a hedge against inflation if their prices keep rising. However, there is not necessarily a connection between the prices of such items and inflation. They produce no income. They offer possible appreciation plus the enjoyment of owning.

Dollar Cost Averaging

Dollar-cost averaging is a strategy that can be used to purchase mutual funds or other investments over a long period of time. It is a disciplined approach to investing. You invest a fixed amount at regular intervals. After a period of time, you should own more shares than if you had invested the entire amount at the beginning. This happens because you purchase more shares when the market is low and fewer when it is high. Over the long-run, your average cost per share will be lower than the average price on the dates you made the purchase.

Dollar-cost averaging is most effective in a market that fluctuates over a prolonged period. If the market generally advances, a lump sum investment made at the beginning of the rise would probably produce larger profits than dollar cost averaging. On the down side, there is no guarantee that a fund that declines sharply will rise again, so you may have to get out as you would in any other declining investment.

In the example in Table 5-3, if you invest $100 per month for twelve months, at the end of one year, you would have invested $1200. At $25 per share, you could have purchased 48 shares. At $15 per share, you could have purchased 80 shares. By dollar-cost averaging, you could purchase 63.2 shares at an average of $18.98 per share.

Table 5-3

Dollar Cost Averaging Example

Regular Investmen t	Unit Price	Purchased Units
$ 100	$25	4
100	25	4
100	20	5
100	20	5
100	18	5.6
100	16	6.3
100	15	6.7
100	15	6.7
100	17	5.9
100	20	5
100	20	5
100	25	4
$1,200		63.2

$1200 / 63.20 units = $18.98; the average price per unit over time is $18.98.
$1200 / $25 = 48 units; at $25 per unit, you could purchase 48 units.
$1200 / $15 = 80.00 units; at $15 per unit, you could purchase 80 units.

Dividend Reinvestment Plans (DRIPs)

Dividend Reinvestment Plans (DRIPs) are a way investors with small amounts of money can participate in the stock market. DRIPs allow you to dollar cost average. Most DRIPs allow investments as small as $10 to $25 at a time. Once you start investing in the plan, your dividend checks are used to purchase additional shares of stock. There are no or very low fees charged for purchasing shares.

Case Study: *Bob has accumulated $3,000. He expects to use the money in the next 18 months. He wants to earn as much return as he can. He is willing to risk the safety of his principal for a high return. Which is the best investment for him? After shopping around, he found the following information.*

	Safety of Principal [1]	Liquidity [2]	Marketability [3]	Current Yield (%)	Minimum Money Required	Tax Treatment [4]
Insured Savings Account	excellent	excellent	none	.75	$ 25	after-tax
Money Market	excellent	excellent	none	1.24	$2500	after-tax
6 Month CD	excellent	good/fair	none	3.08	$ 500	after-tax
1 Year CD	excellent	good/fair	none	3.21	$ 500	after-tax
5 Year CD	excellent	good/fair	none	3.50	$ 500	after-tax
Large Growth Mutual Fund	fair	good/fair	excellent	3.80	$1000	after-tax

[1] Safety of principal - will your principal dollars remain intact.
[2] Liquidity - can you easily convert your money into cash.
[3] Marketability - how easily can you trade or sell your asset.
[4] Options include investing with before tax dollars, investing with after-tax dollars, tax-exempt or tax deferred.

The average annual return for the years 1926-2007 is 10.7% gain for stocks, 5.5% gain for bonds, and 3.8% gain for T-bills..

Bob stands to get the greatest return from a growth mutual fund. However, if the price of the mutual fund NAV declines, he could lose some of his principal dollars. If his goal is to earn as much as he can but not risk losing his principal dollars he might choose a one year CD. However, his investment does not have as much potential yield as it does with the mutual fund.

Summary

There are many financial products that can help you reach your financial goals. Choosing the best investment product for you and having the money automatically deducted to purchase the product can help you have money to reach your long-term goals.