Knowledge is Retirement Power

Exploring the World of Investing

Scratching the Surface

The world of investing today is a rapidly changing environment, offering exciting new opportunities for investors looking to secure their retirement future. Supported by a wealth of information and educational tools, today's investor is empowered to build and maintain an investment strategy that matches their own unique lifestyle, time frame, and financial goals.

Back to the Future

The world of investing has been evolving for a very long time. To get a perspective on how the world of investing has changed, let's look back to the 1950s ...

Popular Industries and Sectors to Invest In

1950s	Now
Manufacturing, Food	Technology (Hardware, Software, and the
Paper, Textiles,	Internet)Health Care/Pharmaceutical
Utilities, Transportation	Emerging foreign markets

Picking Stocks

In the 1950s, a company's value was judged by reviewing its past growth, current sales, and long-term business outlook. This hasn't changed.

The main factor that has changed is the growing number of investors willing to pay high prices for what is termed a "new economy" stock—the stock of a start-up high technology, Internet company or pharmaceutical research firm, for example. These stocks have little or no earnings, no dividend yield, and no past performance. This 21st century spirit of investing lives in many of us—reflecting a desire to explore the new frontiers of financial opportunity.

To help you in your learning process, look for these symbols:

Knowledge Booster

KNOWLEDGE BOOSTER
Expand your knowledge and tips!

Honor Roll

HONOR ROLL
A variety of trivia, fun exercises, and brain-teasers.

Honor Roll

Since its founding in 1995, this Seattle-based "dot com" has lost over $3 billion dollars. It posted its first actual profit in December 2001. Can you name it?

Knowledge Booster

Mapping the Course of the Investment World

Have you ever wondered how the stock market is doing—or how your investments are performing in relation to it? Here are a few of the most common benchmarks used to track the investment world today.

Dow Jones Industrial Average. Tracks the stock prices of 30 major companies from a variety of industries. When you hear that "the market is up 100 points" or "down 50 points" chances are this is referring to the 30 companies currently listed as making up the Dow Jones Industrial Average.

NYSE Composite Index. Tracks all stocks traded on the New York Stock Exchange. The NYSE Composite Index is a blend of companies from four distinct business sectors: industrial, utility, transportation, and financial.

Standard & Poor's 500 Index. This is a market cap weighted index of 500 leading companies chosen by a committee to represent the U.S. economy. Because the companies included in this index tend to be among the country's largest, the S&P 500 is generally considered to be a good benchmark for large-cap stocks and stock mutual funds.

Nasdaq Composite Index. This index tracks stocks traded through the Nasdaq stock market system. It tends to be more volatile than the S&P 500, in part because a larger proportion of the Nasdaq stock market system includes big technology companies, which tend to be sensitive to market cycles.

Russell 3000 Index. This index is a market cap–weighted index and is made up of the 3,000 largest U.S. stocks, which represent about 98% of the value of the U.S. stock market.

Russell 2000 Index. This index is a market cap-weighted index and is made up of the 2,000 smallest U.S. companies in the Russell 3000 index.

Lehman Brothers Aggregate Bond Index. Tracks the broad U.S. bond market and consists of government, corporate, mortgage-backed, and asset-backed securities.

MSCI EAFE Index. The Morgan Stanley Capital International Europe, Australasia, Far East Index is designed to measure the overall condition of the overseas markets. It currently tracks about 1,000 stocks from 21 countries around the world.

Lipper Index. Tracks the performance of 21 categories of mutual funds, each with a different investment objective.

The Finger Tip Factor

Fifty years ago, virtually all individuals bought or sold their investments by phone through a broker. Today, a growing number of investors are managing their own portfolios and placing trades electronically through either automated phone systems or the Internet.

Market Power

Fifty years ago, stocks were primarily bought and sold on the New York Stock Exchange (NYSE), followed by the American Stock Exchange (AMEX). Market activity was much less volatile.

Today, the Nasdaq Stock Market (launched in 1971) has surpassed both the NYSE and AMEX as the country's largest market, listing nearly 5,000 companies on its exchange and trading more shares daily than any other U.S. market. Financial markets today can experience great volatility over the short term, and it is not uncommon for over one billion shares of stock to be traded in a single day. (In comparison, it took until 1968 for 20 million shares to be traded in a single day).

The HOW of the DOW

The oldest barometer for tracking the state of the stock market is the Dow Jones Industrial Average (DJIA), usually referred to as "the Dow." It tracks the stock prices of 30 major companies from a variety of industries, including familiar companies such as Johnson & Johnson, AT&T, Coca-Cola, Disney, and Microsoft. To be included in the Dow Index, a company has to be extremely strong and considered a "market bellwether," which means the performance of the company's stock is a good indicator of investor sentiment.

When it comes to reporting about the Dow, media headlines can often strike a bit of fear into the average investor. When you hear that the Dow is "down 250 points," or "the market toppled 250 points" should you be worried? Probably not.

The fact is, if the Dow is hovering around 10,000, and it is "down 250," that represents a one-day drop of only 2.5%. A true long-term investor in today's world understands that market risk—most visible in these daily market swings—comes with the territory. There are other types of risk to think about as well. Learning how to manage these risks is the mark of a solid investment strategy.

Honor Roll

Only 1 company remains from the original Dow Jones Industrial Average listing of companies back in 1885. Can you name it? Hint: They "bring good things to life."

The Changing Face of the Investment World

On November 1, 1999, the Dow received one of the most important overhauls in its 103-year history. Four of the 30 stocks that had comprised the Dow for decades—Chevron, Goodyear Tire and Rubber, Sears, and Union Carbide—were dropped and replaced by Microsoft, Intel, Home Depot, and SBC Communications. These companies serve as a more accurate representation of today's "new economy."

Navigating the World of Investment Risk

Making sure you understand all the different types of risks involved in the world of investing can help lessen the surprise and uncertainty of what's happening in the market. Smart investors understand that risk is part of the deal.

Diversification

Diversification means spreading your money among several different types of investments (stocks, bonds, and cash equivalents/stable assets) in order to balance out the risks. Diversification can help you better protect your total return over the long term. The confidence that comes with having a well-diversified plan will also help you avoid the temptation to switch in and out of funds in the hopes of finding a better return.

Here's an overview of the types of risk that all long-term investors need to be aware of as well as some diversification strategies to consider to help you better manage risk ...

Market risk is the risk that the value of your investment will drop due to a decline in the financial markets. ***Manage market risk*** by considering cash equivalent investments, such as money market funds and stable assets, as part of your portfolio. In addition, when it comes to selecting stock funds, you may want to consider incorporating both growth and value categories of stock funds in your strategy. Growth funds invest in stocks that are expected to produce above-average earnings growth, even if the current price is high. Value funds invest in stocks that are considered undervalued relative to their earnings. Of the two categories, growth funds are generally considered to be of higher risk.

Business risk is the risk that an investment will lose value because of a decline in a particular type of company or industry. ***Manage business risk*** by considering investments that are diversified among a number of different types of companies and industries.

Inflation risk is the risk that your investments will lose value because their returns will not keep up with the cost of living. ***Manage inflation risk*** by keeping part of your money in stocks, which historically have out-performed inflation over the long-term. Remember, though, that past performance does not guarantee future results.

Interest rate risk is the risk that changing interest rates will affect the value of an investment. ***Manage interest rate risk*** by diversifying among bond funds with holdings that have different lengths of maturity: short, medium, and long term.

Economic risk is the risk that a recession will dramatically affect corporate earnings, resulting in falling stock prices. ***Manage economic risk*** by diversifying internationally as well as domestically—in both stocks and bonds. But keep in mind that foreign investing may be subject to greater risks due to political, economic, or currency instability.

Not investing is the risk that you will not have enough retirement income to do the things you need or want to do in retirement.

In today's investing world, knowledge is retirement power! Make sure you utilize any investment planning and education tools available through your Plan provider. Take time each day to read the business section of your local newspaper, and make a note of any new financial terms you are unfamiliar with. The business reference section of your local library should carry a glossary of financial terms that you can use as a resource.The more you expose yourself to financial terms and market information, the less intimidating the world of investing will become!

Honor Roll

Match the Dow Jones Industrial Average milestone with the President who was in office at the time:

Dow hits 100 for the first time	Bill Clinton
Dow hits 500 for the first time	Dwight Eisenhower
Dow hits 1,000 for the first time	George H. Bush
Dow hits 2,000 for the first time	Theodore Roosevelt
Dow hits 3,000 for the first time	Richard Nixon
Dow hits 10,000 for the first time	Ronald Reagan

Honor Roll

When interest rates rise, what do you think happens to the value of any bond funds you may have in your retirement portfolio?

a) Not Affected
b) Decreases
c) Increases

Avoid Chasing Investment Returns

The temptation to move your money around based on short-term market fluctuations is natural—no one wants to be left behind! But once you've created an investment strategy that matches the real you, stick to it! In the long run, market timing has never been shown to be effective.

A good example of why it is unwise to chase investment returns is the rise and fall of the technology sector in 1999-2000. If at the beginning of 2000 you examined the top performing market indexes from 1999, you would have found the technology-heavy Nasdaq Composite Index[1] at the top of the list. In 1999, the Nasdaq had a positive return of 85.6%![2]

Many investors moved their money into technology and Internet investments in 2000. These investors were chasing returns, expecting the incredible past performance of 1999 to continue. Guess what happened?

In 2000, the Nasdaq index had a negative return of 39.2%! Investors who were lucky enough to get in at the start probably were able to handle the loss easier. However, those investors who decided to chase 1999 returns in 2000 most likely lost a sizeable percentage of their investment!

[1] *The Nasdaq Composite Index measures all Nasdaq domestic and international based common type stocks listed on The Nasdaq Stock Market.*

[2] *Source: Bloomberg.*

Dollar Cost Averaging

Dollar cost averaging is a fancy phrase that simply means investing the same amount of money on a regular basis, regardless of the market value of your investments. Dollar cost averaging is a great long-term investing strategy because you don't have to guess whether the market is going up or down—you just keep adding to your account every pay period no matter what.

The major advantage of dollar-cost averaging is that you can buy more shares for your money over time than you could if you tried to time the market and buy all your shares at once. For example, suppose you invest $100 per month in a mutual fund. The fund share price generally hovers around $25, so you typically get about 4 shares for your monthly investment. But one month the market experiences a downturn and the share price drops to $20. Your $100 investment now buys you 5 shares. You now own more shares that have the potential to be worth more when the market experiences a rebound.

Keep in mind that dollar-cost averaging can't guarantee investment gains or protect against losses.

History can help you keep a long-term perspective on the Investing World

Average Annual Returns

From December 31, 1925 through December 31, 2005:

Small Company Stock	**12.6%**
Large Company Stock	**10.4%**
Government Bonds	**5.5%**
Treasury Bills	**3.7%**
Inflation	**3.0%**

Source: Ibbotson. For illustrative purposes only. The data assumes reinvestment of all income and does not account for taxes or transaction costs. Past performance does not guarantee future results.