



Before you begin to invest, it is important to understand some basic concepts which will help you when developing and managing your investment strategy. The various items noted below should be used as an educational tool to broaden your knowledge on the topic of investing and guide you through the investment process.

## TYPES OF INVESTMENTS



There are many ways to invest your money. To decide which investment vehicles are most suitable for you, it is important to understand their characteristics and why they may be suitable for a particular investment objective.

**Stocks:** Securities that signify ownership in a corporation and represent a claim on part of the corporation's assets and earnings.

- You can make money through the value of the stock rising and dividends paid.
- Stocks historically have greater growth potential than bonds or cash equivalents.
- Stocks have more volatility than bonds.

### STOCK CLASSIFICATIONS

<b>Small Cap</b>	<ul style="list-style-type: none"> <li>• Company with a relatively small market capitalization</li> <li>• Between \$300 million and \$2 billion market value of outstanding shares</li> </ul>
<b>Mid Cap</b>	<ul style="list-style-type: none"> <li>• Company with a market capitalization between small and large</li> <li>• Between \$2 and \$10 billion market value of outstanding shares</li> </ul>
<b>Large Cap</b>	<ul style="list-style-type: none"> <li>• Company with a large market capitalization</li> <li>• Over \$10 billion market value of outstanding shares</li> </ul>
<b>Domestic</b>	<ul style="list-style-type: none"> <li>• Stocks of American companies traded on the various exchanges</li> <li>• Range from the smallest of public companies to the largest of industrial conglomerates</li> </ul>
<b>International</b>	<ul style="list-style-type: none"> <li>• Stocks traded outside of the American exchanges</li> <li>• Have risk by country as well as currency risk</li> <li>• Emerging market stocks are companies located in countries undergoing significant economic transitions</li> </ul>

**Exchange Traded Funds (ETF):** A security that tracks an index, a commodity, or a basket of assets such as an index fund, but trades like an individual stock or bond on an exchange.

- Traded/priced throughout the day.
- Expenses typically are lower than those of actively managed mutual funds.

**Cash/Cash Alternatives:** Investments that are considered relatively low-risk and liquid.

- Some examples include savings accounts, money market funds, certificates of deposit, U.S. Treasury bills, and commercial paper.
- Provide relative stability.

**Alternative Investments:** Investments that are not one of the three traditional asset types (stocks, bonds, or cash). Some examples include managed futures, real estate, commodities, and derivatives contracts

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## TYPES OF INVESTMENTS



**Bonds:** Sometimes called fixed-income securities, bonds are loans to a corporation or government body that owe you according to the terms of the contract.

- Typically pay a stated interest rate (coupon) and pay interest on a fixed schedule.
- Bonds have a steady and predictable stream of income through interest payments.
- Bonds can fluctuate in value as economic conditions change, although typically not as significantly as stocks.

### BOND CLASSIFICATIONS

<b>By Maturity</b>	<ul style="list-style-type: none"><li>• Long-term (10+ years)</li><li>• Intermediate (1-10 years)</li><li>• Short-term (less than 1 year)</li></ul>
<b>By Issuer</b>	<ul style="list-style-type: none"><li>• Corporate</li><li>• Municipal</li><li>• U.S. Treasury</li><li>• Government-sponsored entities</li><li>• Foreign corporations and governments</li></ul>
<b>By Quality</b>	<ul style="list-style-type: none"><li>• Investment grade</li><li>• High yield ("junk")</li></ul>
<b>By Tax Status</b>	<ul style="list-style-type: none"><li>• Tax-exempt: municipal bonds</li><li>• Taxable: corporate, U.S. Treasury</li></ul>

**Mutual Funds:** Investments that own a group of stocks, bonds, or other investments.

- They can hold companies of a certain size (small, mid, or large cap) and can be domestic or international in nature.
- Fund manager(s) selects specific securities to buy based on a stated investment strategy.
- Achieve greater diversification through numerous holdings.
- Active management uses a human element, such as a single manager, co-managers, or a team of managers to actively manage a fund's portfolio using investing strategies.
- Passive management is associated with mutual funds and exchange traded funds (ETFs) where a fund's portfolio mirrors a market index.
- Typically end of day pricing.

**Annuity:** A product sold by a financial institution designed to accept and grow funds and pay out a stream of payments to the individual at a later point in time. They are primarily used as a means of ensuring a steady cash flow for an individual during their retirement years.

Types of annuities:

- **Variable:** Insurance contract that is invested. The value of your investment will vary depending on the performance of the investment options you choose. At the end of the accumulation stage, the insurance company guarantees a minimum payment.
  - **Fixed:** Insurance contract in which the insurance company makes fixed dollar payments to the annuitant for the term of the contract.
  - **Deferred:** Delays payments of income, installments, or a lump-sum until the investor elects to receive them.
- Investments that own a group of stocks, bonds, or other investments.

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## INDEX DEFINITIONS



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When you invest your money in the stock market, you are trading on a variety of different indices. These are statistical measures of change in an economy or a securities market. In the case of financial markets, an index is an imaginary portfolio of securities representing a particular market or a portion of it. It is a tool used by investors and financial managers to describe the market, and to compare the return on specific investments. Below are some of the popular market indices:

- Dow Jones Industrial Average (DJIA): A price-weighted index composed of 30 widely traded blue-chip U.S. common stocks.
- S&P 500: A market-cap weighted index composed of common stocks of 500 leading companies in leading industries of the U.S. economy.
- NASDAQ Composite Index: A market-cap weighted index composed of the more than 3,000 common equities listed on the NASDAQ stock exchange.
- Russell 3000: A market-cap weighted equity index maintained by the Russell Investment Group that seeks to be a benchmark of the entire U.S. stock market and encompasses the 3,000 largest U.S. traded stocks incorporated in the U.S.
- EAFE: EAFE stands for Europe, Australasia, and Far East, which represent the most developed areas outside of North America. This is an index created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia.

## ASSET ALLOCATION



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Asset allocation is one of the most important decisions you can make when it comes to investing. It is the process of dividing investments among different kinds of assets. Historically, asset allocation has proven to help improve risk-adjusted returns.

- Some important things to consider to help determine your appropriate asset allocation:
  - Understand your risk tolerance. There are three primary components to determining your risk *tolerance*:
    - Your *willingness* to take risk.
    - Your ability to take risk.
    - Your need to take risk.
    - Completing a *Risk Tolerance Questionnaire* can be helpful.
  - Understand your investment objective.
  - Understand your time horizon.
  - Take into consideration the amount of available capital.
- Pick the proper mix of investments. Diversification is a key component.
  - Choose the proper allocation between stocks, bonds, and cash given your needs.
  - Don't put all your money into one investment.
  - Buy multiple investment classes or vehicles to spread the risk.
- Consider using the services of a qualified investment professional.

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## RESOURCES



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Researching financial information has become much easier with the development of technology and amount of information available on the internet, but knowing where to turn may seem overwhelming. There are many great resources available to help increase your investment knowledge. Below is a list of some potential resources:

- [Morningstar](#)
- [Investopedia](#)
- [Yahoo! Finance](#)
- [MarketWatch](#)
- [Financial-planning.com](#)

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