Financial IQ
The Fundamentals of Financial Well-Being

Investment Basics
Why invest?

Investing allows you to harness the power of growth potential over the course of your life.

When you have money that isn't growing in value (keeping cash in the proverbial mattress) the purchasing power of your money declines because it doesn't keep up with the rate of inflation, or increases in cost of living.
Why invest?

Here's a hypothetical example of what would have happened to a $1,000 investment in the stock market in 1970.

This example uses historical rates from the S&P 500, an index that reflects stock market performance of the 500 most widely held stocks in the New York Stock Exchange. This chart shows how, based on historical performance data of the S&P 500, $1,000 would ultimately grow to $48,360 over the course of 40 years.

Investing is a long-term commitment. Stock market trends show that, in the long run, your investment results may be more favorable than if you were to not invest at all.

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1 The S&P 500 index data has been provided for informational purposes only; it is unmanaged and does not reflect the fees or expenses of any specific product. Individuals cannot invest directly in an index.
2 Based on the S&P 500 historical returns.
Stocks

When you purchase a stock, you become part-owner of the stock-issuing company. While there are thousands of different stocks for you to choose from, all stocks typically fall into three main categories: income, growth and value.

Income stocks

Most income stocks can be found in typically less volatile industries, such as energy, finance or natural resources. Often, industry stability means companies may have lower capital investment requirements, which allows more of the company profits to be directed back to the investors in the form of a shareholder dividend\(^4\), or income.

Growth stocks

A growth stock usually does not pay a dividend. Instead the company may prefer to reinvest any retained earnings into capital investments. Growth stocks may carry more risk because the stockholder relies solely on the company’s success to deliver a higher stock price.

Value stocks

Typically, a value stock is one that may be considered undervalued, meaning the stock may have a lower price than what the company’s performance may indicate. Investors of value stocks buy these stocks at a lower cost and “hold” them until the market perceives the company – and the stock – more favorably.

\(^4\) Dividends are not guaranteed.
Bonds

Generally speaking, a bond is used by a company or a government entity to raise money for the financing of a project or activity.

When you purchase a bond, you are essentially giving a loan to an organization. That organization promises to repay that loan, plus interest, over a specified period of time.

Unlike a stock, where an investor becomes part-owner in a company, a bondholder is a debtholder, or creditor, of the bond issuer.

There are three main types of bonds:

Corporate bonds
Debt securities issued by private and public corporations. Corporate bonds are typically issued in blocks of $1,000 face value. In the case of bankruptcy, bondholder claims may be given preference over other creditors.

Municipal bonds
Issued by states, cities and other government entities. Generally the investors do not receive interest until the bond matures, and oftentimes, that interest earned is exempt from federal, state and local taxes.

Treasury bonds
Issued by the U.S. Department of the Treasury on behalf of the federal government. Backed by the full faith and credit of the U.S. government, treasury bonds are generally seen as risk-free, low-yield investments.
Mutual funds

How does a mutual fund work?

With a mutual fund, your money is pooled with multiple other investors. A professional money manager invests that money in accordance with the stated purpose and goal of the mutual fund you are buying.

If the investments within the mutual fund perform well, the return of those investments may increase the fund’s value.

Benefits:
- Built-in diversification
- Professional money management
- Great for smaller accounts (larger exposure with less capital)

Risks:
- Fees could lower or eliminate your rate of return, even resulting in a loss
- If your fellow investors sell at a low point, the fund will suffer
- Tax exposure – you may owe taxes on unrealized capital gains

Before purchasing a mutual fund, you should carefully consider the investment objectives, risks, charges and expenses of the fund. For this and other information, obtain the prospectus from your registered representative and please read the prospectus carefully before investing or sending money.

5 Diversification does not assure a profit and does not protect against loss in a declining market.
Why diversify?

Different types of investments react to market fluctuations differently. Diversification can potentially help lower your investment risk.

A common path toward diversification to reduce risk or volatility is to not only invest in a variety of assets types, but to also invest in different categories within a particular type of asset. For example, you may consider investing in not only different stock types (income, growth) but also different industries (technology, consumer goods) within each stock type.

Investment pyramid

As you build your portfolio, consider different types of assets to help you balance risks:

The SUMMIT of the pyramid is where you’ll find much more speculative investments.

The MIDDLE of the pyramid is made up of growth-type investments like stocks and some bonds.

The BASE of the pyramid is composed of low-risk investments such as treasury bonds and money market accounts.
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