

Investment Basics

A Guide to Your Investment Options

Good [MORNING, AFTERNOON, EVENING] and welcome. My name is [YOUR NAME], and I represent [FIRM NAME].

In this presentation, we're going to discuss the basics of investment planning. We'll start by discussing some fundamental investment concepts. Then we'll review some of the investment options that are available to you and consider some general investment strategies. Finally, we'll spend some time discussing how you might go about allocating your investment dollars.

In the end, I hope that this overview will assist you in thinking about your own investment needs, and may help you determine whether you might benefit from working with a financial professional.

To begin, let me pose a question. "What does "investing" mean to you?"

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Investment Fundamentals

What Is Investing?



Speculating?



Saving?



Investing--A carefully planned and strategic approach to managing and accumulating money.

Some of you may associate investing with speculating--gambling on the volatile or uncertain value of assets in the hope of obtaining potentially high returns--for example, trying to time the market in order to make a quick profit. <CLICK>

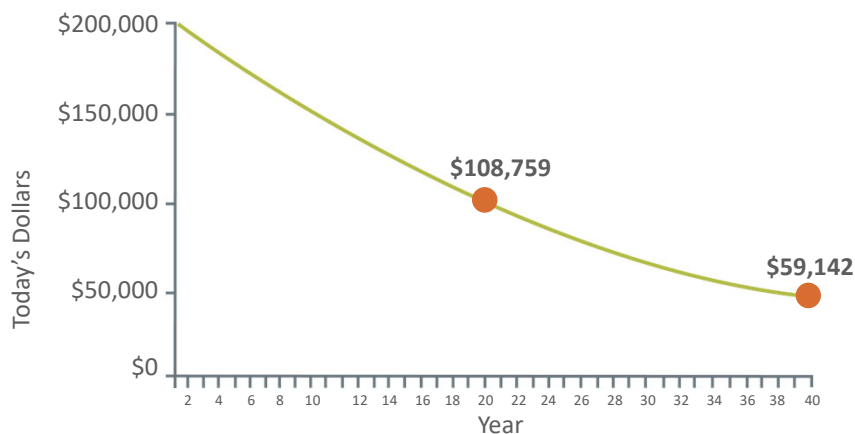
Others may see investing as more of a long-term, methodical effort to save for the future.

In fact, investing is a little of both. All investing involves a certain amount of risk, including the potential loss of principal, and there can be no ironclad guarantee that any investing strategy will be successful. But when you invest your money, it has the potential to grow over time. <CLICK>

Consider investing a carefully planned and strategic approach to managing and accumulating money. Investment planning is about discipline and patience. But it doesn't have to be difficult. <CLICK>

Investment Fundamentals — The Effect of Inflation

Purchasing Power of \$200,000 at 3% Annual Inflation



This hypothetical example of mathematical principles is used for illustrative purposes only. Actual results will vary.

An important concept to understand when it comes to investing is the impact of inflation. Inflation has the effect of reducing the purchasing power of your dollars over time. According to the U.S. Department of Labor, the average annual rate of inflation since 1914 has been approximately 3%. At 3% annual inflation, something that costs \$100 today would cost \$181 in 20 years.

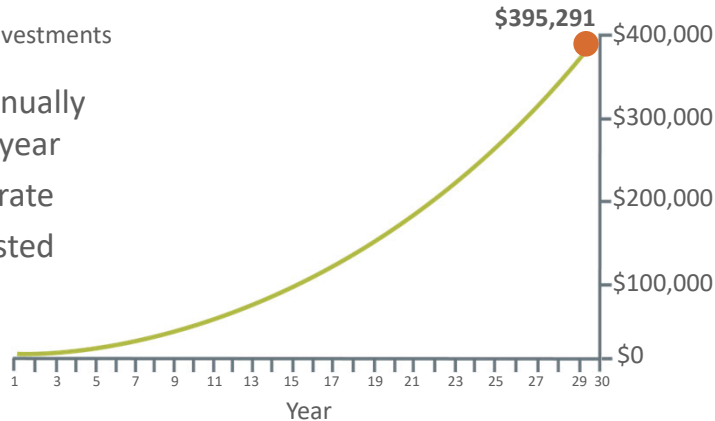
Let's say you have \$200,000 stashed in your mattress. Assuming a 3% annual inflation rate, that \$200,000 will buy you <CLICK> just over \$108,000 worth of goods and services in 20 years, <CLICK> and less than \$60,000 in purchasing power in 40 years.

This means that if your investments aren't keeping pace with inflation, you're actually losing purchasing power each year. It also means that the real rate of return on your investments may actually be less than you think--something you'll need to take into account.
CLICK>

Investment Fundamentals — The Effect of Compounding

Growth of Annual \$5,000 Investments

- \$5,000 invested annually at the end of each year
- 6% annual growth rate
- All earnings reinvested



“Rule of 72”

$72 \div \text{Rate of Return} = \text{Years Needed to Double in Value}$

This is a hypothetical example and is not intended to reflect the actual performance of any specific investment. Investment fees and expenses, and taxes are not reflected and would reduce the performance shown if they were included. Actual results will vary.

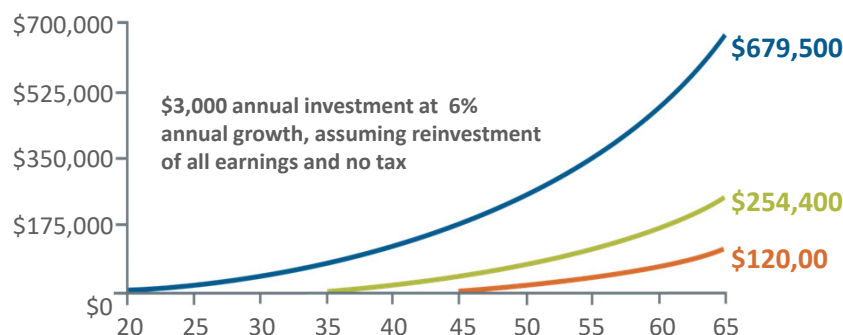
Inflation has the general effect of reducing the real value of your investments over time. Compounding has exactly the opposite effect: the funds in your account earn interest and that interest is added to your account balance. The next time interest is calculated, it's based on the increased value of your account. In effect, you earn interest on your interest. Many people, however, don't fully appreciate the impact that compounded earnings can have, especially over a long period of time.

Let's say you invest \$5,000 a year for 30 years. After 30 years, you will have invested a total of \$150,000. <CLICK> Yet, assuming your funds grow at exactly 6% each year, because of compounding, after 30 years you will have over \$395,000.

<CLICK> “The rule of 72” is a quick way to estimate how long it will take for an investment to double in value through compounding. Divide the number 72 by the rate at which the investment will increase in value. The result is the number of years that it will take the investment to double. For example, if the expected annual return on an investment is 6%, it should take about 12 years for the investment to double in value. You can also use the rule of 72 to estimate the rate of interest you'd need to double your investment in a given number of years--just divide 72 by the number of years. For example, for an investment to double in value in 8 years, you would need an annual return of 9%. <CLICK>

Investment Fundamentals — Sooner Is Better

- Don't put off investing
- The sooner you start, the longer your investments have to grow
- Playing "catch-up" later can be difficult and expensive



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The sooner you start investing, the more time your investments have for potential growth. Waiting too long can make it very difficult to catch up.

<CLICK> For example, invest \$3,000 at the end of each year starting when you're 20 years old and you will have accumulated <CLICK> almost \$680,000 (assuming a 6% annual growth rate and no tax) by age 66. If you wait until age 35 and start investing \$3,000 annually, you'll accumulate only about <CLICK> \$254,000. And, if you wait until age 45 to start investing, you'll accumulate <CLICK> only about \$120,000 by the time you're 66 years old.

It's never too late, so don't be discouraged. I'm simply trying to illustrate the importance of acting sooner rather than later. <CLICK>

Investment Fundamentals — Identifying Goals and Time Horizons

- Investment goals
 - Retirement
 - Education
 - Special purchase
 - Financial security
- Short-term goals vs. long-term goals
- In general, the longer your investment horizon, the more risks you can afford to take



The first step in any investment plan is to identify your goals. What are you investing *for*?

Many of us invest to accumulate funds for retirement, or for a child's education. Others invest for shorter-term goals—perhaps a down payment on a home, or a new car. Still others invest to build a fund that they can access for unanticipated financial needs—illness, accident, or job loss for example. Of course, you may have all of these things as investment goals, or something that I haven't even mentioned. If you do have multiple goals, think about how you might prioritize them.

Once you've identified and prioritized your investment goals, consider the time horizon associated with each goal. Generally speaking, the longer your time horizon the more aggressively you may be willing to invest. That is, investments that carry more risk (because they offer a greater potential for return) will tend to be more appropriate for those with long-term investment horizons than those with short-term investment horizons. Why? The longer the investment horizon, the more time you'll have to recover from any investment losses. <CLICK>

Investment Fundamentals — Risk Tolerance

- Ability of investment plan to absorb loss
- Personal tolerance for risk
 - Aggressive
 - Moderate
 - Conservative



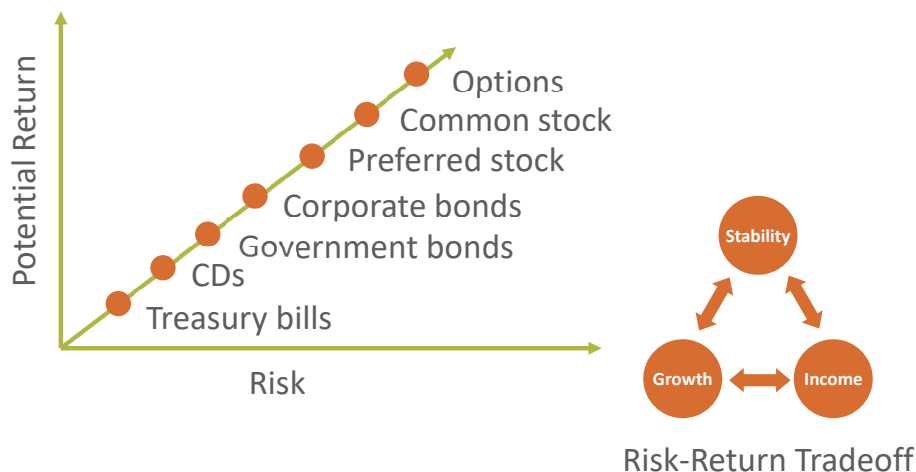
The world of investing is very subjective--the investment plan that's right for you depends largely upon the level of comfort that you have when it comes to risk. You can't completely avoid risk when it comes to investing, but it is possible for you to manage it.

There are two aspects of risk tolerance to consider: <CLICK> (1) the capacity of your investment plan itself to absorb losses, and <CLICK> (2) how comfortable you are personally with risk. The first aspect can be quantified--the more flexibility your investment plan has when it comes to potential loss, the more risk your plan can tolerate. For example, as we've discussed, a long investment time horizon may allow you to take on more risk than a short time horizon.

The second aspect, how comfortable you are personally with risk, is more of an emotional measure, and depends on many factors, including your objectives, life stage, personality, and investment experience. Some investors are comfortable with a high degree of risk, while others can tolerate only minimal risk. Your individual risk tolerance is an important factor in deciding which individual investments are appropriate for you, as well as how your investment dollars should be allocated among different investment classes.

<CLICK> Investors are typically grouped into three categories for purposes of discussing risk tolerance: aggressive (those who have a high degree of risk tolerance); moderate (those willing to accept some degree of risk), and conservative (those who are risk averse). <CLICK>

Investment Fundamentals — Relationship Between Risk & Return



When it comes to investing, there's a direct relationship between risk and return. That is, in general, as the potential for return increases, so does the level of risk. Or stated another way, the less risk an investment has, the lower the potential for return. So, for example, putting your money into a bank CD may have lower risk, but it also offers less potential for return than purchasing common stock.

This is true for investment portfolios as well as for individual investments. The more aggressive you are as an investor, the more risk you may be willing to take--more risk means a greater potential return, but also a greater chance of loss. Conversely, the more conservative you are as an investor, the less risk you're generally comfortable with--less risk means lower potential returns, but less likelihood of loss as well. This is known as the risk-return tradeoff. <CLICK>

As much as we would like it, we can't have it all. There is a relationship between growth, income, and the stability of our investments, and when we move closer to one, we automatically move away from another. This is a dilemma that all investors face. The key is to pursue the highest potential returns at a level of risk that you're comfortable with.

For example, options involve greater risk and are not suitable for all investors. Investors may lose the entire amount of invested principal in a relatively short period of time. Prior to buying or selling an option, a person must receive a copy of "Characteristics and Risks of Standardized Options." Copies of this document may be obtained from your financial professional and are also available at <http://www.theocc.com>.

Presenter's note: If you are affiliated with a firm that offers option contracts for sale to the public, you must disclose the name and address of the person from whom a current Options Disclosure Document (ODD) may be obtained.<CLICK>