PROTECT
YOUR FUTURE

A Guide to
Investment Planning

Prepared by
State Corporation Commission
Division of Securities and Retail Franchising
www.scc.virginia.gov/srf

The State Corporation Commission's **Division of Securities and Retail Franchising** (Securities Division) registers securities and franchises offered or sold in the Commonwealth and oversees the firms and individuals selling securities and/or providing investment advice to Virginians. One of our primary objectives is investor protection. We strive to provide the information you need to make informed investment decisions so that your financial security can be safeguarded.

The Securities Division has designed *A Guide to Investment Planning* to give you some facts about investing. This Guide offers information to help you better understand the essentials of investing, the types of investments available and how each might be utilized in your overall financial plan. By becoming a more educated investor, you will be better prepared to make more suitable investment decisions.

If you have additional questions or concerns, the Securities Division is available to provide assistance. Our contact information is included in the back of this Guide. We hope you find this Guide to be a valuable resource in planning for and achieving your financial goals.

This Consumer's Guide should be used for educational purposes only. Nothing in this Guide is intended to be an opinion, legal or otherwise, of the State Corporation Commission, nor should it be construed as an endorsement of any product, service, person or organization mentioned in this Guide.

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A Guide to Investment Planning

INTRODUCTION

Today's investors have increasingly more responsibility for preparing to meet their financial goals.

For example, few corporations manage pension plans for their workers anymore. Social Security is expected to replace less and less of the income a retiree earned while working. Instead, workers have had to plan for themselves by setting up their own retirement accounts or participating in those offered by employers, such as 401(k) plans.

This shift in retirement planning responsibility requires everyone to know a lot more about making investment decisions. It isn't easy. The investment marketplace is brimming with expert salespeople, new products, "surefire" strategies, and media commentaries that can make investing seem confusing. It's no wonder so few people feel equipped to make informed decisions about their financial future.

This guide was written to help all investors understand basic financial principals, obtain professional assistance, and avoid investment scams.

1 Getting Started

Are you comfortable living paycheck to paycheck, or would you like to experience more financial security?

DEVELOPING A MONEY MANAGEMENT PLAN

Before you start investing, you need to make sure your finances are in order. For instance, if you are burdened by excessive debt that is making it difficult to save, then you may want to address that issue first.

In addition to reducing debt, you may need to build an emergency savings fund. This fund can help cover the cost of unforeseen expenses such as unemployment, repair or replacement of a car, prolonged illness of a family member, medical expenses not covered by insurance, or property taxes.

A quick search on the internet can provide additional resources that take you step-by-step through the process of family budgeting, building credit, controlling debt, preparing a spending plan; calculating your net worth, and knowing which types of insurance are needed to protect yourself from major financial losses.

ESTABLISHING YOUR GOALS

Begin by asking yourself, “What exactly do I want to accomplish with my money?” Are you comfortable living paycheck to paycheck, or would you like to experience more financial security? The answers to these questions should help guide you toward financial security. There is no better time than the present to focus on your financial goals. Goal-setting is a personal endeavor that will be determined by your own preferences. There are no “right” or “wrong” financial goals, and in fact, most people work toward several goals at once.

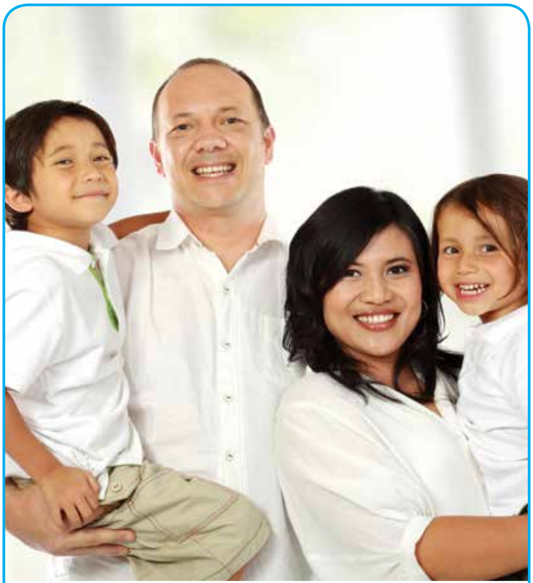
Financial goals can be categorized as short-term, medium-term and long-term. A short-term goal is one you plan to accomplish fairly soon, typically in three years or less. Examples of short-term goals are a vacation, a wedding, or a down-payment on a new car.

A medium-term goal is one you might accomplish within three to five years. Examples of medium-term goals include owning a home or starting your own business.

1 Long-term goals are those which won't be accomplished for many years, usually 10 or more. Retirement is the best example of a long-term goal, since people should start planning for retirement early in their working years.

When establishing your financial goals, it is important to be specific. It is not enough to say, "I plan to retire someday." You must go one step further and envision your goals. What do you want to do in retirement? Do you intend to work part-time? Do you plan to travel? What is the outlook for your health and future care? Do you want to enter retirement earlier than the normal retirement age or later? The answers to all these questions are important because they help you determine how much money you will need for the retirement you envision. Knowing that amount indicates how much money you will need to save and invest.

You must ask similar detailed questions for each of your financial goals. Only by setting specific goals and determining how much they are going to cost, will you be able to make the financial decisions necessary to obtain those goals.



Financial goals can be categorized as short-term, medium-term and long-term.

PAYING YOURSELF FIRST

One of the most important steps you will take on the road to financial success is to create a budget that suits your situation, and then stick to it. A budget will help you keep track of your finances. The goal is to spend less than you earn every month. By knowing exactly where you are spending your money, you can better determine where you want to make changes. Even small modifications in your spending habits frees up money.

Any additional funds you identify in your budget can be applied toward paying down excessive debt and building an emergency fund. Once you accomplish these objectives, you can then divert the extra money into savings and investments. Consider this an expense in your budget each month – a concept known as paying yourself first.

Handle your savings and investments as any other routine monthly expense by having them automatically debited from your account. If you know these funds are going to be withdrawn, you are less likely to spend them elsewhere. You are paying yourself first by paying for your future financial goals today. The pay-yourself-first concept also helps you make saving and investing a habit. It is essential to your financial success that you maintain the habit of putting money aside to meet your goals.

Furthermore, by adding to your investments on a monthly basis, you are instituting the concept of dollar cost averaging. This strategy can help you build your investment account. When you add a fixed dollar amount to an investment on a regular schedule, you buy more shares when the prices are low and fewer shares when the prices are high–thus providing you with an average per share price. (While this method will help you build your investments over time, it is not a guarantee. There is no way to know for sure whether your account will gain or lose value.)

Handle your savings and investments as any other routine monthly expense by having them automatically debited from your account.

1 UNDERSTANDING SAVING AND INVESTING

Saving is not the same as investing. Saving is putting money aside to meet your short-term goals and needs. This may include an unexpected emergency or a down-payment on a new car. The money must be readily available when you need it, in a dependable amount. Think of savings as a short-term parking space for your money.

Basic accounts at local banks and credit unions are a good option for short-term savings. **Savings accounts, money market accounts** and **certificates of deposit (CDs)** allow you to earn interest, or a percentage of your account balance, at a particular rate on a regular schedule. You can comparison shop. Just make sure the financial institution you choose is insured by the Federal Deposit Insurance Corporation (FDIC) if it is a bank, or the National Credit Union Share Insurance Fund (NCUSIF), if it is a credit union. This insurance protects deposits up to $250,000 in bank or credit union accounts in case those institutions run into financial difficulties.

You will often hear basic short-term savings accounts referred to as cash equivalents. They are highly liquid, meaning you can easily convert them into cash, and they are considered low- risk, insuring your money will be there when you need it.

Investing, as opposed to saving, means putting your money into a financial product with the expectation of making additional money. There is no guarantee your funds will increase, nor is there any guarantee they won't decrease.

While saving is essential to your financial success, many people consider investing a better option for achieving long-term goals. Investments provide the potential for your money to grow over time, thus helping you buy a home, pay for college, or finance a secure retirement.

While saving is essential to your financial success, many people consider investing a better option for achieving long-term goals.

You do not need to be wealthy in order to invest. Getting started with even a small amount and investing regularly can help you build wealth over time. The sooner you start to invest, the more time your money has to grow – though investing at any age is wise.

Some people are not interested in investing, and their arguments are valid. Investments are not insured, and earnings are not guaranteed. The value of your investments may shrink; your account could lose value, especially in the short-term.

However, over extended periods of time (several decades) you have a chance to achieve a much greater rate of return. Investments also provide more protection against inflation than CDs and money market accounts. Some people are concerned they don't know how or where to start investing. The best remedy is education, which is the purpose of this guide.

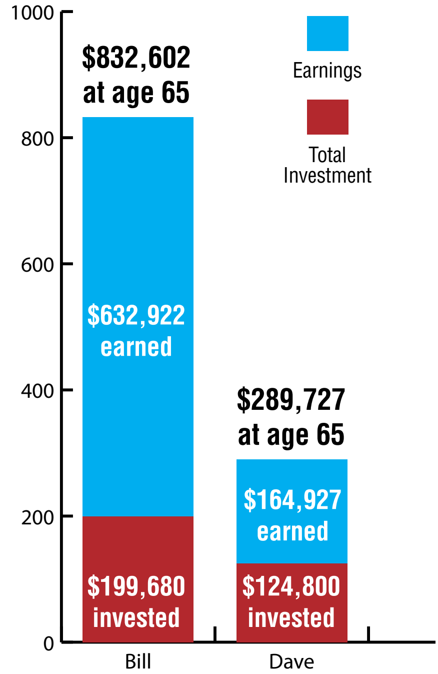
2 Investing Basics

THE IMPORTANCE OF STARTING NOW

The dollar you have in your pocket today is worth more than that same dollar will be worth next month or next year. Money loses value and buying power as a result of **inflation**. Almost anything you buy now costs more than it once did – and often more than you expected. In fact, since about 1970, the average inflation rate as measured by the **Consumer Price Index (CPI)** has risen much faster than the average **disposable personal income (DPI)**. That means all of us have lost a lot of buying power.

Inflation essentially reduces your savings, especially if the inflation rate is higher than the interest rate you're earning. Therefore, you may want to consider putting your money where it will outpace inflation. Investing may be the best strategy.

If the value of your investment **portfolio** increases more rapidly than prices rise because of inflation, you'll increase your net worth. You have the potential of becoming more financially secure if you achieve an **annualized rate of return** higher than the **annualized rate of inflation**.



In this example, both Bill and Dave invest $416/month in a tax-deferred retirement account.

Bill begins investing at age 25, whereas Dave waits until age 40. If both accounts realize an average annual tax-deferred return of 6%, when both men reach 65, Bill has over $500,000 more than Dave.

As the graph illustrates, the sooner you start investing in a tax-deferred retirement account, the better.

Just as the dollar you have today is worth more than that same dollar next year, so the money you invest today has greater potential for growth than the money you invest next year.

By investing early, you benefit from the power of compounding. That means you earn a return not only on the amount you invest, but also on the earnings you accumulate. Therefore, you create a bigger base on which to grow future earnings.

RISK IN INVESTING

All investments involve some degree of risk. Successful investing is a balance between risk and return.

Return is based on the change in investment value, plus any earnings that investment produces. If you sell an investment for more than you paid for it, you will realize a gain, or positive return. If you sell it for less than it cost you, you'll end up with a negative return, or loss.

The higher your average annual return over time, the more likely you are to meet your financial goals. But a higher annual return usually involves a greater degree of risk.

Risk is the potential for losing money instead of making it, or making less than you expected. This includes the possibility that the value of your return is undermined by inflation, which reduces your buying power.

Example of Positive Return	
You buy 100 shares @ $20 per share	$2,000
You sell 100 shares @ $22 per share	$2,200
Profit ($2,200 - $2,000)	= $200
Company pays dividend of $0.25 per share	+ $25
RETURN ($200 profit + $25 dividend)	= $225 (or 11.25%)

Example of Negative Return	
You buy 100 shares @ $20 per share	$2,000
You sell 100 shares @ $18 per share	$1,800
Profit ($2,000 - $1,800)	=($200)
Company does not pay dividends	+ $0
LOSS ($200 loss)	= ($200) (or -10%)

* *This example does not take into account associated fees or expenses.*

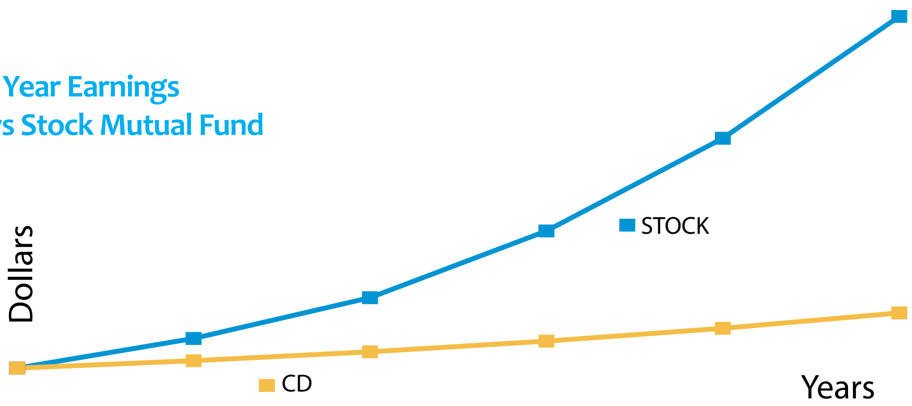
2 Understanding the relationship between risk and return is essential to making rational investment decisions. The more risk you are willing to take, the greater your potential for a substantial return – or a disappointing loss. On the other hand, lower risk usually results in a lower return (as illustrated below).

Risk in investing means you could experience a loss in the value of your portfolio, especially over a short period of time. But do keep in mind that it's entirely possible for a declining investment to regain its value over time and eventually be worth more than you invested.

Investment risk typically fits into one of two categories. Market risk reflects what's happening in the financial markets as a whole. If the economy is extraordinarily weak, as it was in 2008-09, the markets can be extremely volatile and prices can change dramatically over short periods of time. When that happens, investors tend to lose confidence. They sell off their investments and stop making new ones. This creates an even more dramatic downturn.

Investment risk occurs when an individual investment loses value for some reason related to the investment itself. This could be due to poor management, which reduces the company's earnings and drives its stock price down. Or it could be due to competition from a similar company. Sometimes the market for a certain product simply disappears with changing times.

Five Year Earnings
CD vs Stock Mutual Fund



This chart illustrates the difference in return between a stock mutual fund and a CD.

If you put $1,000 in a 5-year bank CD paying 2% compounded annual interest, you would earn $104. But if you bought shares of a stock mutual fund expecting a 6% annual return, you would earn $338 over the same 5-year period.

This is more than triple the CD's return.

STRATEGIES TO MANAGE RISK

Successful investing requires understanding and balancing the risks involved. While neither market nor investment risk can be entirely eliminated, there are techniques to help you manage both. Two of the most effective strategies are asset allocation and diversification.

These strategies don't guarantee success or protect you from losses in a serious market downturn, but they can help mitigate risk and maintain the potential for a strong return.

Asset Allocation

Using asset allocation, you divide your investment **principal** among several different types of investments, or **asset classes**, on a percentage basis. The idea is to avoid putting all your money in the same place. Because different asset classes react differently to the economy, you can invest in several at the same time. For instance, when stocks are flourishing, bonds will typically falter, and when stocks are doing poorly, bonds usually do well.

Taking advantage of asset allocation allows you to offset losses in one class with gains in another. There is no guarantee, of course, but putting all your money into one asset class is much more likely to produce a major loss than spreading it across several classes.

Asset allocation also helps you take advantage of the ever-changing markets – not by pouring all your money into this year's hot investment, but by maintaining some funds in every asset class every year.

There's no allocation that's right for everyone. Nothing works perfectly in every market.

This is an example of how one person chose to allocate their investment funds.

Hannah, Single, 26

Profile. Assistant manager of a catering company. Almost paid off her student loans. Has a small emergency savings account.

Goal. Save regularly. Access cash through a money market mutual fund. Invest for a retirement that may not begin for 40 or 50 years.

Strategy. Allocate a large percentage to stocks, both domestic and international, and a smaller percentage to fixed income to achieve a higher rate of return in the long term.

Possible Allocation.
Cash, Money Market Funds – 10%
Bonds – 15%
Stocks (domestic and international) – 75%

2

Here are more examples of how various people chose to allocate their investment funds.

Rich and Elizabeth, Married, Late 30s

Profile. The couple has two children in elementary school. Rich is a firefighter; Elizabeth is a mid-level employee at an established health-care technology company. Both have stable jobs with earning potential.

Goal. Ride out extreme fluctuations in the market.

Strategy. React to possible decline in the markets. Allocate funds to protect themselves in case Rich doesn't stay at his job long enough to qualify for a full pension.

Possible Allocation.
Cash, Money Market Funds – 10%
Bonds– 20%
Stocks (domestic and international) – 70%

Don and Laura, Married, 50

Profile. Couple with two children in college. Don is an athletic director at a private high school; Laura is a manager at a construction company.

Goal. Continue to save for retirement while paying college bills and making another 10 years of mortgage payments. Afford ever-increasing healthcare costs as they age.

Strategy. Reallocate funds so if there is a downturn in the market, they can draw on fixed income rather than selling equities at a loss. Maintain growth potential that equities provide in preparation for retirement 15 or more years in the future.

Possible Allocation.
Cash, Money Market Funds – 15%
Bonds – 30%
Stocks (domestic, international) – 55%

Robert, Single, 66

Profile. Recently retired from a pharmaceutical company. Four sources of income: monthly annuity from his corporate pension, Social Security benefits, individual retirement account income, and salary from a part-time job.

Goal. Minimize the chances of losing part of his retirement funds. Maintain easy access to cash for vacation and gifts.

Strategy. Allocate a larger percentage to bonds to protect retirement funds.

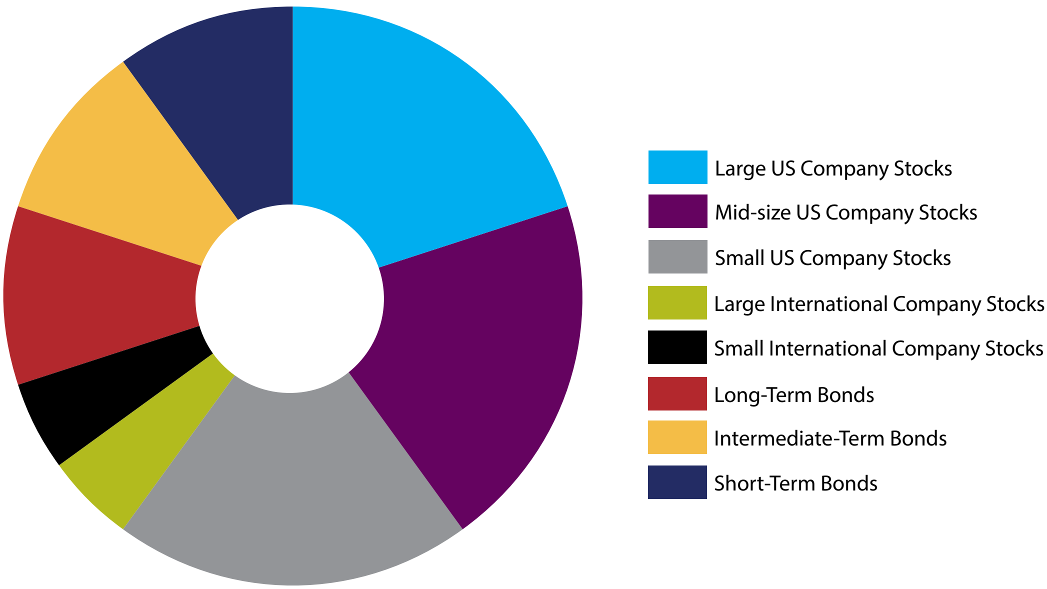
Possible Allocation
Cash, Money Market Funds – 15%
Bonds – 45%
Equities (domestic, international) – 40%

Diversification

While asset allocation helps you manage market risk, diversification helps you manage investment risk. Diversification means putting your money in several investments within each subclass of an asset class. For example, a large-company stock and a small-company stock are both stocks, but each belongs to a different subclass.

Asset subclasses all share the core characteristics of their class. However, a large-company stock and a small-company stock tend to increase in value at different rates, react differently to changes in the economy, and expose you to different levels of investment risk. Similarly, bonds have different terms, ratings, and interest rates. They also have different issuers: the U.S. Treasury, various cities and states, and small and large corporations.

A Diversified Portfolio



As this sample portfolio illustrates, you are diversified if you own stocks across various sectors of the economy and bonds issued by different entities. A non-diversified portfolio is like having all your eggs in one basket: all of your investment funds are tied up in one stock or one bond.

2 REALLOCATION

As your goals or circumstances change, you will need to consider reallocation (or rebalancing) of your investments. Investors of any age may choose to rebalance their portfolio if any asset class has done particularly well or poorly over a year or two. Whatever allocation you chose initially will probably have shifted to one that either increases or decreases your level of risk. The goal of reallocation is to restore the allocation you originally selected.

Assume you began with a portfolio composed of 60% stocks and 40% bonds. If your stocks lost value and shrunk to less than 60% of your total investment, you might need to reallocate, or rebalance, your portfolio until you have restored your original 60/40 balance.

Reallocation isn't easy, because everyone wants to stay with a winner. Yet selling assets that have soared in value and buying assets with declining prices is one way to bring your portfolio back into balance. Another approach is changing the way you allocate your new investment money. For instance, you could choose to put any additional funds into the asset class that has lost value until you have restored your portfolio to its original allocation.

Investment Considerations

- **Time available to achieve your goal.** Investing to cover a down-payment on a house is different from investing for eventual retirement.
- **Risk you are willing to tolerate.** People have varying levels of **risk tolerance**. Even a diversified portfolio frightens some people. "Sleeping well" was the investment criterion of the late Paul Samuelson, United States first Nobel laureate in economics.
- **Other sources of income**. You may collect Social Security, a pension, or income from family business interests. When investing for retirement, these assets can minimize the need to take on a risky investment.

You choose which account to open based on the goals you're investing to meet.

HOW TO ESTABLISH AN ACCOUNT

Step 1. Open an account to purchase your investments.
Mutual fund companies, banks, credit unions, and brokerage firms offer a variety of investment accounts. You choose which account to open based on the goals you're investing to meet. For instance, with retirement investing, many corporations and other businesses offer **401(k) plans**. Public sector organizations may offer **457 plans**, and nonprofit organizations and schools have **403(b) plans**.

Step 2. Choose your investments.
You can start slowly, perhaps by opening an account at a mutual fund company and choosing a mutual fund or two. Then broaden your investment base from there.

Step 3. Reinvest.
As your investments provide earnings, use that income to buy additional shares. This is commonly referred to as the **dividend reinvestment plan (DRIP)**. The reinvested amount helps build your account value. Since you can reinvest automatically, especially with mutual funds, you won't miss income you don't see.

Step 4. Continue to invest.
Deposit money to your account every month or quarter. You can do this easily by arranging for direct deposit from your paycheck, bank, or credit union account directly into your investment account.

3 Common Investment Products

It's tough to start investing when you're unfamiliar with the different options and changes in the market sometimes seem irrational. But once you learn the basics, you'll become more comfortable deciding where to invest your money.

This guide provides an overview of the three most common investment options: stocks, bonds and mutual funds. Each type of investment puts your money to work in a different way and generates a return that fluctuates based on current market conditions. Therefore, it is important for you to understand all three possible investment choices so you can make an educated decision.

STOCKS

Of all the available investment options, stocks hold the most potential over the long run. Since 1926, stocks of large companies have produced an annual rate of return that exceeds all other possible investment vehicles. On the other hand, they also experience a high level of short-term **volatility**.

Definition

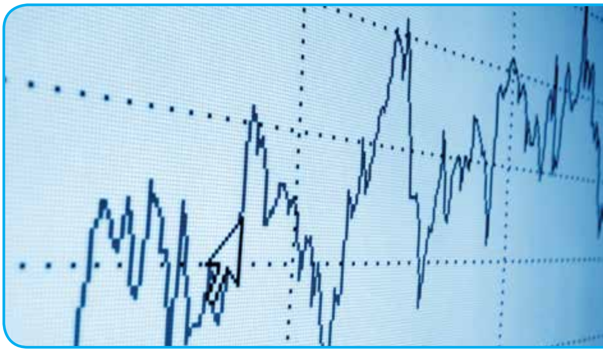
Owning stock makes you a partial owner of the company that issued it. If the company does well, your stock value increases. If the company does not do well, your stock value decreases. As a partial owner of the company, you are referred to as a stockholder or shareholder.

Most stock in the U.S. is common stock. With common stock, not only does the price of the stock fluctuate, but any dividends paid by the company may fluctuate as well. Many companies also issue preferred stock, which sets a fixed dividend amount. This provides a regular stream of income and carries a reduced level of risk. If a company goes broke, preferred stockholders may claim their assets right behind creditors. While preferred stock is a safer investment, it also limits return. If a company does especially well, owners of preferred stock are locked into their predetermined dividend, whereas common stockholders receive the potentially higher dividend. Corporate portfolio managers and institutional investors purchase preferred stock more often than individual investors.

You buy stock expecting that it will increase in value over time. The difference between the price you pay for the stock and the price at which you sell the stock is your capital gain, or profit. That old saying, "buy low and sell high" sounds ideal, but there is no guarantee the price of the stock will not decrease – in which case you will lose money.

Some companies choose to share a portion of profits with their shareholders on a quarterly basis by paying a dividend. A stock that pays dividends provides income. The amount of the dividend is determined by the company and paid according to the number of shares each shareholder owns. But not all companies provide dividends. Typically the larger, more established companies do, whereas the newer companies do not since they are still using all their profits to grow their company.

As an alternative to receiving a quarterly dividend, you may be able to enroll in the company's **dividend reinvestment plan (DRIP)**. In this case, the company automatically reinvests your dividends by purchasing additional shares of company stock. For investors who value growth over current income, a DRIP is a good option. You may have to ask the company if they provide a DRIP program, however, because few promote them. Finally, as with any financial product, make sure you understand all the rules and restrictions of any DRIP.



Owning stock makes you a partial owner of the company that issued it. If the company does well, your stock value increases. If the company does not do well, your stock value decreases.

3

Types of Stock

Because there are thousands of companies with stock you can own, it is important to make your choices in accordance with your financial goals. Here are basic options:

Growth Stocks – These stocks have the potential to increase in value faster than the market in general. Investors are interested because growth stocks have a good earnings record and are expected to continue generating a profit over the long-term.
Risk level: average to above-average

Blue-Chip Stocks – These are issued by industry-leading companies with outstanding financial credentials. While blue-chip stocks do generate some growth, it is moderate in comparison to growth stocks. However, they do tend to pay decent, steadily rising dividends.
Risk level: low to moderate

Income Stocks – These stocks tend to pay out a much larger portion of their profits in the form of quarterly dividends. They can do this because they are issued by more mature, slower-growing companies. The share price of income stocks typically does not grow rapidly. They are particularly attractive to investors in retirement but can also be advantageous to any investor during a down-market.
Risk level: low to moderate

Cyclical Stocks – These are stocks in companies where success tends to mirror the economy: for instance, corporations in the automotive, construction and airline industries. Cyclical stocks do well when the economy prospers, but they do poorly when it stumbles.
Risk level: average

Defensive Stocks – In theory, these stocks are not subject to economic fluctuations, since consumers will continue to buy their products and services. Defensive stocks are usually issued by companies in the utility and healthcare industries.
Risk level: average

Value Stocks – These stocks are considered to be underpriced at a given point in time. So if a company is economically viable but its stock price is low in relation to its earnings, value stock may be a good buy.
Risk level: varies widely

Speculative Stocks – These stocks are issued by young, unproven or down-on-their-luck companies that nonetheless have something to recommend them. Those who invest in speculative stocks are hoping to make a big profit, but with big profits come big dangers.
Risk level: high

Foreign Stocks – These stocks add diversification to a portfolio made up of purely U.S. stock. The U.S. and foreign stock markets generally do not move in tandem. Foreign stocks provide exposure to overseas currencies, economies and business cycles. Overseas stocks are divided into two subsets: developed markets (such as Western Europe, Japan and Canada) and fast-growing, emerging markets (such as China, India and Brazil).
Risk level: varies widely

Buying and Selling Stock

In order to buy stock, you will need to open an investment account with a traditional or online brokerage firm. Your order will be handled by an investment professional called a **stockbroker.** However, there are a few companies which will allow investors to open an account directly with the company; simply ask.

Knowing what information you need, and how to evaluate it in order to make an educated decision, is the key to buying stock. Almost all the facts you need to know are found in the company's **prospectus**. Ask for a copy or download it online.

Learn about:

- Earnings per share
- Price-earnings ratio
- Dividend yield
- Book value
- Return on equity
- Debt-equity ratio
- Price volatility

You will also want to understand the industry's outlook as a whole, where the prospective company stands within its industry, and if it is committed to future expansion.

You can find more investor education resources online. For instance, The Basics for Investing in Stocks by the editors of *Kiplinger's Personal Finance* magazine is available at www.investwiselyva.com

Deciding when to sell a stock is just as important as deciding which stock to buy. Long-term investors do not sell stock every time its value goes up or down. Neither do they sell in a panic because the market suddenly declines.

However, it may be time to sell if research department analysts downgrade your stock, the company's annual report and prospectus reveal its core is weakening, or the dividend is cut. You can also decide to sell because you've reached your personal target price or you simply need the money. To determine your actual profit when you sell, remember to account for commissions and taxes you have paid.

When the price of a stock is especially high, investors may be hesitant to purchase that stock either because the per-share price is out of reach or because they think the price has peaked. In this case, the company may choose to split the stock to lower its per-share price in the hope this will stimulate more trading.

During a stock split, the number of shares increases, but the total market value remains the same. For example, if a company's stock is trading at $100 per share and the company institutes a two-for-one split, stockholders receive two shares (valued at $50 each) for each one share (valued at $100) they own.

Stock splits can be beneficial. They make the share price more affordable and give stock the potential to move back up toward its former price. This increase in value appeals to prospective investors and existing stockholders alike.

3 BONDS

Bonds are a fixed-income investment. They belong in every investor's portfolio because they balance the volatility of stocks. When stocks are slow or declining in value, bonds tend to increase in value. Even those investing for long-term growth may want to have a portion of their funds devoted to bonds in order to balance out their risks. Those investing for income may choose bonds to make up a larger portion of their portfolio.

Definition

When you buy a bond, you are in effect lending money (called the principal) to the corporation, government, or government agency issuing that bond. The issuer promises to repay the principal, plus interest (which is calculated as a percentage of the principal), over the term of the loan. This term varies: with short-term bonds, it's a year or less; with intermediate-term bonds, it's up to 10 years, and with long-term bonds, it's longer than 10 years.

Bonds can be held until they mature, but they are often bought and sold before maturity on a secondary bond market that operates much like the stock market. When bonds are bought, sold or traded before their maturity date, the interest rate realized fluctuates. You may have heard, "when interest rates rise, bond prices fall, and vice versa."

For example, if you own a bond with an interest rate of 3% and interest rates rise, the price of your bond will fall. Investors won't pay as much for a bond with a lower interest rate when they can buy a new bond with a higher rate. Conversely, when interest rates fall, bond prices rise. That same 3% interest rate bond is going to be more attractive to investors when new bonds are being issued at a 2% interest rate.

Profit on a fixed income investment includes the interest you earn plus a capital gain, if you sell it for more than you paid for it.

Even those investing for long-term growth may want to have a portion of their funds devoted to bonds in order to balance out their risks.

Types of Bonds

While all bonds share the same basic traits, they come in a variety of forms. Here are some options:

Secured Bonds – These are backed by collateral such as a company's manufacturing facility, equipment or other assets. In the event that the company defaults, it can sell off its assets to pay the holders of its secured bonds.

Debentures (or unsecured bonds) – These are not backed by any type of company collateral. In the event that the company defaults, debentures will not be paid off until the secured bond holders are paid first.

Corporate Bonds – These are issued by corporations for the purpose of expanding their operations. For example, the company may need funds to build facilities, buy equipment, or step up their research and development efforts.

Municipal Bonds – These are issued by state or city governments or their agencies. There are two types: general obligation bonds, backed by the full taxing authority of the government, and less secure revenue bonds, backed only by receipts from the specific source of revenue, such as a toll road. Municipal bonds have a tax advantage because the interest paid is exempt from federal income taxes and usually from state income taxes as well.

Agency Securities – These are issued by various U.S. government-sponsored organizations such as **Fannie Mae**. Although they are not technically backed by the full faith of the federal government, agency securities have historically been considered to be moral obligations the government will not allow to fail.

Zero-Coupon Bonds – These bonds are issued at a discount from their face value. They pay all the interest at maturity rather than periodically. For example, an investor could buy a $1,000 bond for $900, yet receive the full $1,000 at maturity. Zero-coupon bonds can be either secured or unsecured.

Callable Bonds – These can be redeemed or "called" by the issuer before the maturity date. A company might decide to call its bond if, for example, interest rates fall so far the company can save money by issuing new bonds at a lower rate.

Convertible Bonds – These are corporate bonds that can be swapped for the same company's common stock at a fixed ratio. For example, if the price of the company's stock rises enough after you buy its convertible bond, you can profit by swapping your bond for stock.

U.S. Treasury Bills, Notes and Bonds – The investments that mature in a year or less are called Treasury bills; those that mature in less than 10 years are called Treasury notes; and those that mature in more than 10 years are called Treasury bonds. Each is backed by the full faith and credit of the federal government.

U.S. Savings Bonds – There are currently two varieties: EE-bonds pay a fixed rate of interest for the life of the 30-year bond. I-bonds are inflation-adjusted.

3 Buying and Selling Bonds

When a new bond is issued, the interest rate it pays is called the coupon rate. This is a fixed payment expressed as a percentage of its face value. For example, a 3% coupon bond pays $30 interest per year on each $1,000 of its face value. That is the fixed amount the investor receives in interest each year for the life of the bond.

The real potential in bonds lies in the relationship between yield and price. As interest rates rise, bond prices fall; as interest rates fall, bond prices rise. The further away from the bond's maturity or call date it is, the more volatile its price tends to be.

You can buy bonds individually, though many investors find the price prohibitive. An alternative is to diversify bond holdings across several different issuers through bond mutual funds.

Bond mutual funds invest in a portfolio of individual fixed-income securities. Therefore, bond mutual funds are not fixed-income investments. Instead they are equity investments in which you own shares. A bond fund doesn't pay a fixed rate of interest or promise the return of your principal. Rather, its performance, and your income and potential profit or loss, reflects the collective performance of all the bonds the fund owns.

When you buy a bond, you are in effect lending money (called the principal) to the corporation, government, or government agency issuing that bond.

You can find more investor education resources online. For instance, A Primer for Investing in Bonds by the editors of *Kiplinger's Personal Finance* magazine is available at www.investwiselyva.com.

MUTUAL FUNDS

Mutual funds offer a particular advantage for new, budget-minded or time-strapped investors.

Definition
A mutual fund is an account that consists of a group of individual investments, usually stocks or bonds or both. The investments are chosen according to the fund's objectives. If the goal is long-term growth, the fund is likely to be invested primarily in stocks. If it's current income, the fund is likely to be invested heavily in bonds. Investment companies will usually form a group, or family, of mutual funds, with each fund devoted to a specific objective.

Once a fund is created, it sells shares to investors. When you buy shares in a mutual fund, you are investing indirectly in the securities held within that fund, a process that is easier and less expensive than buying them individually on your own. You may be able to purchase shares online or through a company representative. You can also buy shares through banks, credit unions and brokerage firms or participate in an employer-sponsored retirement savings plan that includes the fund as one of its investment options.

Mutual funds make it easy to invest and equally easy to liquidate. Initial minimum investments are relatively low and you can make additional investments of as little as $50 or $100 on a regular basis or at any time you choose. A mutual fund will also buy back any shares you want to sell based on the fund's price at the close of that business day (called the **net asset value or NAV**).

Common Advantages of Mutual Funds

Automatic Diversification
Expert Portfolio Management
Easily Accessible
Automatic Draft Plans
Automatic Reinvestment of Earnings

3

Types of Mutual Funds

Today there are several thousand mutual funds. Of course, not all of them will be in line with your particular financial goals. Understanding the major groupings will help you narrow your choices. Some types of mutual funds to consider are:

Funds for Long-Term Investors	Funds for Income-Oriented Investors	Funds for Aggressive Investors
Growth Funds	High-Quality Corporate Bond Funds	Aggressive-Growth Funds
Growth-and-Income Funds	Global Bond Funds	High-Yield Bond Funds
Balanced Funds	U.S. Government Bond Funds	Single-Industry Funds
Index Funds	Ginnie Mae Funds	
Flexible Portfolio Funds	Municipal Bond Funds	
Global Funds		
International Funds		
Socially Responsive Funds		

This chart lists mutual fund choices in terms of the financial goals they satisfy.

In addition to ensuring your chosen mutual fund meets your financial goals, you will want to take into consideration how that mutual fund is managed.

Actively Managed Funds

An actively managed fund aims to provide stronger returns than the benchmark index for the types of investments it makes. For example, a fund that invests in large-company stocks typically wants to outperform the **Standard & Poor 500 Index (S&P 500)**. The fund's manager chooses investments and trades stock in order to achieve high returns. This strategy, however, increases the fund's costs, which are passed on to shareholders as fees.

An actively managed fund might do significantly better than its benchmark in one, three, or even five years, but it almost never does so consistently. Many investors mistakenly pick an actively-managed fund based on its recent track record of beating a chosen index. Yet funds that are stellar performers one year may not shine as brightly the next year.

Since the performance of actively managed funds is inconsistent, investors will benefit more by focusing on the crucial components of long-term performance: a mutual fund's annual fees, transaction costs, and sales charges.

Index Funds

An index fund invests to replicate the performance of the index the fund tracks, not to beat it. If the fund tracks the S&P 500 Index, for instance, it owns the 500 stocks in that index. If a stock drops out of the S&P 500, the index fund also drops that stock and buys whichever stock replaces it. The same theory governs the performance of a mutual fund tracking the index of 2,000 small-company stocks called the Russell 2000 Index. The fund drops and adds stocks as the underlying index changes.

An index fund, then, does not have to pay a manager to choose investments. And there are few trading costs because the portfolio changes only when the index changes. Therefore, index funds involve lower fees for the fund's shareholders. They also provide stronger returns than actively managed funds over the long term, usually because of their lower costs.

Actively Managed Fund	Index Fund
Manager invests to outperform a specific benchmark index (e.g. S&P 500)	Fund invested to replicate performance of a specific benchmark index
Higher fees than index funds	Lower fees than actively managed funds
	Over time, more consistent performance than individual actively managed funds

3

Target Date Funds
Investors select a target date fund (TDF) based on their expected year of retirement or year in which the money will be needed. If the expected year of retirement is 2040, for example, the investor would select a 2040 TDF. The fund starts with a portfolio mostly composed of stocks, then shifts over time to increase the percentage of fixed income. In theory, the funds become less risky as retirement approaches. The pace and timing of this reallocation is known as the fund's **glide path**.

Target date funds have a lot of advantages, and they are promoted as an easy choice for investors perplexed by the overly complex financial marketplace. You may want to consider a target date fund (TDF) if allocating assets and rebalancing your portfolio seems more complicated than you are prepared to handle.

However, TDFs also expose the investor to potential risks, as all investments do. Funds that share a target date – a 2040 retirement fund, for example – can have different allocations and different glide paths. So, in choosing target date funds, it's important for investors to determine whether the allocation is appropriate for their goals and risk tolerance, rather than just picking a fund based on a certain year.

Many investors have dangerous misconceptions about target date funds. A survey conducted for the **U.S. Securities and Exchange Commission** in 2012 found that nearly half of target date fund owners didn't understand that the funds do not guarantee income in retirement. These investors didn't realize that TDFs are just funds that invest in other mutual funds. That means target date funds share the same risks as other mutual funds.

You can find more investor education resources online. For instance, Mutual Funds: Maybe All You'll Ever Need by the editors of *Kiplinger's Personal Finance* magazine is available at www.investwiselyva.com.

Buying and Selling Mutual Funds

The cost of buying a mutual fund varies. You can find the information you need about fees in the fund's prospectus.

Front-End Loads – A front-end load is a sales charge paid to compensate investment professionals for their advice. For example, if a mutual fund charges a 4% front-end load and you have $1,000 to invest, $40 will be deducted from your $1,000 investment to pay the investment professional. This leaves you with a $960 investment in that mutual fund. By law, a front-end load can be up to 5.75% but is often less. It may offer a lower percentage fee for a higher dollar investment.

Back-End Loads – Also known as redemption fees, back-end loads are charged when you sell shares of a mutual fund. Since back-end loads are charged against the net asset value of the shares you sell, they can reduce your profit or add to your loss.

Deferred Loads – These are deducted from your original investment if you sell your shares within a pre-determined amount of time. If you hold your shares beyond the specified time, you are not charged any fees.

Marketing Fees – Mutual funds spend money to advertise their funds. If these fees are not absorbed by the fund, they are charged to the investor under the name 12b-1 fees. These marketing fees are typically between 0.25% and 1.25%.

Management Fees – Management fees are paid to portfolio managers and charged to purchasers of all mutual funds. A typical management fee is 1% to 2% of the fund's assets. This fee can be a flat rate or a sliding-scale rate that decreases as the value of the fund's portfolio increases.

Fee Combinations – Some funds combine fees and create several different fee structures. Since this can be confusing, make sure you fully understand the fee structure before you buy the mutual fund.

Expense Ratio – This is the cost of running the fund expressed as a percentage of that fund's assets. Because it includes all fees except sales load, it is the best way to compare the management costs of different funds. The rule is: the higher the expense ratio, the less the profit for investors.

Although it is impossible to avoid fees altogether, to get the best deal for your investment dollar carefully review all charges. For instance, while mutual funds can charge a load, many no-load funds have no sales charge, yet they perform quite well.

In general, fees on funds that invest in small companies tend to be higher than funds that invest in large, well-known companies. That's because identifying appropriate small companies takes more time and research. Similarly, fees on funds that invest in countries around the world tend to be higher than those that invest exclusively in U.S. securities.

3

As you can see from the chart below, fees can have a substantial impact on your mutual fund investment return. Basically, the higher a fund's expense ratio and sales charges, the lower your return.

The Impact of Fees				
$10,000 invested for 20 years with a rate of return of 6%				
	Fund 1	Fund 2	Fund 3	Fund 4
Expense Ratio	0.13%	0.53%	1.21%	1.51%
Upfront Sales Charges	0%	0%	5.75%	5.75%
Total Expenses	$842	$3,234	$7,356	$10,350
Worth After 20 years	$31,248	$28,838	$24,836	$22,297
Profit / Loss	$21,248	$18,838	$14,836	$12,297

Numerous studies have shown that higher-cost investments do not produce superior returns. In fact, the opposite is often true. The **Financial Industry Regulatory Authority (FINRA)** has a tool on their website called the Fund Analyzer (www.finra.org, under Tools/Calculators). When you enter the required information, the Fund Analyzer runs a comparison by evaluating the impact of fees, returns and investment amount on the future values and costs of different mutual funds.

You have no control over investment variables such as the direction of the market, the rate of inflation, or the tax rate on your earnings. But you do have control over what you pay to purchase your investments, and every dollar deducted for fees reduces your return.

You have control over what you pay to purchase your investments, and every dollar deducted for fees reduces your return.

4 INVESTING FOR A SECURE RETIREMENT

When you start thinking about retirement, one of the first things to consider is what it will cost for you to live comfortably. That gives you a basis for determining the amount of retirement income you will need.

You may have some reduced expenses when you retire. You won't be commuting. Your mortgage may be almost or completely paid off. Your children may be college graduates who have moved out of their old rooms at home.

On the other hand, health insurance and out-of-pocket health care costs will probably increase. Real estate taxes and property insurance may go up. You may want to spend more on travel, hobbies, or other activities you have been putting off until you had more time. And of course, you'll still be spending money on food, clothing and other necessities.

Inflation is your primary concern when planning for retirement because your costs will increase over time. Each year you're retired, you're likely to need more income than the year before.

In the majority of retirement accounts, income tax is not due on your investment earnings until you withdraw them from the account.

Definition
A retirement investment is any investment (stock, bond or mutual fund) that you own within a retirement account. The distinguishing feature of a retirement account is how income taxes are handled.

Earnings in non-retirement accounts are taxed. That means income tax is due on all earnings in the year you receive them. If you collect $100 in interest in a year, that $100 is added to your other income for tax purposes. **Capital gains** and **qualified dividends** are also taxed in the year you receive them, though at a lower, long-term **capital gains** rate. The primary exception is that interest on certain municipal bonds is tax-free.

In the majority of retirement accounts, income tax is not due on your investment earnings until you withdraw them from the account. The advantage of this arrangement is the enhanced ability of an investment account to increase in value since you are not deducting taxes each year. Futhermore, if the contributions to the account were tax-deferred at the time you made them, tax is due on the full amount of every withdrawal, not just the earnings.

4

PENSION PLANS

If your employer offers a pension plan (also referred to as a defined benefit plan), the amount you'll receive in payments depends primarily on the number of years you worked and the salary you received. Check with the Human Resources Department well in advance of your retirement about payout options, plan details and any other decisions you will need to make.

DEFINED CONTRIBUTION PLANS

401(k)

One of the most common **defined contribution plans** is a 401(k), an employer-sponsored retirement savings plan. If you participate, the money you deposit in your 401(k) account always belongs to you, not the company.

The contributions you make into a 401(k) plan are tax-deferred. They are not subject to income tax until you withdraw the money. You allocate pre-tax earnings to your account every pay period, typically by designating a percentage of what you earn or a specific dollar amount. This portion of your earnings isn't included in the gross income your employer reports to the IRS, so contributing to a 401(k) actually reduces the income tax you owe for the year.

There is an annual cap on 401(k) contributions imposed by the federal government. In 2015, that limit was $18,000 plus a "catch-up" contribution of $6,000 for those age 50 and older. Occasionally the federal government approves an increase in this amount. You can contribute any amount up to the "max-out" limit.

Since the salary deferral is handled automatically by the employer, making a 401(k) contribution is easy. You just need to realize you are collecting a slightly smaller paycheck today in exchange for a larger retirement savings account in the future.

Selecting the proper investments for your account is a little more challenging. Most employers provide a number of investment options, which are typically mutual funds or annuities, but may also include company stock. It is your responsibility to select from among those choices, taking into account your overall investment strategy and acceptable level of risk.

There are a number of good reasons to contribute to a 401(k) plan.

- Your employer may match a percentage of the money you contribute, perhaps even dollar-for-dollar, up to a certain limit.
- Your contributions reduce your current taxable income and the income tax you owe.
- Investing regularly helps you build your account balance.
- Tax deferral on your contributions and earnings allows your savings to compound faster than they would in a taxable account because you don't have to withdraw money to pay taxes.
- This plan allows the highest contributions you're eligible to make to a retirement savings plan.

On the negative side, your employer-sponsored plan may offer you less than ideal investment choices or choices so limited you can't properly allocate your assets. Also, your company's 401(k) plan may come with high fees and other charges it is impossible to avoid.

403(b)

A 403(b) retirement savings plan functions the same as a 401(k) but is specific to not-for-profit organizations, such as public school districts, colleges, hospitals, foundations, and cultural institutions. Your contributions to a 403(b) plan are tax-deferred as are any earnings. In addition, as with a 401(k) your employer may match a percentage of the money you contribute.

457

A 457 retirement plan is available to state and municipal employees. As with the traditional 401(k) and 403(b) plans, your contributions and earnings are not taxed until you withdraw the money, usually after retirement. The contribution levels are set each year at the same level that applies to 401(k) and 403(b) plans, though 457 plans may allow for larger catch-up contributions.

If you participate in a workplace retirement account, the balance you've built up is a tempting source of ready cash. You can usually borrow from your account with favorable repayment terms, and you may even qualify for a hardship withdrawal. If you change jobs, you can cash out entirely, putting all the money in your pocket.

4 Increasing numbers of workers are sabotaging their retirement planning by doing just that. Employees who cash out a retirement account and do not roll the money into another qualified retirement account face stiff tax penalties, capital gains taxes, and possible income taxes. Workers also face tax penalties and other charges if they fail to repay a loan from a retirement account. At a minimum, any money withdrawn from a retirement account, even temporarily, is no longer growing tax-deferred. Before taking out a loan or withdrawing funds to cover a hardship situation, consider your ability to repay the money without straining your family's budget.

Rolling over your retirement account to a new employer is the best way to make sure your money continues to grow tax-deferred. If you're comfortable with your former employer's plan, you may be able to keep your assets there, but cashing out your retirement account will irreparably damage your retirement savings.

SOCIAL SECURITY

If you have worked and contributed to Social Security, you can expect to receive benefits when you retire – any time between the ages of 62 and 70. How much you receive depends on the number of years you participated, the amount you paid in, and the age at which you start to collect.

Although you may take benefits as early as age 62, the longer you wait, the higher your monthly payments. For those born in 1960 or later, 67 is considered "full retirement age" – the age when you start to collect full benefits. For people born between 1943 and 1954, the full retirement age is 66. And for those born from 1955 to 1959, the age increases in two-month increments, from 66 and 2 months to 66 and 10 months.

Between ages 62 and 70, each year you wait to collect benefits will result in a bigger benefit check. If you decide to take payments before you have reached full retirement age, however, your benefit amount will be permanently based on the age at which you began receiving payments.

To help determine your optimum age for taking Social Security benefits, visit www.socialsecurity.gov.

IRAS

If you receive a salary, wages, commissions, or other income for work you do, you can contribute to an individual retirement account (IRA). You can open this retirement account through a brokerage firm, bank, credit union or mutual fund company that follows your instructions for investing, keeps track of your account, and sends you regular statements. You can contribute to an IRA in addition to or instead of an employer-sponsored retirement account.

With an IRA, earnings in your account are tax-deferred, meaning no tax is due as those earnings compound. You choose your own custodian – a mutual fund company, bank, credit union, brokerage firm, or other financial services company – and then select from among the investments that custodian offers. If you invest with a mutual fund company, you will have more choices than a typical employer provides through a 401(k). You can buy and sell as often as you like without tax consequences, though you will pay trading costs.

Like employer-sponsored plans, IRAs have an annual contribution limit. In 2015, it was $5,500. There is also a catch-up provision – in this case, $1,000, for a total contribution limit of $6,500 if you are 50 years or older. (The federal government does occasionally increase these contribution limits.)

You can make catch-up contributions from age 50 to 70½, helping to jump-start your IRA retirement savings dramatically. Even if you didn't start saving until age 50, you could contribute the standard yearly limit and add a catch-up contribution every year from age 50 to 65. That way, you could accumulate a sizeable IRA nest egg fairly quickly.

If you receive a salary, wages, commissions, or other income for work you do, you can contribute to an individual retirement account (IRA).

4 Traditional IRA

With a traditional IRA, your earnings aren't taxed until you withdraw them from your account, usually after you retire. If you are at least 59 ½, there is no penalty for taking the money out, even if you are still working.

You may qualify to deduct IRA contributions when you pay your income tax in the year the contribution was made depending on your **modified adjusted gross income (MAGI)** and whether you file jointly or as a single taxpayer. You may also be eligible to deduct your contribution – despite your MAGI – if you are not covered by a retirement plan at work. However, there are limits if you're married, file a joint return, and either of you is covered by a plan that doesn't include your spouse.

In the years you qualify, taking a deduction for your IRA contributions will reduce your taxable income. However, both IRA contributions and earnings are taxable when you begin making withdrawals.

With a traditional IRA, you must begin to take **required minimum distributions (RMDs)** at age 70½, whether or not you need the money. You must also stop making IRA contributions at that age, even if you continue to earn income.

Roth IRA

A Roth IRA provides the same tax-deferred earnings as a traditional IRA. But with a Roth, you are not required to start making withdrawals at age 70½ as you are with a traditional IRA. You can also continue to contribute as long as you have earned income, no matter how old you are. And, you can withdraw your earnings tax- free if you're at least 59½ and your account has been open at least five years. That's because your contributions to a Roth IRA are never deductible. They're always made with after-tax income. The amount you are allowed to contribute to a Roth IRA is based on your MAGI and whether you file a single or joint tax return up to the maximum that is also allowed with the traditional IRA.

In the years you qualify, taking a deduction for your IRA contributions will reduce your taxable income.

Individual Retirement Accounts	
Traditional IRAs	**Roth IRAs**
Eligibility to contribute based on MAGI	Eligibility to contribute based on MAGI
Contributions may be tax-deductible	Contributions never tax-deductible
Both contributions and earnings taxed at withdrawal	Earnings can be withdrawn income tax free if age 59½ and account open 5+ years
Withdrawals mandatory after 70½	Withdrawals never required
No contributions permitted after 70½	Contributions after 70½ permitted

Ultimately, saving for retirement is a matter of choice. You can participate in a workplace plan such as a 401(k), 403(b) or 457, or you can establish your own IRA, either traditional or Roth or you can do both. There are pros and cons to each course of action, but whichever choice you make, you should not pass up this opportunity to save for retirement with tax-deferred earnings.

Employer Plan v. IRA		
	Employer Plan	**IRA**
Investment Choices	Choices determined by plan	More, often better choices based on custodian
Fees	Generally higher	Generally lower, often significantly
Contribution Limits	$18,000 + $6,000 catch-up (as of 2015)	$5,500 + $1,000 catch-up (as of 2015)
Withdrawal Flexibility	Varies, but typically mandatory at retirement; may roll over to IRA	Required after 70 ½ in traditional but not Roth IRA
Convenience	Sign up; automatic contribution withheld from salary	Choose custodian; select investments; arrange for deposit of contributions

4 ANNUITIES

Another possible source of retirement income is an annuity, an insurance company contract intended to provide regular income payments, often for life. There are two types of annuities, which differ as to purchase method:

- An immediate annuity converts a single, upfront payment into a steady stream of income.
- A deferred annuity converts premiums paid during your working years into regular income after you retire. Any earnings in your account are tax-deferred until you start withdrawals.

Annuities are complicated products with many different features and fees. While advocates point to the regular income they guarantee, critics maintain that the costs eat into the benefits they provide. And there's always the risk that the company issuing the annuity will fail or become unable to meet its financial obligations.

Annuities are regulated in the Commonwealth of Virginia by the State Corporation Commission, Bureau of Insurance (www.scc.virginia.gov/boi). For additional information, investors may also consult the U.S. Securities and Exchange Commission at www.sec.gov and seek the advice of a reliable financial professional.

Another possible source of retirement income is an annuity, an insurance company contract intended to provide regular income payments, often for life.

5 FINDING AN INVESTMENT PROFESSIONAL

At some point, you may turn to an investment professional for help with investing decisions, particularly if you're trying to achieve several different goals at once. Before you begin the search for someone you trust you should identify the type of help you need. To do that, it is important to understand the distinction between two investment professionals – investment advisors and brokers.

INVESTMENT ADVISORS

Description

Investment advisors (IAs) help you make investment decisions, create an investment plan and manage your investment portfolio. They have a fiduciary duty, or legal requirement, to act in your best interest, not for their own personal gain. Investment advisors may work as sole practitioners or they may work for an advisory firm.

By statute, investment advisors receive compensation (a fee) for their services. This fee can be based on a percentage of the money they manage, a fixed or hourly rate, or a one-time prearranged payment.

Financial planners, those who provide advice about every aspect of your financial life, may serve as investment advisors. A financial planner may provide services regarding estate planning, tax planning, insurance needs, and debt management, in addition to more investment-oriented objectives, such as retirement and college planning.

Research

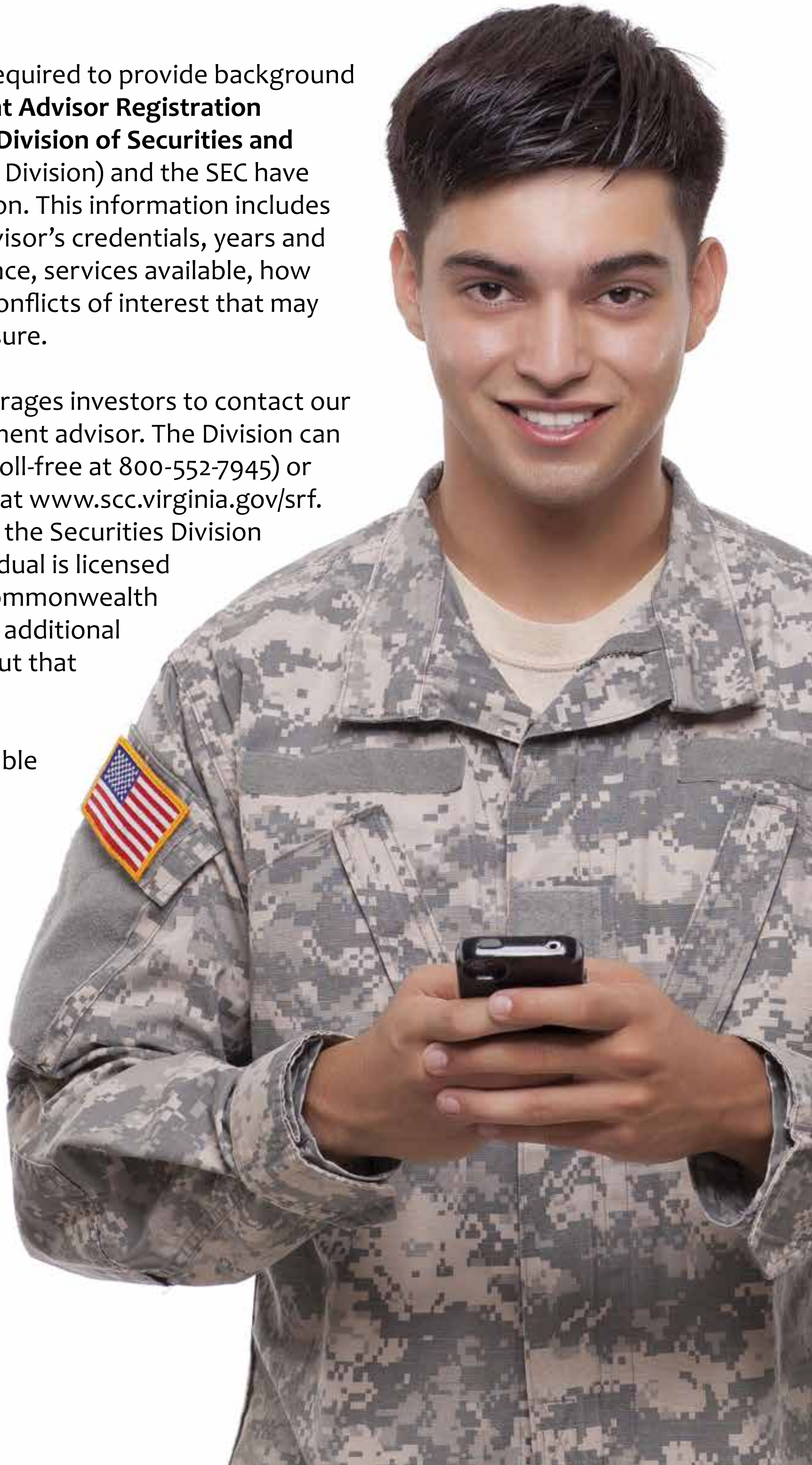
Investment advisors are required to register with one of two regulatory authorities depending on the size of their business:

- Typically, investment advisor firms that manage less than $100 million in total assets – referred to as assets under management (AUM) – must be registered with the state securities agency where their principal office of operation is located.
- Typically, those with more than $100 million in assets under management must register with the **U.S. Securities and Exchange Commission (SEC)**.

All investment advisors are required to provide background information in the **Investment Advisor Registration Depository (IARD)**. Both the **Division of Securities and Retail Franchising** (Securities Division) and the SEC have access to the IARD information. This information includes the individual investment advisor's credentials, years and type of professional experience, services available, how they are compensated, any conflicts of interest that may apply, and disciplinary disclosure.

The Securities Division encourages investors to contact our office to check out an investment advisor. The Division can be reached at 804-371-9051 (toll-free at 800-552-7945) or information can be accessed at www.scc.virginia.gov/srf. As a state regulatory agency, the Securities Division can disclose if a firm or individual is licensed to conduct business in the Commonwealth of Virginia, as well as provide additional background information about that firm or individual.

This information is also available through the SEC at www.advisorinfo.sec.gov.



5 BROKERS

Description

Broker-dealer is a legal term that refers to firms in the business of buying and selling securities on behalf of customers.

Individual salespeople employed by brokerage firms are commonly called stockbrokers or brokers. But these individuals use other unofficial titles too, including financial consultant, financial advisor, and investment consultant. In recent years, brokerage firms have offered a broader range of investment planning services in addition to the traditional trading of securities.

For many brokers, compensation is based on the commissions clients pay each time they buy or sell a security. This represents a potential conflict of interest that could cause investors to pay more than they should when brokers sell products for which they receive exceptionally high commissions.

Unlike investment advisors, brokers are under no legal obligation to act as fiduciaries or in a client's best interest. They are required to recommend only investments that are suitable for you, based on your financial situation, needs, and other securities you hold.

Brokers may be required to register with more than one regulatory authority, depending on where they conduct business, to whom they offer securities, and what type of business they operate. Brokers engaged in the offer and sale of securities in Virginia, for example, are required to register with the Commonwealth through the Securities Division. These brokers are also subject to oversight by the **Financial Industry Regulatory Authority (FINRA)**, a self-regulatory body for the industry and the SEC.

Research

The Securities Division encourages investors to contact our office to check out a broker. The Division can be reached at 804-371-9051 (toll-free at 800-552-7945) or information can be accessed at www.scc.virginia.gov/srf. As a state regulatory agency, we can disclose if a firm or individual is registered to conduct business in the Commonwealth of Virginia, as well as provide additional background information about that firm and/or individual.

To research a broker, investors may also check with the FINRA's **BrokerCheck** (www.brokercheck.finra.org), a database that holds licensing and registration information for registered representatives and securities dealers and brokerage firms in the United States. The BrokerCheck report will give you the following information:

- Employment history for the past 10 years
- Disciplinary actions that have been taken by federal, state, and self-regulatory organizations
- Other professional designations, such as a Certified Public Accountant or Certified Financial Planner
- Civil judgments and arbitrations in securities disputes
- Pending written complaints
- Criminal convictions or indictments
- Bankruptcy filings
- Outstanding liens and judgments

For many brokers, compensation is based on the commissions clients pay each time they buy or sell a security.

The BrokerCheck report is far from a complete record, however. It relies on self-reporting by regulatory firms and individuals, not all of whom submit complete information to FINRA.
Note also that many disputes between brokers and clients are settled in FINRA's confidential arbitration process. A broker can request to have a complaint expunged if the case was settled before a ruling. In recent years, FINRA has granted hundreds of requests to wipe complaints off the record.

5 OTHER FINANCIAL PROFESSIONALS

A financial professional may use various titles and credentials. There are at least 150 designations in use. A recent investor bulletin from the SEC and the **North American Securities Administrators Association (NASAA)** pointed out, "The requirements for obtaining and using [professional designations] vary widely, from rigorous to nothing at all."

As a result, investors need to look beyond the designation to determine the exams, ethical standards and continuing education required. One good resource is www.finra.org. Under the *For Investors: Tools and Calculators* section, there is an overview of more than 100 designations as well as the opportunity for comparisons. This tool is currently referred to as *Investment Professional Designations*.

You should come away feeling that you would have no concerns about sharing a close secret with this person – because sooner or later, you probably will.

QUESTIONS TO ASK

“The Little Book of Smart Money”, personal financial writer for the *Wall Street Journal* Jason Zweig recommends you sit down with your chosen candidates and ask these questions:

- Do you focus exclusively on investment advice, or do you also have expertise in other personal finance sectors such as taxes, retirement, and estate planning?
- What education, training, experience, and licenses do you have in these practice areas?
- What is your philosophy of investing and how do you manage risk?
- What investing goals does your typical client have?
- How many clients do you have, and will you personally manage my account? How much time should I reasonably expect you to devote to me over the course of a typical year?
- What is your investment strategy with regard to individual stocks, bonds and mutual funds? How often are these changed?
- When recommending investments, do you accept any form of compensation from any third party? Why or why not?
- How are you compensated for your investment-related services?
- Can you provide me with your resume, your Form ADV, and at least three references?

As you ask these questions, take written notes not just about how the advisor responds to your queries, but also how those answers make you feel. Do you sense this person is trustworthy? You should come away feeling that you would have no concerns about sharing a close secret with this person because, sooner or later, you probably will. If you have any doubts, find another advisor.

5 You, in turn, should be prepared to openly and honestly answer questions from investment advisors. Typically, they may include:

- Why do you think you need an investment advisor?
- How knowledgeable are you about investing and financial matters, and how confident are you in your knowledge?
- What does money mean to you?
- What are your biggest fears? What are your fondest hopes?
- How much time and energy are you willing to invest in any investment plan we develop?
- What would it take for you to feel our working relationship is successful?
- When someone presents you with evidence that your opinions may be mistaken, how do you respond?
- How do you deal with conflicts or disputes?

Regardless of the type of investment professional you choose to help you, there is one absolutely critical step to take beforehand: carefully read the agreement or opening account form. Knowing the precise terms of the contract can forestall misunderstandings, disagreements, and even lawsuits down the line. Clear up any questions with the prospective investment professional ahead of time. If necessary, consult with a lawyer, accountant, or trusted third party to review the contract terms.

Above all, invest time selecting a good investment professional who will meet your particular needs. It will be one of the most important decisions you make and one of the most significant relationships you ever have.

You can find more investor education resources online. For instance, Getting Help with Your Investments by the editors of *Kiplinger's Personal Finance* magazine is available at www.investwiselyva.com.

Clear up any questions with the prospective investment professional ahead of time. If necessary, consult with a lawyer, accountant, or trusted third party to review the contract terms.

6 AVOIDING SCAMS

Investment fraud can be defined as the illegal activity of providing false information in an effort to convince someone to invest. Most investment scams contain the same basic premise – a promise or guarantee of higher than average returns for little to no risk of losing money. Unfortunately, many investors are unaware of the typical warning signs of investment fraud.

As your first line of defense, be sure to investigate any investment professional you might want to hire. Deal only with registered representatives or advisors, since those selling securities must be registered or they are in violation of the law.

The Securities Division is responsible for the registration of representatives and advisors in Virginia. To see if a person is registered to sell investments or provide investment advice in the Commonwealth, visit www.scc.virginia.gov/srf or call 804-371-9051 (toll-free at 800-552-7945). Note that investment advisors located in another state are also required to register with the Division if they conduct business with a minimum of 6 Virginia residents.

The Securities Division is also responsible for the enforcement of the Virginia Securities Act and Virginia Retail Franchising Act in the Commonwealth.

Any suspected violation of these statutes should be reported to the Securities Division.

SIGNS OF FRAUD

Skilled liars will approach anyone of any age if they think a person has assets to invest. Protect yourself by learning to recognize the warning signs of a fraudulent investment pitch.

- **Guaranteed high returns with no risk**
  There is no such thing – the higher the returns, the higher the risk. Even with legitimate investments, know the risk level you are taking and invest only what you are willing to lose.
- **Unsolicited calls, e-mail spam and junk mail**
  When an unknown salesperson contacts you with an investment opportunity, hang up, delete and/or shred it. Do not invest in these unsolicited offers.
- **Traditional advertising**
  Beware of ads for investments that sound misleading or fraudulent. They appear in the newspapers and magazines, both online and in print.

- **Social media**
  The explosive growth in social media has provided more avenues for fraudulent investment promoters. Ignore these unsolicited opportunities.

- **Offer of a free meal.**
  Many people over the age of 50 receive a steady stream of invitations to supposedly educational free lunch and dinner seminars. These events are essentially a sales pitch; often, a fraudulent sales pitch.

- **Tips from those you know**
  In **affinity fraud**, people are drawn into a scam by family members, friends, or those they meet through religious, political, or other groups. Early investors may recommend this investment without realizing that they themselves are furthering a fraudulent scheme.

- **Pressure to act**
  Never be pressured into making a hasty decision. A legitimate investment today will still be a good investment next week.

6

- **Confusing investments**
  Never hesitate to ask if you are unclear about the investment offer or if the responses to your questions are puzzling or evasive. Make sure you throughly understand how the investment works.

- **No documents**
  Financial promoters must explain the costs, risks, and obligations of the investment. If there is no paperwork to support this information, don't invest.

- **Creating trust with credentials or experience**
  Credibility can be stretched and faked. If the promoter is legitimate, he or she should have no qualms about your conducting a background check before investing.

- **Secrets to successful, tax-free investing**
  There are no secrets to success in investing. And although you can defer paying taxes, you cannot always legally avoid paying them.

You can defend yourself against crooks by being aware of the tactics they use, carefully checking all the materials they provide, and investigating their credentials before you act. Ultimately, you are responsible for avoiding fraud, just as you are responsible for the other investment decisions you make.

Remember the old cliché, "If it sounds too good to be true, it probably is." Even some legitimate investments should be avoided if they are not in line with your goals.

Remember the old cliché, "If it sounds too good to be true, it probably is."

RISKY INVESTMENTS

The following is a list compiled by the securities regulators in NASAA's Enforcement Section. It contains the most persistent investor threats seen throughout North America.

Private Placement Offerings

Private placement offerings allow companies to raise capital without complying with the registration requirements of securities laws. Federal law allows companies to make these largely unregulated offerings to accredited investors – those who have $1 million in assets (not including the value of their primary residence) or an annual income of $200,000. Those who raise capital through private placement offerings often have a limited operating history, making their investments inherently risky.

Prior to 2013, federal law said private placement offerings couldn't be advertised in a general solicitation to the public. Today however, they can be advertised through print advertisements, free lunch seminars, telemarketing, cold calls and online solicitations.

Private placement offerings can still be sold only to accredited investors. However, removing the advertising ban greatly increases the chances that more illegitimate offers will be made, putting more investors at risk.

Non-Traded Real Estate Investment Trusts (REITs)

A non-traded Real Estate Investment Trust (REIT) invests in the same assets as a publically traded REIT – large pieces of real estate in everything from hotels and hospitals to shopping centers and apartment complexes. However, non-traded REITs are more risky than REITs listed on the major stock exchanges. In particular, state regulators have seen problems with non-traded REITs because these properties are often bank-owned, pending short sale, or in foreclosure. Many make flimsy promises about investment funds being secured by an interest in real property, yet the property in question is already highly leveraged and has no remaining equity.

Non-traded REITs generally require investors to meet certain minimum net worth and/or annual income standards. These trusts are long-term investments that typically must be held for seven to 10 years. Some non-traded REITs may have limited redemption programs, but since regulatory bodies don't control these programs, non-traded REITs may shut down their redemption programs at any time.

6 Non-traded REITs and the broker-dealers who sell them charge significant front-end fees and commissions. When all costs are accounted for, only about $8.50 of every $10 share bought by an investor goes to an investment in real estate. These fees can prompt broker-dealer agents to employ high-pressure sales tactics, downplay or fail to disclose all the risks associated with non-traded REITs.

Always read the prospectus. The summary or Q & A section at the beginning of the prospectus should provide enough basic information to help you determine if investing in a non-traded REIT is the right decision for you. If you ever feel pressured to buy a non-traded REIT, know that a person selling this product cannot legally complete the sale until you have the prospectus.

High-Yield Investment and Ponzi Schemes

Individual investors may fall prey to schemes promising an unbelievably high rate of return. As with other alternative investments a high yield means a higher risk. These types of alternative investments are favorites of scam artists. A Ponzi scheme and a high-yield investment program share many of the same characteristics: a promise of incredibly high return coupled with low risk, a reasonably plausible explanation of why the investment is so good, or a scam artist whose credibility is often based on claims of holding false credentials or belonging to a particular organization. Initial investors are paid a return and then help to spread the word by promoting the investment to others. Ultimately the scam collapses, leaving later investors with nothing. One way to protect yourself is to ask numerous questions. Bernie Madoff, known as the king of all Ponzi schemes, once admitted he was not interested in potential investors who asked too many questions.

Affinity Fraud

Marketing a fraudulent investment scheme to members of an identifiable group continues to be a highly successful and lucrative practice. Scam artists know that people tend to trust someone who is perceived to have a common interest, belief or background. Thus, they use that trust to exploit members of specific groups – most often people who are elderly, deaf or retired, and members of religious and ethnic groups. These people often find it hard to believe that “one of their own” could be unreliable. Consequently, affinity fraud often goes unreported. And sometimes when a regulator does become involved, members of the group choose not to cooperate. Always remember to make investment decisions based on the underlying merits of the offer, not your affiliation with the promoter.

Self-Directed IRAs

Scam artists frequently use self-directed individual retirement accounts (IRAs) to increase the appeal of their fraudulent schemes. While self-directed IRAs can be a safe way to invest retirement funds, they can also alert you to a risky investment. Self-directed IRAs allow investors to hold real estate, mortgages, tax liens, precious metals, and private placement securities. Yet scam artists know the information you need to make a prudent investment decision may not be as readily available for these types of alternative investments.

Custodians and trustees of self-directed IRAs generally will not evaluate the quality, value or legitimacy of an investment or its promoters. Thus, fraudulent promoters can misrepresent the responsibilities of self-directed IRA custodians so as to reassure investors their investments are legitimate. In some cases, fraud promoters even convince investors to move assets from their existing IRA into a self-directed IRA they themselves own. And because there is a penalty for early withdrawal, many investors end up keeping funds in a fraudulent scheme even after they suspect it is illegitimate.

Oil and Gas Drilling Programs

Investors may be attracted to the lucrative returns often associated with investments in oil and gas drilling programs. Individual investors increasingly are turning to alternative investments rather than traditional stocks, bonds and mutual funds. Such investments appeal to those frustrated with stock market volatility or skeptical of Wall Street. Unfortunately, energy investments generally prove to be a poor substitute for traditional retirement planning.

Investments in oil and gas drilling programs typically involve a high degree of risk and are suitable only for investors who can bear to lose their entire principal.

6 Some fraudulent promoters will conceal these risks with high pressure sales tactics and deceptive marketing practices. Investors should practice due diligence and assess their own risk tolerance when considering oil and gas programs.

Proxy Trading Accounts

Investors should be wary of anyone who claims to have trading expertise and offers to set up or manage a trading account. It is dangerous to give unregistered individuals access to your user name and password or allow them to set up a brokerage account in your name. This may lead to improper withdrawals, and you could potentially lose your investment.

Check with the Securities Division to confirm that anyone offering to manage your accounts has a clean record and is properly registered (www.scc.virginia.gov/srf). Registered investment professionals pledge to act ethically and honestly. If they do not uphold that obligation, they must answer to state or federal regulators. Unfortunately, the same ethical behavior is not present with the unlicensed individual looking to capitalize on an investor's trusting nature.

Digital Currency

Today consumers are able to purchase goods and services with virtual money (such as Bitcoin and PP Coin). Unlike traditional coinage, these alternative currencies are not backed by tangible assets, are not issued by a governmental authority, and are not subject to regulation. The value of Bitcoin and other digital currencies is highly volatile and the complicated algorithms that govern them are difficult to understand, even for financial professionals.

These circumstances make it easy for scam artists to capitalize on the increasing popularity and acceptance of digital currencies. Be aware that investments involving abstract money systems present very real risks.

Life settlement investments

Also called viaticals, these investments are complex financial arrangements in which a company sells a third party's life insurance policy to an investor. The investor receives an interest in the death benefits and the benefits are paid to the investor when the third party dies.

A life settlement is not a liquid investment. You will not have access to your principal or any returns until after the insured person dies. In fact, it is impossible for the person brokering the transaction to guarantee you a certain return because there's no way to predict when the insured person will die. In addition, you face a steep commission fee when you purchase a life settlement contract.

Policy premiums must be paid until the insured individual dies, and if they aren't, you risk losing some or all of your investment. Furthermore, if the life insurance policy is still in the contestable period (less than two years old), insurance companies may refuse to pay the death benefit at all.

Foreign Exchange Trading

Foreign Exchange Trading (Forex) scams offer a promise of riches to be made in global currency markets. Forex contracts may involve the right to buy or sell a certain amount of foreign currency in U.S. dollars, so you make a profit as the exchange rate fluctuates.

In a typical scam, investors are assured of profits in a few weeks or months, often in return for a low initial investment. Yet your money may never be placed in the Forex market through a legitimate dealer, but diverted for the personal benefit of the scam artist.

Forex markets are among the most active in the world in terms of dollar volume. Most participants are large banks, multinational corporations, governments and sophisticated speculators. Because of the volatility in the price of foreign currencies, losses can accrue rapidly and wipe out an investor's initial investment in short order.

Gold and Precious Metals

Gold is a speculative investment. Its price reflects the confidence, or lack of confidence, in the world's financial markets. Like any commodity, the price of gold can fluctuate dramatically. When its price is rising, promoters claim their special expertise can generate investor profits. If you want to put a small percentage of your assets into precious metals, there are publicly traded mutual funds that hold gold and other precious metals, or large mining companies with a long history of operation.

6 FILING A COMPLAINT

If you suspect a violation of the securities law or believe you have received inappropriate investment advice, contact the Securities Division to file a formal complaint. The Division responds to all inquiries, though you will be asked to put any oral complaints in writing.

First, gather all relevant information, including:

1. The name of the account holder
2. The type of investment involved, total dollar amount of the investment, when and where the investment was made and to whom the investment funds were given
3. The name of the advisor or representative who sold you the product
4. A chronological list of events, starting with the initial contact made by the advisor, representative or salesperson
5. Copies of documents in support of the complaint, including statements, letters, forms and applications
6. A description of the complaint and how you want the company to rectify the situation

Provide as much detail as you can in responding to the questions on the complaint form. If you are writing a letter, be sure to say what happened, who was involved, and when and where the event took place. If you have supporting documentation, include it when you mail your complaint.

Download the formal complaint form at www.scc.virginia.gov/srf ("File a Complaint" link). You may also use the online complaint system to report securities-related or retail franchising fraud.

If you do not want to file your complaint online or you need to provide supporting documentation, you may print the complaint form and mail the correspondence to the Securities Division. For questions or additional information you may contact the Securities Division by phone or e-mail.

Division's mailing address	Division's physical address
State Corporation Commission **Division of Securities & Retail Franchising** **PO Box 1197** **Richmond, VA 23218**	**State Corporation Commission** **Division of Securities & Retail Franchising** **1300 East Main Street** **Richmond, VA 23219**
Local phone number (804) 371-9051 **Toll-free phone number (800) 552-7945**	**Website www.scc.virginia.gov/srf** **E-mail SRF_General@scc.virginia.gov**

Any information you provide to the Securities Division as part of a complaint is confidential. It is not released to the registered firm or individual who is the subject of the complaint.

If the Division determines an alleged violation of the Virginia Securities Act has occurred and an enforcement action is appropriate, it may initiate formal proceedings against the issuer or sellers, or refer the matter for criminal action. In some civil suits, a company suspected of fraud can be placed in **receivership** by a state or federal judge. Then the judge usually appoints a lawyer or financial expert to oversee the operations of the company.

Note that investors rarely recover significant portions of their losses in a receivership proceeding. So if you are most interested in getting your money back, you may want to consult a private attorney to determine what remedies may be available to you.

The key to wise investing is knowledge.

7 Glossary

401(k) Retirement Plan – A retirement savings plan that allows employees to make contributions from their paycheck to a 401(k) account, either before or after taxes. Employees often choose the plan investments, and some employers match employee contributions up to a certain percent. Employees must begin to withdraw funds at age 70 ½, at which time they pay taxes on all withdrawals.

403(b) Retirement Plan – An employer-sponsored retirement savings plan for employees of not-for-profit organizations, such as public school districts, colleges, hospitals, foundations and cultural institutions. Some 403(b) plans serve as the organization's sole retirement plan, whereas others are provided as a supplement to the existing pension plan. Contributions to a traditional 403(b) are tax-deductible and any earnings are tax-deferred.

457 Retirement Plan – A tax-deferred retirement savings plan available to state and municipal employees. Like traditional 401(k) and 403(b) plans, neither contributions nor earnings are taxed until withdrawal, which usually occurs after retirement. The amount employees can contribute is set each year at the same level that applies to 401(k)s and 403(b)s, though 457s may allow larger catch-up contributions.

Affinity Fraud – An investment scam that preys on members of identifiable communities, such as the elderly or religious, ethnic, or professional groups. Those who promote affinity scams frequently are – or pretend to be – members. They often enlist the help of the group's respected leaders who, in turn, become unwitting fraud victims themselves.

Annualized Rate of Inflation – The general increase in the price of goods and services per year. This is found in the consumer price index or retail price index, both of which measure the inflation rate.

Annualized Rate of Return – An estimated rate of annual return for a given period that is less than one year. The annualized rate is calculated by multiplying the change in rate of return in one month by 12.

Asset Class – A group of securities that exhibit similar characteristics, behave similarly in the marketplace, and are subject to similar laws and regulations. The three main asset classes are equities (stocks), fixed-income (bonds) and cash equivalents (money market instruments).

BrokerCheck – A free tool provided by the Financial Industry Regulatory Authority to help research the professional backgrounds of brokers, brokerage firms, investment advisor firms and advisors.

Capital Gain – The difference between the purchase price and the sale price of an asset that is sold for more than it was purchased. Long-term capital gain results from the sale of stock owned for more than a year; short-term capital gain, from the sale of stock owned for less than a year. A short-term capital gain incurs greater taxes than a long-term capital gain.

Certificate of Deposit (CD) – A monetary deposit with fixed terms, typically ranging from three months to five years. Traditional bank CDs earn interest at a fixed rate (determined by the current interest rate and the CD's term). CD accounts are typically insured by the Federal Deposit Insurance Corporation up to the individual depositor limit. However, funds withdrawn before maturity incur a penalty and bank CDs usually require forfeiture of some or all of the accrued interest.

Consumer Price Index (CPI) – Compiled monthly by the U.S. Bureau of Labor Statistics to measure changes in the price of basic goods and services. The CPI tracks inflation in housing, food, clothing, transportation, medical care, and education. It is used as a benchmark for making adjustments in Social Security payments, wages, pensions, and tax brackets. (Often incorrectly called" cost-of-living index").

Defined Contribution Plan – Retirement plan in which the employee and/or the employer contribute to the employee's individual account. Generally, the contributions and earnings are not taxed until distribution. Examples of defined contribution plans include 401(k) and 403(b) plans, employee stock ownership plans and profit-sharing plans.

Disposable Personal Income (DPI) – The amount that's left after income taxes, FICA taxes, and other required amounts are withheld from gross income. DPI is the money available for spending on household expenses, saving or investing.

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Dividend Reinvestment Plan (DRIP) – A plan that allows stockholders to automatically reinvest dividend payments in additional shares of the company's stock. Stockholders receive quarterly notification of shares purchased and held in their account. DRIP fees are low or completely absorbed by the company, and some companies offer discounted stock. The automatically reinvested dividend payments are fully taxable, even though no cash is received by the stockholder.

Division of Securities and Retail Franchising – The state government department responsible for the regulation of securities, broker-dealers, broker-dealer agents, investment advisors and their representatives in Virginia. It also registers franchises and trademarks and conducts investigations regarding violations of law relating to securities and retail franchising.

Fannie Mae – A nickname for the Federal National Mortgage Association (FNMA), a government-sponsored enterprise that has been a publicly traded company since 1968. Fannie Mae expands the secondary mortgage market by allowing lenders to reinvest their assets. This increases the number of lenders in the mortgage market because it reduces reliance on locally-based financial organizations.

Financial Industry Regulatory Authority (FINRA) – The largest non-governmental regulator for all securities firms doing business in the United States. FINRA oversees more than 5,000 brokerage firms, about 172,000 branch offices and more than 676,000 registered securities representatives.

Glide Path – Glide path is the approach a target date fund takes in reallocating its portfolio as time passes. Each fund company's glide path varies somewhat from those of its competitors based on the company's investment strategy and risk profile. Most create an asset allocation that becomes more conservative the closer the fund gets to the target date.

Inflation – A price increase, accompanied by a fall in the purchasing value of money.

Investment Advisor Registration Depository (IARD) – A system that collects and maintains the registration, reporting and disclosure information for investment advisors. It supports electronic filing of the revised Forms ADV and ADV-W, centralized fee and form processing, regulatory review, the annual registration renewal process, and public disclosure of investment advisor information.

Modified Adjusted Gross Income (MAGI) – Adjusted gross income plus exclusions or deductions for 1) housing expenses or income earned outside the United States, or 2) income received as a resident of American Samoa or Puerto Rico. When the MAGI is less than the annual levels set by Congress, taxpayers qualify for the right to subtract student loan interest; take a deduction for contributions to a tax-deferred IRA, make contributions to a Roth IRA, and take the American Opportunity, Lifetime Learning, and adoption tax credits.

Money Market Account – An interest-bearing account that typically pays a higher rate than a regular savings account and allows for a limited amount of check-writing. It offers the benefits of both a savings and checking account, but usually requires a higher balance than a regular savings account. A money market account is insured by the Federal Deposit Insurance Corporation.

Net Asset Value (NAV) – The dollar value of one share of a mutual fund (or an exchange-traded fund). NAV is calculated by totaling the value of the fund's holdings, plus money awaiting investment; subtracting operating expenses; and then dividing by the number of outstanding shares. A fund's NAV changes regularly. The NAV of a mutual fund is reset at the end of each trading day.

North American Securities Administrators Association (NASAA) – The oldest international organization devoted to investor protection. NASAA is a voluntary association comprised of members from 67 securities administrators in the U.S., Puerto Rico, Virgin Islands, Canada, and Mexico. In the United States, NASAA is responsible for protecting consumers who purchase securities or investment advice from a wide variety of issuers and intermediaries.

Portfolio – A grouping of financial assets such as stocks, bonds, mutual funds and cash equivalents. Portfolios can be held directly by investors or managed by financial professionals.

Principal – The original amount of money loaned or invested on which interest is paid or additional money is earned.

Prospectus – A prospectus is a formal written offer to sell a security to the public. It is designed to help investors make informed decisions by providing information specific to that investment opportunity.

Qualified Dividend – A dividend that is taxed at a long-term capital gains rate rather than at the rate that applies to a taxpayer's ordinary income. A dividend is qualified if 1) it has been paid on stock issued by a U.S. corporation or eligible non-U.S. corporation, or 2) the stock owner has held the stock for at least a minimum of 61 days. Dividends paid by real estate investment trusts and regulated investment companies are never qualified.

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Receivership – A court order whereby all the property subject to dispute in a legal action is placed under the dominion and control of an independent person or entity known as a receiver.

Required Minimum Distribution (RMD) – The minimum amount a retirement plan account owner must withdraw annually, starting at age 70½ or the year of actual retirement.

Risk Tolerance – How much risk an investor is willing to take on considering goals, timeframe and ability to handle major fluctuations in investment value.

Savings Account – A deposit held at a bank or other financial institution in order to save money while earning a modest interest rate. Most savings accounts do not include a check-writing option, nor do they allow many free transactions. Next to cash, funds deposited in a savings account are an investor's most liquid asset.

Standard & Poor's 500 Index – Widely referred to as the S&P 500, this index tracks the performance of 500 widely-held, large-cap U.S. stocks in the industrial, transportation, utility, and financial sectors. It is the best single measure of large-cap U.S. equities, capturing 80% of available market capitalization.

Stockbroker – A regulated professional individual usually associated with a brokerage firm or broker-dealer. Stockbrokers buy and sell stocks and other securities for both retail and institutional clients through a stock exchange or over the counter, in return for a fee or commission.

U.S. Securities and Exchange Commission (SEC) – An agency of the United States federal government that operates to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

Volatility – The rate at which the price of a security moves up and down. If the price of a stock changes rapidly over short time periods, it has high volatility. If the price almost never changes, it has low volatility.

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