Mutual Funds and ETFs

Maybe All You'll Ever Need

Americans' most popular investment choice is ideal to make your money grow to meet all your financial goals.

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Investor Education in Your Community

Investor Protection Institute

By the Editors of
Kiplinger's Personal Finance

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Kiplinger's PERSONAL FINANCE

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Funds give us easy access to stocks and bonds

Mutual Funds: An Excellent Choice

Mutual funds are the investment of choice for most Americans, and for good reason. Mutual funds give us cheap and easy access to stocks and bonds (and other types of assets, such as gold) to increase our wealth. Over time, mutual funds can help us multiply our savings for such goals as retirement, buying a house or paying for college tuition much faster than if we kept our money in a bank account. Here's how they work, and why they work so well:

Mutual funds combine the money of many investors. Most funds have many thousands of investors, and all of their money adds up to hundreds of millions, and sometimes even billions, of dollars to invest.

With all that money, a fund can invest in dozens or even hundreds of securities. If you own just a few stocks, for example, and one of the companies gets in trouble and its stock drops, you could lose a big chunk of your money. But by spreading your money (called diversifying) among many stocks, one failure will not have a big impact. The same holds true for bonds and other types of assets.

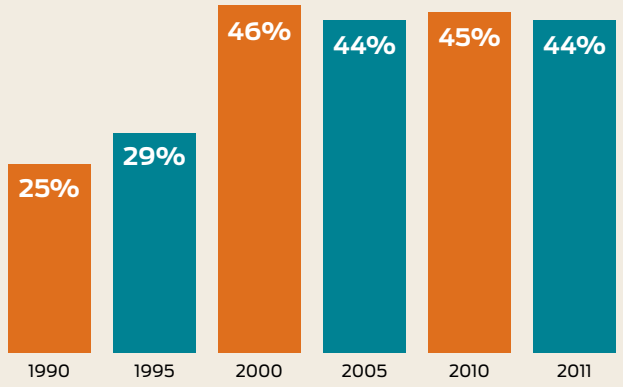
Most investors wouldn't be able to afford the cost of buying so many securities. Such diversification would be very expensive if you tried to do it on your own. Buying and selling small numbers of stocks would involve paying high commissions. But because a mutual fund trades large blocks of stocks, the cost of trading is low.

Low cost to start. Some funds accept as little as $250 to open an account. More typically, minimums range from $1,000 to $2,500. Once you open an account, you can usually add as little as $100 at a time. As we'll see a bit later, exchange-traded funds (ETFs) let you in for even less.

When you buy mutual funds, you're also buying the skills of the people who manage those funds. Choosing among the thousands of stocks and bonds available is a task that most people don't have the time, the interest or, frankly, the skill to do. Mutual fund managers do the choosing for us.

FUND OWNERSHIP HAS GROWN

Since 1990, the percentage of U.S. households that own mutual funds has risen more than 75%.



SOURCE: Investment Company Institute

Funds help you achieve long-term goals

Automatic reinvestment of earnings. Dividends paid by stocks in the fund's portfolio, interest from bonds and capital gains earned by selling securities can be automatically reinvested for you in additional fund shares. Reinvesting earnings is a critical element in any long-term investment plan.

For all these reasons, mutual funds are one of the best vehicles for achieving long-term goals. According to the Investment Company Institute (ICI), the fund industry's trade group, 45% of American households own mutual funds. As investors, your challenge is to choose among the thousands of mutual funds available. This publication is designed to help you do just that.

The Different Types of Funds

Before we discuss all the different things funds invest in, look at the four main forms mutual funds come in.

Index funds. These are relatively simple funds that aim to track indexes, or broad baskets, of different securities. They are not actively managed by experts trying to beat the market; instead, their goal is to match the market. Consider funds that track Standard & Poor's 500-stock index, which measures the performance of 500 large U.S. companies. Many funds are designed to mimic the S&P 500, which over long periods of time has returned nearly 10% per year, on average. Other index funds mimic other benchmarks. These include stocks of small U.S. companies, different types of foreign stocks, assorted segments of the foreign and domestic bond market and industries such as energy and health care.

Actively managed funds. These funds employ professionals who, within the parameters laid out in the funds' charters, choose from among thousands of securities in an attempt to deliver the best possible results. These managers and analysts use a wide variety of strategies. For example, when choosing stocks, some managers will thoroughly research companies in an attempt to determine which will succeed based on factors such as products, competition, sales and profits. Other managers will look at sweeping economic factors and pick companies in the industries that they believe will do best in their big-picture view of things.

As investors, your challenge is to choose among the thousands of mutual funds. This publication is designed to help you do just that.

Exchange-traded funds. Exchange-traded funds are a cross between index funds and stocks. Like index

funds, ETFs hold baskets of securities that follow indexes. Unlike mutual funds, which are priced just once a day (at 4 P.M. eastern time), ETFs trade just like stocks throughout the trading day. Because you can buy as little as a single share of an ETF, the minimum investment for owning an ETF is typically far less than for owning a mutual fund (many ETFs trade for $10 a share or less). Ongoing fees are low, but until recently investors had to pay brokerage fees to buy or sell ETFs. Now, some mutual fund companies and brokerages offer a selection of commission-free ETFs. Given that most actively managed funds do not beat the relevant index over long periods of time, the popularity of both index funds and ETFs has been surging.

Closed-end funds. Unlike traditional funds, which add or subtract shares as money flows into and out of a fund, closed-end funds issue a fixed number of shares. Like exchange-traded funds, closed-end funds trade on exchanges like stocks. But unlike ETFs, share prices of closed-end funds often differ substantially from the value of the funds' underlying assets. So when there is a lot of demand for a closed-end fund, its shares may trade for more than the value of the securities in the fund. By contrast, when the number of shares available in the secondary market exceeds the demand for them, the shares may sell below the value of the fund's holdings. (ETFs contain mechanisms that seek to prevent the creation of these so-called premiums or discounts.)

Now let's compare the funds by the type of securities they invest in.

Money-market funds. Money-market funds have very low risk and are commonly used by investors to keep cash on hand and earn some interest. They are much like bank savings accounts. While the value of other funds may rise and fall, money-market funds are designed to be priced at $1 per share. They invest in high-quality debt with extremely short maturities. While the risk is low, so are the potential rewards: Money-market funds usually pay low interest rates.

Stock funds. These are the most popular mutual funds, measured by the number of funds and the amount of money invested in them. Stock funds usually invest in one type of stock. For example:

- **Large-company U.S. stocks.** This class of stocks is often the mainstay of a portfolio. Over long periods of time, these stocks have returned nearly 10% per year,

Bond funds invest in public and private IOUs

on average. But as with all stocks, there is no smooth ride. The swings (called volatility) can be dramatic. In 2008, for example, large-company U.S. stock funds lost 38%, on average, and in 2009 they rose 30%. However, most years their gains or losses are much less extreme.

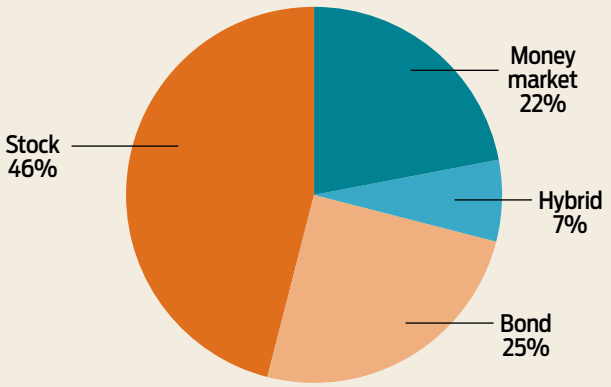
- **Small-company U.S. stocks.** These tend to return slightly more than large-company U.S. stocks over the long term and be slightly more volatile.
- **Foreign-company stocks.** These funds can invest in a variety of overseas companies or in companies based in a single region—for example, Asia or Latin America. They may invest in stocks of large foreign firms or small foreign firms or just in companies based in so-called emerging markets (such as China and India). Some of these funds invest in just a single country's stocks.
- **Global stock funds.** These funds can own both U.S. and foreign stocks.
- **Sector funds.** These funds invest in narrow slices of markets. For example, some funds invest just in health-care stocks, energy stocks or real estate. Others concentrate on commodities, such as gold, silver, timber or natural gas.

Bond funds. While stocks represent a small ownership share of a company, bonds are IOUs—the issuer promises to pay the investor a certain rate of interest until the bond matures, at which point the issuer repays the principal. Bond funds come in different flavors, with some investing in just one type of bond, and some investing in many. Here are the most common bond types:

- **U.S. government.** The safest, most dependable bonds are those issued by the U.S. government. These include Treasury bonds and bonds issued by government agencies.
- **Corporate bonds.** Companies, both foreign and domestic, that need to borrow money often do so by issuing bonds. One key to picking a corporate-bond fund is checking the credit quality of the bonds the fund holds. The top-rated bonds—meaning those that are the safest—are rated triple-A to single-A.

WHERE THE MONEY IS IN FUNDS

This chart shows four fund categories and each category's share of total mutual fund assets in early 2012.



SOURCE: Investment Company Institute

■ **Municipal bonds.** These are issued by state and local governments and their agencies, such as sewer and highway authorities. In most cases, interest from municipal bonds is exempt from federal income taxes. Municipal bonds almost always pay less interest than taxable bonds of similar maturity and quality, but once you factor in the tax break, you may be better off owning municipal debt, especially if you're in a high tax bracket. Some funds invest only in bonds issued within a single state, so the income is also free of that state's taxes for state residents.

> When you choose a fund, you should look at past performance. But don't forget to consider fees and the fund's management, too.

■ **High-yield corporate bonds.** These are commonly referred to as "junk" bonds because they are issued by companies with low credit ratings—that is, they are more likely to default on their obligations than are high-quality companies. But with the higher risk of default comes the potential for higher yields—often three to six percentage points greater than yields from high-grade corporate bonds. The prices of junk-bond funds may be more volatile than those of funds that invest in high-quality bonds.

■ **Balanced funds.** Some mutual funds combine stocks and bonds in a single fund. The idea here is that you get some of the growth of stocks together with the income and relative stability of bonds.

How to Choose Funds

You can employ many strategies when choosing funds. Most people look at past performance. That's important, but costs and a fund's management are also key. We'll look at each of these in turn:

Keep costs low. In return for their expertise and convenience, mutual funds charge a variety of fees. Just remember: The more you pay in fees, the less that's left for you.

Funds basically fall into two camps. The first group consists of load funds, which are sold mostly through brokers and financial planners. A load is basically a commission you pay when you buy a mutual fund, with the fee going to the financial professional who sells the fund. The second group consists of no-load funds. No-loads, the preferred choice of do-it-yourself investors, come without a commission. You buy them directly from mutual fund companies or through discount brokers.

Here's a brief rundown on some of the different types of loads:

■ **Front-end loads.** These sales charges typically range from 3% to 5.75%.

Hot short-term records are rarely repeated

■ **Back-end loads.** Often called contingent deferred sales charges, these fees are levied when you sell your shares. They decline as a percentage of your investment the longer you hold the fund. Eventually, usually after five or six years, they phase out entirely.

■ **Marketing fees.** Back-end loads are often linked with marketing fees, which are added to a fund's annual expenses. These charges, called 12b-1 fees, are typically 0.5% to 1% a year. No-load funds can levy 12b-1 fees to cover marketing costs, but the charges cannot be greater than 0.25% a year.

■ **Redemption fees.** Some sponsors charge back-end fees of up to 2% to discourage trading of funds. These fees typically disappear if you hold for a certain period—usually 60 days to a year—and the redemption fee proceeds often go back to the fund rather than to the sponsor or a broker.

All fund owners pay expenses to fund sponsors to reimburse them for the costs of running the fund. In total, these fees typically run from 0.5% to 2% a year (12b-1 fees are included in overall expenses). Even seemingly small differences in expenses—say, half a percentage point a year—can make a big difference in how much wealth you accumulate over time.

Here's an example: Suppose you have $10,000 to invest for retirement, which is 30 years away. You can buy Mutual Fund ABC, which invests in stocks of big U.S. companies, or Mutual Fund XYZ, which does the same. The only difference is that fund ABC charges annual expenses of 1.5% per year, and fund XYZ charges 0.5% per year. Before expenses, the stocks in both funds return, on average, 10% per year. The impact of fees, though, can be dramatic. After ten years, ABC is worth $22,600, while XYZ is worth $24,700. At the end of 20 years, the difference is even more dramatic: ABC is worth $51,100, and XYZ has grown to $61,400. At retirement in 30 years, ABC has grown to $115,500, and XYZ has grown to $152,203—a $37,000 difference!

Study past performance. Advertisements touting a fund's great one-year record abound. But funds with a hot short-term record rarely repeat that stellar performance. So if past performance doesn't necessarily predict future results, why bother looking at a fund's record at all? The answer is that long-term results can show whether a fund is well managed. The longer the record, the better; a record of at least ten years is desirable, if possible. Later, we'll show you where you can find performance results.

Be sure to compare a fund's results with those of similar funds, and to the appropriate index or index fund. Almost all funds have bad years now and then, but if a fund consistently outperforms its peers, it's probably well managed.

Check fund management. When it comes to actively managed funds, a fund's record is only as good as the

WHEN TO DUMP A FUND

If you invest in actively managed funds, it's as important to know when to drop a fund as it is to know what fund to buy. Here are the six best reasons to drop actively managed funds:

- **The portfolio manager changes.** If the new manager has a long record of success running a similar fund, you're in good shape. But don't wait around to see if an unproven manager is capable of doing the job.
- **Asset bloat.** Too much money in a fund is the enemy of great returns. Such a situation makes trading quickly in and out of positions hard, and it may cause a fund to own more companies than it can follow well. When assets rise into the billions and performance falters, consider selling.
- **Change in style.** Say you bought a fund to invest in small-company stocks. Suppose the fund is so successful that it grows too large to invest efficiently in small companies and starts to emphasize large-company stocks. In that case, sell.
- **Increased fees.** Fees can be a big drag on returns, particularly in fixed-income funds. If a fund raises its fees, consider looking for a cheaper alternative.
- **Stock overlap.** You may discover that several funds in your portfolio invest in essentially the same securities. When that happens, sell the fund that has the worst return.
- **Poor performance.** Don't sell a limping fund too quickly—all funds have bad years. But when a fund trails its peers and benchmarks year after year, sell it and buy something better.

manager who compiled it. Since managers come and go, check to see how long the manager of a fund you're considering has been at the helm. An impressive ten-year record may not be particularly meaningful if the current manager has been in charge for just a year.

With index funds and ETFs, by contrast, the name of the manager isn't as important. With these funds, your main concerns are choosing the index you want to track and finding out how much the fund charges.

Assembling a Portfolio

The most important decision you'll make as an investor isn't which fund to buy. More vital to your long-term financial success is how you split money among different types of assets—mainly between stock funds and bond funds. This asset selection will have the most effect on the two things you want to control most in your portfolio: the potential return and the level of volatility. A smart, well-diversified portfolio gets you both a good return and low volatility. It's the financial equivalent of having your cake and eating it, too.

Here are some keys to assembling a solid portfolio:

Stocks versus bonds. History provides some important guidance: Over the long haul, stocks offer the best returns. Since 1926, stocks of large U.S. companies have returned nearly 10% per year, on average, while U.S. government bonds have returned nearly 6% annualized.

Your time horizon should determine your risk

In the long term—think decades—stocks aren't nearly as risky as you might think. Over 913 rolling ten-year periods (that is, January 1926 through December 1935; February 1926 through January 1936; March 1926 through February 1936, and so on), including the periods that encompassed the Great Depression of the last century and the Great Recession of this young one, stocks have lost money only 53 times (the biggest loss being 5.0% annualized during the Depression). And over rolling 20-year periods, stocks have never lost money.

The flip side of that equation is that stocks can behave erratically in the short term. And they can lose a lot of money over the short term. For example, 2008 was an exceptionally bad year; as mentioned earlier, funds that invest primarily in stocks of large U.S. companies lost 38%, on average, that year. But in 2009, the average large U.S. company stock fund gained 30%. Most years are not nearly so dramatic.

Your personal goals. Just as important as your personal tolerance for risk and volatility is your time horizon. If you're in your twenties and thirties and you're investing for retirement in your sixties, you can justify investing virtually all your retirement money in stock funds. Ditto if you're investing for your toddler's college education.

But as you get closer to needing your money, the volatility of stocks demands that you invest more cautiously—which means increasing the percentage in your portfolio of bond funds, money-market funds and other cash-type investments.

Diversification. Once you've decided how much to invest in stocks and bonds, determine how you'll spread your money among various types of stock funds. History proves that different kinds of stocks take turns leading the market—some groups go out of favor or go gangbusters for years at a time.

Shifts in style are largely unpredictable, so you won't have steady growth if you invest in one style. Given that over long periods of time, small-company stocks return more than large-company stocks, you'll want at least one fund that invests in the little guys.

For example, when the tech bubble started to burst in 2000, big-company stocks dropped 10%. But that same year, small-company stocks rose 12%. Adding bonds to the mix also cuts back on the highs and lows. In 2000, 2001 and 2002, when big-company stocks lost 10%, 13% and 23%, respectively, a broad sampling of bonds gained 12%, 8% and 10%.

Diversify into a foreign-stock fund to take advantage of overseas economies that are growing more rapidly than the U.S. economy.

Don't forget to make room for a fund that invests in foreign stocks. Since the returns of foreign stocks don't typically move in lock step with those of U.S. stocks, giving your portfolio some foreign flavor adds diversification. Foreign stocks are especially important these days because economic growth in many foreign countries, particularly the so-called emerging nations, dwarfs the growth of the U.S. economy.

So how do you assemble a portfolio that will reduce risk and meet your goals? Well, you can do it yourself (and we'll give you some samples later), or you can choose a fund that is preassembled and includes many types of funds.

The most common of these diversified funds are target-date retirement funds. The concept is simple: Choose the fund with a name that includes the year closest to when you expect to retire. So, for example, if you're 39 in 2012 and plan to retire in 2040, you'd choose a fund with 2040 in its name.

These funds are a balanced meal of investments, complete with big-company stocks, small-company stocks, foreign stocks, bonds and, sometimes, less-traditional assets, such as emerging-markets stocks and real estate stocks. As the fund approaches the target date, it becomes more conservative, lowering the percentage of assets in stocks in favor of more bonds and cash. This "glide path" is meant to dampen the fund's volatility as the target date approaches, helping to reduce the likelihood of big losses as you near the year when you'll want the money.

Don't assume, however, that target-date funds come with guarantees that a certain amount of money will be there for you on that date. They don't. Many 2010 funds, designed for investors nearing retirement, lost 30% or more during the 2007–09 bear market. While that performance was better than the 55% drop in Standard & Poor's 500-stock index, it was cold comfort for workers forced to delay retirement or retirees who had to scale back their withdrawals to preserve their shrunken account balances.

If you want a portfolio that won't grow more conservative, look for funds whose names contain words like "balanced" or phrases like "asset allocation."

Rebalancing forces you to sell high and buy low

The next-easiest way to construct a portfolio is to use index funds or exchange-traded funds. Because these simply follow indexes, you don't have to worry about analyzing managers or past performance—just make sure the funds you choose have low expenses.

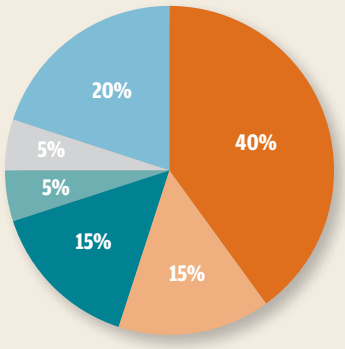
Finally, you can construct a portfolio using actively managed funds, or a combination of actively managed funds, index funds and ETFs.

Here are three possible portfolios, with allocations to different types of funds, that you can use as a starting point (see chart below).

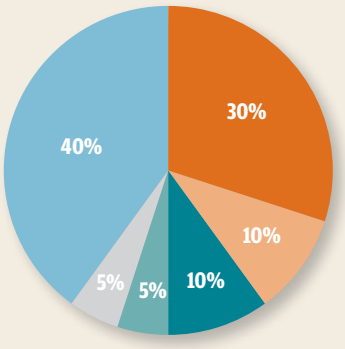
Rebalancing. An important step in managing your portfolio is rebalancing. Periodically you should restore your portfolio's original allocation by selling assets that have performed relatively well and buying those that have performed relatively poorly. For example, if your small-company fund appreciates to the point that its original 10% allocation has grown to 15%, then sell enough of the fund's shares to restore the 10% allocation. Place the proceeds in assets that haven't performed as well. Rebalancing forces you to sell high and buy low over and over again. You should rebalance at least once a year, although if you do it too often, you may rack up excessive trading costs and, possibly, increase your tax bill.

SAMPLE PORTFOLIOS FOR REACHING YOUR GOALS

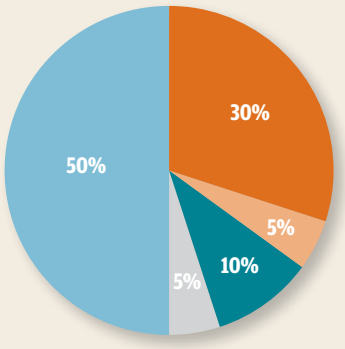
LONG-TERM PORTFOLIO
For a goal 15 years away or more



MID-TERM PORTFOLIO
For a goal 5 to 15 years away



SHORT-TERM PORTFOLIO
For a goal fewer than 5 years away, or a steady portfolio for retirement



Large U.S. companies
Small U.S. companies
Large foreign companies
Emerging-markets companies
Real estate stocks
Bonds

PUBLICATIONS ABOUT FUNDS

The following publications provide directories to funds. Where indicated, these guides can also be valuable sources of information on fund performance. They are available in libraries, directly from the publisher and, in some cases, on the Internet or in bookstores.

Individual Investor's Guide to the Top Mutual Funds. Comprehensive information on hundreds of no-load and low-load funds, compiled by AAII (formerly the American Association of Individual Investors). The guide appears in the AAII Journal's February issue, which is available by mail, or online, to AAII members. Membership is $29 annually. (800-428-2244; www.aaii.org).

Kiplinger's Mutual Funds. An annual newsstand guide to choosing the best funds, with advice for novices and experienced investors alike ($5.95; 1729 H St., NW, Washington, DC 20006; 888-547-5464; www.kiplinger.com).

Value Line Fund Advisor. This publication analyzes the performance of thousands of mutual funds ($116 per year for the online version; $199 for the print version. Both give access to Value Line information online. Value Line Publishing, 220 E. 42 St., New York, NY 10017; 800-634-3583; www.valueline.com).

Sources of Fund Information

As a practical matter, how do you start your search for funds? Many personal-finance and business magazines and newspapers publish mutual fund data on an annual basis, and most have fund-screening tools at their Web sites that let you select funds based on performance, costs, style, assets, size and many other factors. Among the popular periodicals covering funds on a regular basis are *Bloomberg BusinessWeek, Forbes, Kiplinger's Personal Finance, Money, SmartMoney* and the *Wall Street Journal.*

One of the best sources for fund facts (including historical returns), is Morningstar (www.morningstar.com), with a basic fund screener and helpful fund-investing advice. After a 14-day free trial, Morningstar's premium service ($189 a year) offers in-depth analysis of funds, a better fund screener and stock research.

Mutual fund companies and brokerage firms also offer fund-screening tools.

Where to Buy Funds

Once you know which funds you wish to purchase, what's the best way to actually buy, hold and trade them? You can hire a broker or financial planner who will buy funds for you and give you advice, but you'll generally pay commissions or other fees. You can buy funds from the individual fund companies, but that means a lot of paperwork. If you're going to be picking funds yourself, it's much more convenient to have an

Mutual funds can lead to a lifetime of wealth

STATE SECURITIES REGULATORS

State Securities Regulators have protected investors from fraud for more than 100 years. Securities markets are global, but securities are sold locally by professionals who are licensed in every state where they conduct business. State Securities Regulators work within your state government to protect investors and help maintain the integrity of the securities industry.

Your State Securities Regulator can:

- Verify that a broker-dealer or investment adviser is properly licensed;
- Provide information about prior run-ins with regulators that led to disciplinary or enforcement actions; serious complaints that may have been lodged against them; their educational background and previous work history;
- Provide a Web site, telephone number or address where you can file a complaint; and
- Provide noncommercial investor education and protection materials.

For contact information for your State Securities Regulator, visit the North American Securities Administrators Association (NASAA) Web site at www.nasaa.org and click on "Contact Your Regulator."

account with a single brokerage firm that allows you to choose from a supermarket full of funds. Many of these financial-service firms also offer tools to help you select funds.

When comparing firms, give the most weight to the number of no-load, no-transaction-fee (NTF) funds that they offer and the fees that they charge for buying and selling funds that are not part of their NTF programs. Such fees generally run from $35 to $75. Remember, when managing your portfolio you're going to want to rebalance funds periodically and you don't want to pay for trading funds, if possible.

And there are other fees. For example, most brokers charge if you sell too quickly. The fee may be a flat fee or a percentage of assets, and it is usually levied for selling within 90 or even 180 days.

The better firms automatically sweep your cash into a decent-yielding money-market fund and have easy-to-use Web sites with fund-screening software.

Wrap up. So that's the long and short of mutual funds and ETFs. If they seem daunting, start small by transferring some of the money in your bank account to a conservative bond fund. Then dip your toe into more-aggressive investments by slowly moving some money into a stock fund or a fund that invests in a variety of asset classes, such as a target-date fund. These first steps can lead to a lifetime of building wealth using mutual funds to reach your financial goals. ■

GLOSSARY

Bear market. A period when the markets in general decline.

Bond. An interest-bearing security that obligates the issuer to pay a specified amount of interest for a specified time (usually several years) and then repay the bondholder the face amount of the bond.

Bull market. A period when the markets in general rise.

Capital gain (or loss). The difference between the price at which you buy an investment and the price at which you sell it.

Central Registration Depository (CRD). A computerized database that contains information about most brokers, their representatives and the firms they work for.

Compound interest. This is really interest paid on interest. When interest is earned on an investment and added to the original amount of the investment, future interest payments are calculated on the new, higher balance.

Diversification. The method of balancing risk by investing in a variety of securities.

Dividends. The portion of a company's earnings that are paid out to stockholders.

Dollar-cost averaging. A program of investing a set amount on a regular schedule regardless of the price of the shares at the time.

Exchange-traded funds (ETFs). Mutual funds that trade like stocks on the exchanges. Their portfolios generally track an index that represents a particular market or a slice of a market.

Expense ratio. A fund's annual operating expenses as a percentage of its total assets. This ratio covers the cost of management, legal, accounting, printing and other costs of doing business. It may also include marketing expenses. An expense ratio of 1.0% means a fund extracts $10 per year for every $1,000 invested.

401(k) plan. An employer-sponsored retirement plan that permits employees to divert part of their pay tax-free into the plan. Money invested in the 401(k) may be matched by the employer, and earnings accumulate tax-deferred until they're withdrawn.

Individual retirement account (IRA). A tax-favored retirement plan. Contributions to a traditional IRA may be tax-deductible, depending on your income and whether you are covered by a retirement plan at work. Earnings grow tax-deferred, and withdrawals are taxable. Contributions to a Roth IRA are never deductible, but earnings accumulate tax-free and withdrawals are tax-free in retirement.

Load. A sales commission charged by many mutual funds. Some are front-end loads (the fee is paid when the shares are purchased); others are back-end loads (the fee is paid when the shares are sold).

Money-market fund. A mutual fund that invests in short-term corporate and government debt and passes the interest payments on to shareholders.

Mutual fund. A professionally managed portfolio of stocks, bonds or other investments divided up into shares.

Net asset value (NAV) per share. The result of dividing a fund's total assets by the number of shares outstanding. Equivalent to the fund's share price.

North American Securities Administrators Association (NASAA). Membership organization for state securities regulators who work to protect investors' interests (www.nasaa.org).

Portfolio. The collection of all of your investments.

Prospectus. The document that describes a securities offering or the operations of a mutual fund, a limited partnership or other investment.

Risk tolerance. Risk tolerance is the degree to which you are willing to risk losing some (or all) of your original investment in exchange for a chance to earn a higher rate of return. In general, the greater the potential gain from an investment, the greater the risk that you might lose money.

State Securities Regulators. Agencies that work within state governments to protect investors and help maintain the integrity of the securities industry.

Stock. A share of stock represents ownership in the company that issues it. The price of the stock goes up and down, depending on how the company performs and how investors think the company will perform in the future.

Total return. An investment-performance measure that combines two components: any change in the price of the shares and any dividends or other distributions paid to shareholders over the period being measured. With mutual funds, total-return figures assume that dividends and capital-gains distributions are reinvested in the fund.

WHERE TO FIND MORE FREE INFORMATION ABOUT INVESTING

The following booklets from the Editors of *Kiplinger's Personal Finance* magazine and the Investor Protection Trust are available at your library and offices of State Securities Regulators.

Five Keys to Investing Success
Make investing a habit
Set exciting goals
Don't take unnecessary risks
Keep time on your side
Diversify

The Basics for Investing in Stocks
Different flavors of stocks
The importance of diversification
How to pick and purchase stocks
Key measures of value and finding growth
When to sell
What's your return?
Consider mutual funds

A Primer for Investing in Bonds
How do bonds work, anyway?
How much does a bond really pay?
How to reduce the risks in bonds
Going the mutual fund route

Mutual Funds and ETFs: Maybe All You'll Ever Need
Mutual funds: The best investment
The different types of funds
How to choose funds and assemble a portfolio
Sources of mutual fund information
Where to buy funds

Getting Help With Your Investments
Do you need a financial adviser?
Who's who among financial advisers
How to choose an adviser
5 questions to ask before you hire an adviser
How to open an account
What can go wrong
How to complain

Maximize Your Retirement Investments
Three key rules
Creating the right investment mix
Guidelines for saving at every life stage
Investing on target
Best places to save
Getting the money out
Creating an income stream
Protect your money: Check out a broker or adviser

Where to Invest Your College Money
The basics of investing for college
Investing in a 529 savings plan
Locking in tuition with a prepaid plan
Other tax-favored ways to save
Tax credits for higher education
Save in your child's name?

Investor Protection Trust
Investor Education in your Community
Investor Protection Institute
919 Eighteenth Street NW, Suite 300 Washington, DC 20006-5517
www.investorprotection.org

Kiplinger's Personal Finance
1100 13th Street NW
Washington, DC 20005
www.kiplinger.com

A variety of noncommercial investor education and protection materials, including booklets, videos and curricula, are available and can be downloaded for educational purposes at www.investorprotection.org.