INVESTING IN YOUR FUTURE

Simply put, people invest to create wealth. For some, this means thousands of dollars; for others it could mean millions. Common investment goals include saving for a new, larger or second home; a child's education; and a secure retirement.

The key to good investing is diversification or asset allocation. While this sounds complicated, it's not—it just means that you shouldn't put all of your eggs in one investment basket. Rather, you want to create a smart, well-balanced investment portfolio.

IT'S ALL IN THE MIX

Asset allocation refers to the percentage of your portfolio dollars invested in the three different investment classes—stocks, bonds and cash equivalents (such as money market funds and short-term certificates of deposit).

Studies show that asset allocation is the single most important factor in long-tern investment performance.

The rationale for this strategy is simple—not all investment classes of assets move up and down at the same time and rate. In some years, stocks generate the best returns, while in others, the bond market is the place to be. Investing is not a single event, it's an ongoing process.

DRIVEN BY LIFE CIRCUMSTANCES

No one investment mix is right all of the time—you must re-evaluate them as your income and other life circumstances change, such as having children or changing careers. For example, an allocation of 80 percent stocks and 20 percent bonds that worked well for you in your prime earning years may be inappropriate as you enter retirement.

Your investment goals, timeframe and tolerance for risk all figure into choosing an asset allocation that is right for you.

Your investment time horizon—the number of years before you will need the money to fulfill your financial goal—is another important factor. The further off your investment goal is, the more aggressively you can invest, since you have more time to weather the market's swings.

As your investment horizon grows closer, your investment strategy should gradually become more conservative, shifting the focus from capital growth to capital preservation.

Finally, your tolerance for risk represents your ability and willingness to grin and bear declines in the value of your investments.

Investment Options

SHORT-TERM INVESTMENTS

• *Certificate of Deposit (CD)*—A specialized deposit where interest is earned at regular intervals until the CD matures, at which point you get the money you originally deposited, plus the accumulated interest payments. Usually the same interest rates as a short- or intermediate-term bond.

• *Money Market Funds*—A specialized type of mutual fund that invests in extremely short-term bonds. Usually pays better interest rates than conventional savings accounts, but not as good as certificates of deposit.

• *Savings Account*—Savings accounts earn a small amount in interest (4 percent and under), making them little better than a piggy bank when it comes to long-term investing. However, you should try to keep enough in the account to cover six months' worth of expenses in case of a financial emergency.

LONG-TERM INVESTMENTS

• *Mutual Funds*—A way for investors to pool their money to buy stocks, bonds or anything else the fund manager decides is worthwhile.

• *Stock*—A way for individuals to own parts of businesses. A share of stock represents a proportional share of ownership in a company. As the value of the company changes, the value of the share in that company rises or falls.

• *Bonds*—From an investor's point of view, bonds are similar to CDs, except they are issued by the government or by corporations instead of banks. They are known as "fixed income" securities because the amount of income they generate each year is set at the time the bond is sold.

RETIREMENT-SPECIFIC INVESTMENTS

• *401(k)*—A voluntary retirement plan through your company where you set aside a percentage of your wages before taxes and invest them for your retirement. Some employers will match their employees' contributions up to a certain percentage. Contributions and interest accrued are not taxed until the funds are withdrawn. Annual contributions are limited.

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- *Individual Retirement Account (IRA)*—A personal retirement savings plan with a variety of tax benefits. Contributions and interest accrued in a traditional IRA are not taxed until the funds are withdrawn, and in some cases contributions are tax deductible on your federal income tax return. Contributions to a Roth IRA must be after-tax dollars and are not tax deductible. However, you will pay no taxes on the funds when you withdraw them. There are certain limitations on all IRAs.

- *Social Security*—Nearly everyone who receives a paycheck pays a portion of their wages into a trust fund by paying Social Security taxes. Employers contribute an equal amount. After working a certain number of years, you are eligible to apply for your Social Security benefits—which include retirement money, as well as disability, family and survivor's benefits. The amount of your retirement benefits depend on how much you earned, the number of years you worked and the age at which you choose to start receiving your benefits.

REVIEWING YOUR INVESTMENTS AND ASSETS

It's important to think about asset allocation not as an event, but as an ongoing process. You should check your asset allocations at least once a year and rebalance as necessary.

As you review the holdings in your investment portfolio—including personal investments as well as 401(k)s, IRAs and other retirement vehicles—keep diversification in mind.

You want to make sure your portfolio isn't dominated by one stock or sector. For example, even within your stock class you should diversify among different industries; large and small companies; and domestic and international companies.