



Know These Three Things if You Are New to Your Retirement Plan

Learning the basics of investing can help investors who are new to their retirement plans.

Congratulations if you are starting out on your career and have decided to join the retirement plan your employer offers. It is the beginning of an exciting journey, one that will bring you to a point in the future when you will be able to potentially enjoy a financially secure retirement. While you may feel that you have a good understanding of how your retirement plan works, it can be helpful to learn about some investing basics. Gaining a deeper knowledge of how different investments work and what factors contribute to their growth (or decline) in value can help make you a better investor.

While there are no guarantees in investing, you will be better able to navigate the ups and downs in the investment marketplace if you understand and act on the following key issues.

1 Know You Have Time on Your Side

As a child, you want time to speed up. As you age, you want time to slow down. In investing, time is on your side. The longer you contribute to your retirement plan, the more money you should have, all else being equal. The key is compounding. Compounding works in a straightforward, simple way: You earn money (interest, for example) on the money you contribute to your retirement plan every pay period. The earnings are added to your plan account and reinvested. Compounding gives you a bigger pool of savings to invest.

With regular contributions to your plan account, your balance has the potential to grow through the mix of contributions and potential earnings. Over time, you will potentially have a healthy lump sum available to see you through your retirement years. The earlier you join and start making contributions to your retirement plan, the greater the potential benefit from compounding. So, once you start contributing, don't stop -- even for a year or two.

2 Figure Out How Much Investment Risk You Can Handle

Some investments -- stocks, for example -- have historically provided higher returns over the long term than either bonds or cash investments.* However, stocks have a higher risk of principal loss than other investments. That risk of loss is essentially the price you pay for potentially higher returns.

Understand that risk is a fact of life for all investors and that there is a relationship between risk and potential return. Once you learn how much investment risk (the risk of loss) you can comfortably handle, you will be better able to make informed investing decisions. If you are still young, you have time to invest more aggressively than someone older. There will be periods when the stock market declines and your retirement plan portfolio suffers losses, but with decades available to invest, you should have more than enough time to make up for your portfolio's losses.

3 Diversify Your Investments

Stocks are an asset class; so too are bonds and cash investments. When you spread your plan portfolio among different asset classes like stocks, bonds, and cash investments, you are said to be "diversifying" the investments in your retirement plan account (portfolio). Diversifying is a strategy that's used to control risk in your plan account. Since asset classes will not likely rise or fall in value at the same time, the theory behind diversification is that when one asset class does lose value, the others may gain in value and help make up for some or all of that loss. Of course, diversification does not ensure a profit or guarantee that your investments will not lose money.

As a new participant in your employer-provided retirement plan, you want to be sure that you make the most of this great opportunity. Learning even the basics about investing and investments can provide significant potential rewards.

*Past performance does not predict or guarantee future returns.



Learning a New Language — Investment-Speak

If you're new to the world of investments, the terminology may be hard to understand. The following explanation of some common investing words and phrases may help.

Like so many other pursuits, investing has a language of its own. So, it's no surprise that making sense of investment terminology can be a struggle for people who are new to investing or are not professional investors. If you have found yourself scratching your head when you hear or read about the investments offered by your retirement plan, the following explanation of some common words and phrases may help.

Mutual Fund

In your retirement plan, you typically do not invest in individual stocks or bonds. Instead, you invest in mutual funds. A mutual fund pools the money of many investors who share the same investment objective. A professional fund manager then invests the money in stock, bond, and/or cash alternative investments in a way that pursues the investment objective. Of course, with a mutual fund, you should consider the fund's investment objectives, charges, expenses, and risks carefully before you invest. The fund's prospectus, which can be obtained from your financial representative, contains this and other information about the fund. Read the prospectus carefully before you invest or make contributions. Shares, when redeemed, may be worth more or less than their original cost.

Prospectus

This is simply a legal document offering securities or mutual fund shares for sale. You should read a fund's prospectus before investing because it contains information, including objectives and performance history, that could help you decide whether or not to invest in the fund.

Average Annual Total Return

A mutual fund's total return is composed of its dividend, interest, and capital gain or loss realized on the sale of fund investments, less expenses, plus any increase or decrease in its share price, during a specified period (usually a year). Average annual total return is the average of the fund's total

return over a multi-year period, taking into account the effect of compounding.

Net Asset Value

The share price of a fund typically changes daily, depending on the fluctuating values of the fund's securities. A fund calculates its net asset value every business day by dividing the total market value of the fund's investments (minus any money it owes) by the number of shares issued. Thus, net asset value is the worth of one mutual fund share at a given point in time.

Diversification*

This is a strategy for managing risk in a portfolio by spreading your money among different investments -- stocks, bonds, and cash alternatives -- that are unlikely to rise or fall in value at the same time, or at the same rate.

Asset Allocation*

Asset allocation takes diversification one step further by spreading money over different types of investments, or asset classes. It helps balance risk because different asset classes may do better in different market conditions.

Expense Ratio

This tells you what it costs to operate the fund -- including management fees, but not including various other transaction costs -- over a certain period, expressed as a percentage of the fund's average net assets. Once again, you should know that these expenses reduce the fund's total return.

Dividend

A dividend is a payment that a corporation makes to its shareholders from its earnings and profits.

*Diversification and asset allocation do not ensure a profit or protect against losses in a declining market