BASIC INVESTING

FEAP
FINANCIAL EDUCATION ACTION POINTS

What Is Investing?

In simple terms, investing is using money to try to make a profit or produce income. It's similar to savings in that both involve setting aside money for the future. However, investing is different than savings in that it exposes your money to risk in hopes of earning substantially greater returns. While saving is usually prudent for shorter-term needs, investing is often more appropriate for longer-term goals.

The Power of Compound Interest (Earnings)

Compound interest is the cycle of earning interest on interest, or earnings on earnings. And the longer you have to let it play out, the better.

Let's assume Pressy, Mandi and Steve all want to retire at age 65, they each can invest $200 per month, and they each earn an average annual return of 8% on their investments. Let's further assume though, that they get started at different times. Pressy begins investing at age 20, Mandi at age 25, and Steve at age 35.

The chart below shows the difference in how much they each invest compared to how much the have in the end. This why it's so important to get started early.

Three Good Reasons to Invest!

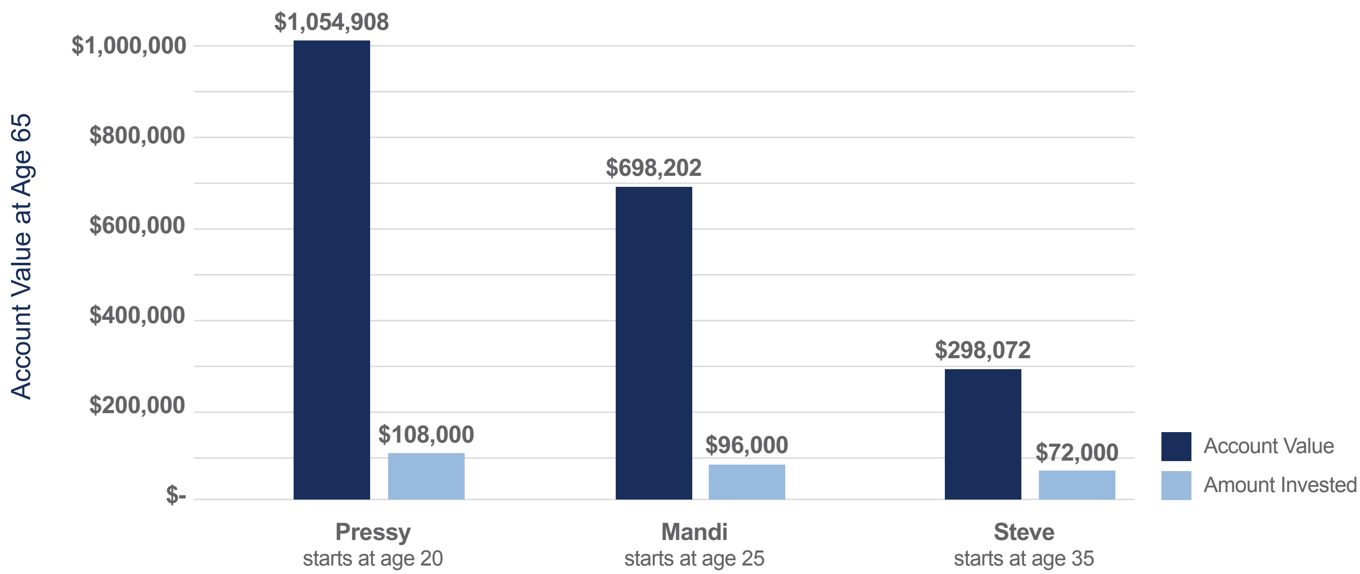
1. Potential for higher returns
Investing involves risk and you could lose money. Returns are not guaranteed, but investing gives you the chance to earn higher returns. The larger your returns, the more money you'll have in the future.

2. Achieving long-term goals
Savings alone might not allow you to accumulate enough to reach your goals. Investing those same dollars can increase those chances, or at least position you to accumulate more money over time.

3. Inflation
Simply put, things become more expensive over time. This is called inflation and it means your long-term goals will cost more than they do today. Investing offers the potential to keep up with, and possibly even outpace, inflation.

The Benefits of Starting Early

$200 per Month Invested Earning 8% Annual Return*



** Hypothetical return for illustrative purposes only. Not guaranteed.*

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Basic Types of Investments

Equities — An equity — also known as stock — represents ownership in a company. Companies sell stock to raise money to fund their business. The purchase of a stock makes you a shareholder in the company. Company value may go up or down, affecting the stock price. As a result, the stock may be sold at a profit or loss. Companies may also distribute profits by giving shareholders periodic payments called dividends.

Bonds — A bond represents a loan made by an investor to a borrower, typically a business or government entity. The borrower promises the debt will be paid back with interest at a specific time. Bonds are typically issued by companies, municipalities, states, and sovereign governments to finance projects and operations.

Cash — Cash and cash equivalents like savings accounts, money markets, and certificates of deposit (CDs) are meant to be low-risk and accessible. Their returns tend to be lower than equities and bonds because they are less risky. This typically makes cash a poor choice for long-term goals because many of them won't even keep up with inflation.

HIGHER RISK
Potentially Higher Return
Longer Time Frame

EQUITIES

- Commodities (Oil, Gold, etc)
- Foreign Stocks
- Small / Medium / Large U.S. Stocks
- REITs, Real Property

BONDS

- High-Yield (Junk Bonds)
- Foreign Government
- U.S. Corporate
- Municipal
- U.S. Government

CASH

- Savings Account
- Money Market Account
- Certificates of Deposit (CDs)

LOWER RISK
Shorter Time Frame
Lower Return

Note About Risk: Each investment has a different level of risk. Generally speaking, the riskier the investment, the greater the potential for gain or loss. It is important to know your own comfort level, called risk tolerance. Choose investments that line up with your risk tolerance, goals, and time horizon, which means when you expect to use the money with inflation.

Understanding Investment Funds

Mutual funds and exchange-traded funds are groups of investments bundled together. Different combinations of equities, bonds, and cash serve as building blocks for thousands of investment funds. Professional portfolio managers decide on the fund mix for a specific investing purpose such as index-tracking, growth or income.

Mutual Funds — A mutual fund is made up of money collected from many investors to purchase investments like cash, bonds, stocks and other assets. They are operated by professional money managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus. Mutual funds do not trade on the exchange, but rather the underlying assets do. Fund value is determined at the close of the trading day.

Exchange-Traded Fund (ETF) — An ETF, or exchange-traded fund, is an investment that tracks a particular set of equities, similar to an index. It's similar to a mutual fund but trades just as a normal stock would on an exchange, and its price adjusts throughout the day rather than at market close. ETFs can track stocks in a single industry, such as energy, or an entire index of equities like the S&P 500.

BASIC INVESTING

Helpful Strategies for Investing

Dollar Cost Averaging

- Investing a set amount of money on a regular basis, whether the market is moving up or down.
- This strategy spreads investment risk over time — when prices are high, you buy fewer shares and when prices are low, you buy more shares.
- There is no protection against losses when the market declines.
- Try to invest continuously, even when the market is down.

Invest for the Long Term

- Be patient and give your investment portfolio time to grow and compound, increasing the likelihood that you will reach your financial goals.
- Use time, not timing. No one can accurately predict market fluctuations. Begin investing early and regularly.

Facts Over Emotion

- Investing success requires patience, determination and knowledge. Don't let the latest news or other short-term variables influence your investment decisions.
- Use facts to guide your decisions. Educate yourself through reputable business periodicals, books and websites.

Diversify

- Don't put all your eggs in one basket. In investment terms, this means your portfolio should have a wide variety of investments in an effort to reduce risk.
- Investing in unrelated assets provides an average return of all choices, rather than relying on the return of just one investment.

Beware of Risky Investments

- Stay away from futures, commodities, and other risky investment strategies — at least until you have an established and diversified portfolio.
- Educate yourself and be sure to understand the risk of these types of investments. If used, they should only take up a small portion of your overall portfolio.

Avoid Chasing Performance

- Investment asset categories tend to move in cycles. The high-performing investment this year could show poor returns in future years.
- Remember, you are investing for the long term. Chasing performance can lead to recurring losses over time.

Evaluate your Investment Plan

- Review your investment plan at least annually or at times of significant life events.
- If necessary, rebalance your portfolio to ensure your mix of investments aligns with your goals, risk tolerance, and time horizon.

Resources:

www.investor.gov   *www.sec.gov*   *www.mymoney.gov*   *www.dol.gov*   *www.finra.org*

Marine Corps Community Services (MCCS):

https://usmc-mccs.org/services/career/personal-financial-management