Introduction

There are a variety of different types of investments available today... there are short-term investments, long-term investments, and as many different investment strategies as there are investors. If you find yourself a bit overwhelmed by the prospect of investing and are unsure of whether you should invest in short-term or long-term plans, don't let yourself get bent out of shape.

By simply taking the time to compare the benefits and drawbacks of both short-term and long-term investments, you can determine which type is best for you and your current financial needs. Remember, your first step should be defining your financial goals, and then you will be able to decide what investment strategies will better support your goals.

In this module in addition to providing you with the drawbacks and advantages of short- and long-term investments, we will provide you with pertinent information that can assist you in making decisions about your finances... both for now, and in the future.
Module Objectives

After completing this module you should be able to:

- Identify which saving instruments can help develop short-time investment
- Understand what are stocks, how they work, and how to buy and sell stocks
- Understand what are bonds, how they work, and how to buy and sell bonds
- Understand what are U.S. Securities, how they work, and how to buy and sell U.S. Securities
- Understand what are mutual funds, how they work, and how to buy and sell mutual funds
- Understand what are socially responsible investments
- Understand how to invest in real estate
Recommended Time on Task by Lesson

<table>
<thead>
<tr>
<th>Lesson No.</th>
<th>Lesson Title</th>
<th>Time Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>M5.1</td>
<td>Introduction</td>
<td>20 minutes</td>
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<tr>
<td>M5.2</td>
<td>Short-term investments vs. long-term investments: a comparison</td>
<td>20 minutes</td>
</tr>
<tr>
<td>M5.3</td>
<td>Savings instruments</td>
<td>30 minutes</td>
</tr>
<tr>
<td>M5.4</td>
<td>What is a stock?</td>
<td>40 minutes</td>
</tr>
<tr>
<td>M5.5</td>
<td>What is a bond?</td>
<td>40 minutes</td>
</tr>
<tr>
<td>M5.6</td>
<td>U.S. Treasury securities</td>
<td>30 minutes</td>
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<tr>
<td>M5.7</td>
<td>What are mutual funds?</td>
<td>45 minutes</td>
</tr>
<tr>
<td>M5.8</td>
<td>Exchange traded funds</td>
<td>20 minutes</td>
</tr>
<tr>
<td>M5.9</td>
<td>Socially responsible investments</td>
<td>30 minutes</td>
</tr>
<tr>
<td></td>
<td>Investing in real estate</td>
<td>30 minutes</td>
</tr>
</tbody>
</table>

Suggested Module Instructional Duration: 5.00 hours

About This Manual
This manual contains the same information provided in the instructional manual that the participants will have during the workshop. For each section, we provide specific suggestions and resources selected to help you deliver the classroom instruction. These include: teaching tips, questions to generate classroom discussion, and a module PowerPoint presentation. In addition, every section or subject has additional reference materials that provide supplementary online instructional materials and resources. These were selected to provide the facilitator more information about the subject or materials, which could be used to enhance the delivery of instruction.

Before the workshop session:

- Before conducting the workshop, take time to familiarize yourself with the participant’s manual, exercises, additional learning resources, teaching tips, and questions to generate discussion and PowerPoint presentation.
- For classroom use, it is highly recommended to secure a flip chart, color markers, projector, and laptop. Make sure to familiarize with setting up the equipment and with its operation.
At the workshop:

- Welcome the participants. Ask participants to introduce themselves, and share what their expectations are for this program, and what they hope to get out of the workshop. Write their comments down on a flip chart as they share. (This activity will help participants get to know each other and feel more comfortable and will give you an idea of what they are expecting from the session.)

- Review the objectives of the session and the agenda. If applicable, hand out materials to participants. Using the module PowerPoint presentation review the module objectives:

![Module Objectives](image)

- Use this time to listen as well as to manage expectations as to what will be accomplished during the lesson. Let participants know that their specific personal situations may not be able to be addressed directly in the lesson but that the information should be valuable to them.

- Make sure to schedule breaks after 1.5 hours of instruction.

- Encourage participants to ask questions; try to create an interactive-participatory learning environment. If you do not have the answer to a question, be honest and say: “I don’t know the answer but I will research it for you.” Bring the answer the next day and explain where and how you found the answer.

- Do not ask personal questions to participants that could potentially disclose personal or confidential financial information. It is strongly recommended to always use hypothetical scenarios.

- Always use a flip chart to write down key concepts. At the end of the day, review the key learning concepts.
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Lesson No. M5.9

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- Basic Rental Properties
- Real Estate Investment Groups
- Real Estate Trading
- REITs
- Leverage

Issues to Consider When Investing In Real Estate

Additional Learning Resources
Key Terms

**Articles of Incorporation:** The *Articles of Incorporation* is the basic instrument filed with the appropriate government agency, the Secretary of State, for the incorporation of a business. *Articles of Incorporation* is the most common name for this instrument, but it may also be called a *Certificate of Incorporation* (the state of Delaware uses this term), *Certificate of Organization*, or *Certificate of Formation*. The actual name will vary from state to state.

**Buy-and-Hold:** Passive investment strategy in which an investor buys stocks and holds them for a long period of time, regardless of fluctuations in the market. An investor who employs a buy-and-hold strategy actively selects stocks, but once in a position, is not concerned with short-term price movements and technical indicators. Conventional investing wisdom tells us that with a long time horizon, equities render a higher return than other asset classes such as bonds. There is, however, a debate over whether a buy-and-hold strategy is actually superior to an active investing strategy; both sides have valid arguments. A buy-and-hold strategy has tax benefits, however, because long-term investments tend to be taxed at a lower rate than short-term investments.

**Capital Preservation:** Capital preservation is a strategy for protecting the money you have available to invest by choosing insured accounts or fixed-income investments that promise return of principal. The downside of capital preservation over the long term is that by avoiding the potential risks of equity investing, you expose yourself to inflation risk.

**Cash Dividend:** A dividend paid in the form of cash, usually by check.

**Cash Flow:** An accounting statement - the statement of cash flows – that shows the amount of cash generated and used by a company in a given period, calculated by adding noncash charges (such as depreciation) to net income after taxes. Cash flow can be attributed to a specific project, or to a business as a whole. Cash flow can be used as an indication of a company’s financial strength.

**Collective Investment:** A collective investment scheme is a way of investing money with other people to participate in a
wider range of investments than may be feasible for an individual investor and to share the costs of doing so.

**Commercial Paper:** Debt instruments that are issued by established corporations to meet short-term financing needs. Such instruments are unsecured and have maturities ranging from 2 to 270 days. Commercial paper is rated by Standard & Poor's (the world's foremost provider of independent credit ratings, indices, risk evaluation, investment research, data, and valuations) and Moody's (which, among other services, performs financial research and analysis on commercial and government entities).

**CPA:** Stands for Certified Public Accountant. A special designation given to an accountant who has passed a national uniform examination and has met other certifying requirements; CPA certificates are issued and monitored by state boards of accountancy or similar agencies.

**Day Trader:** Stock trader who holds positions for a very short time (from minutes to hours) and makes numerous trades each day. Most trades are entered and closed out within the same day.

**Default Risk:** The risk that companies or individuals will be unable to pay the contractual interest or principal on their debt obligations. In other words, this is the risk that you will not get paid.

**Deposit Brokers:** Are investment specialists who act as agents for small banks and trust companies, insurance companies, and sometimes mutual fund companies.

**Dividend:** A taxable payment declared by a company’s board of directors and given to its shareholders out of the company’s current or retained earnings, usually quarterly. Dividends are usually given as cash (cash dividend), but they can also take the form of stock (stock dividend) or other property. Dividends provide an incentive to own stock in stable companies even if they are not experiencing much growth. Companies are not required to pay dividends. The companies that offer dividends are most often companies that have progressed beyond the growth phase, and no longer benefit sufficiently by reinvesting their profits, so they usually choose to pay them out to their shareholders; also called payout.
Federal Deposit Insurance Corporation (FDIC): The U.S. government agency insuring deposits in the U.S. against bank failure. The FDIC was created in 1933 to maintain public confidence and encourage stability in the financial system through the promotion of sound banking practices. The FDIC will insure deposits of up to $100,000 per institution as long as the bank is a member firm.

Floor Brokers: There are two main types: Commission brokers, employed by brokerage houses, buy and sell securities on the floor for the general public. Independent floor brokers work for themselves. They execute orders for brokerages without full-time commission brokers or for overly busy brokers.

Fund Manager: Fund manager (or investment advisor in the U.S.) refers to both a firm that provides investment management services and an individual(s) who directs 'fund management' decisions.

Hedge: In finance, a hedge is an investment that is taken out specifically to reduce or cancel out the risk in another investment. The term is a shortened form of "hedging your bets," a gambling term. Typical hedgers purchase a security that the investor thinks will increase in value, and combine this with a "short sell" of a related security or securities in case the market as a whole goes down in value.

Interest: The charge for the privilege of borrowing money, typically expressed as an annual percentage rate.

Leverage: The amount of debt used to finance a firm's assets. A firm with significantly more debt than equity is considered to be highly leveraged. Leverage helps both the investor and the firm to invest or operate. However, it comes with greater risk. If an investor uses leverage to make an investment and the investment moves against the investor, his or her loss is much greater than it would've been if the investment had not been leveraged - leverage magnifies both gains and losses. In the business world, a company can use leverage to try to generate shareholder wealth, but if it fails to do so, the interest expense and credit risk of default destroys shareholder value.

Limit Order: An order to buy or sell a security at a price specified by the client. The order can be executed only at the
specified price or better. It sets the maximum price the client is willing to pay as a buyer, and the minimum price he is willing to accept as a seller.

**Line of Credit:** An arrangement between a financial institution (usually a bank) and a customer establishing a maximum loan balance that the bank will permit the borrower to maintain. The advantage of a line of credit over a regular loan is that you usually don’t pay interest on the part of the line of credit that you don’t use.

**Market Capitalization:** A company’s market capitalization [or market cap as it’s frequently called] is calculated by taking the number of outstanding shares of stock multiplied by the current price-per-share.

**Margin:** Borrowed money that is used to purchase securities. This practice is referred to as "buying on margin." Buying with borrowed money can be extremely risky because both gains and losses are amplified. That is, while the potential for greater profit exists, this comes at a hefty price - the potential for greater losses. Margin also subjects the investor to a number of unique risks such as interest payments for use of the borrowed money.

**Market Order:** An order to buy or sell a specific number of shares at the best available price once the order is received in the marketplace. Normally, a market order is executed at the quoted price given before the order was entered or at a price quite close to the quote. However, if the security is volatile, the execution price could be better or worse than anticipated.

**Maturity:** The length of time until the principal amount of a bond must be repaid.

**Mortgage:** A debt instrument, secured by the collateral of specified real estate property, that the borrower is obliged to pay back with a predetermined set of payments. Mortgages are used by individuals and businesses wishing to make large value purchases of real estate without paying the entire value of the purchase up front.

**National Credit Union Administration (NCUA):** The National Credit Union Administration (NCUA) is the United States federal agency that charters and supervises federal credit unions and insures savings in federal and most
state-chartered credit unions across the country through the National Credit Union Share Insurance Fund (NCUSIF), a federal fund backed by the full faith and credit of the United States government.

**Net Asset Value (NAV):** In the context of mutual funds, the total value of the fund's portfolio minus liabilities. The NAV is usually calculated on a daily basis.

**Profits:** Profit is defined as the residual value gained from business operations. However, the exact method of calculation differs between accountants and economists.

**Proxy Ballot:** Through a proxy ballot a shareholder can nominate someone else to vote on resolutions at meetings thereby negating the need for the shareholder to be present.

**Reconciling:** The process of checking that your financial records agree with your banks records.

**Retained Earnings:** Earnings not paid out as dividends but instead reinvested in the core business or used to pay off debt. Also called earned surplus or accumulated earnings or inappropriate profit.

**Second Mortgage:** A home-equity loan is basically a line of credit secured by your home. When the line of credit is drawn down, the financial institution providing it places a second mortgage loan on your home until the loan is paid off, after which you can use the loan to finance other purchases. However, if the loan is not paid off, your home could be sold to pay off the remaining debt. Interest rates on such loans are usually adjustable rather than fixed and lower than standard second mortgages or credit cards.

**Settlement Date:** The settlement date for stocks and bonds is usually three business days after the trade was executed. For government securities and options, the settlement date is usually the next business day.

**Shares:** Shares is a term referred to the units of ownership interest provided to the stockholder or owner of a company. The term is often used in connection with the number of units issued to an owner of Common Stock or Preferred Stock.

**Shareholders:** Shareholders are the owners of a corporation based on their holdings. They own an interest in the
corporation rather than specific corporate property. Also known as stockholders.

**Stockbroker:** Stockbroker or stockbrokerage is someone or a firm who performs transactions in financial instruments on a stock market as an agent of his/her/its clients who are unable or unwilling to trade for themselves.

**Stock Dividend:** A dividend paid as additional shares of stock rather than as cash. If dividends paid are in the form of cash, those dividends are taxable. When a company issues a stock dividend, rather than cash, there usually are not tax consequences until the shares are sold.

**Stock Market:** A general term used to refer to the organized trading of securities through various exchanges and through the over-the-counter market. A "stock exchange" is a specific form of a stock market, a physical location where stocks and bonds are bought and sold, such as the New York Stock Exchange, NASDAQ, or American Stock Exchange.

**Stock Split:** The division of a company’s outstanding common shares into a larger number of common shares. A three-for-one split by a company with one million shares outstanding results in three million shares outstanding. Each holder of 100 shares before the split would have 300 shares after the split, but his or her proportionate equity in the company would remain the same - each unit would just be smaller.

**Stop Order:** An order to buy at a price above or sell at a price below the current market. Stop buy orders are generally used to limit loss or protect unrealized profits on a short sale. Stop sell orders (also known as stop loss orders) are generally used to protect unrealized profits or limit loss on a holding. A stop order becomes a market order when the stock sells at or beyond the specified price and, thus, may not necessarily be executed at that price.

**Tenants in Common Investments:** Means property is owned or will be owned by two or more owners.

**Thrift Institution:** Is a general term for savings banks and savings and loan associations.
# Short-Term Investments vs. Long-Term Investments: a Comparison

## Lesson No. M5.1

### Lesson Objectives:
After completing this lesson participants should be able to:
- Understand the difference between long-term investments and short-term investments
- Understand the level of risk associated with short- or long-term investments

### Time Required: 20 Minutes

### Lesson Teaching Tips
- Participants must be reminded of their financial goals and the time frame for each of the goals and how these relate to the need to generate financial resources to support them.

### Questions to Generate Discussion
- In reference to your financial goals, how many of them are long-term goals?
- Do you have any short-term goals that require fast access to financial resources?
- What is your risk level?

### PowerPoint Slides Thumbnails

### Slide Notes
- Remind participants of the concept of level of risk.
- Short-term investments can produce a significant yield at a high risk.
- Long-term investments usually carry a low risk.
Discuss the advantages and disadvantages of short-term investment strategies. 
- Indicate to participants that their decision to use or not use short-term investments must be made in terms of the level of risk and the projected time frame for each of their goals.

Discuss the advantages and disadvantages of long-term investment strategies. 
- Indicate to participants that their decision to use or not use long-term investments must be made in terms of the level of risk and the projected time frame for each of their goals.

Closure: 
- Review lesson objectives with participants. 
- Discuss with participants that in order to decide whether to engage in a short- or long-term investment strategy they should always have present their financial goals, the time frames associated to each of them and the level of risk they are willing to take in order to reach their goals.

Learning Assessment: 
- Ask participants which are the main differences between short- and long-term investments.

Reference Materials 
- Investments Vehicles – Florida State University
  [http://learningforlife.fsu.edu/course/fp101/InvestmentVehicles.htm](http://learningforlife.fsu.edu/course/fp101/InvestmentVehicles.htm)
Obviously, there are differences between short-term and long-term investments. Short-term investments are designed to be made only for a little while, and hopefully show a significant yield, whereas long-term investments are designed to last for years, showing a slow but steady increase so that there is a significant yield at the end of the term.

**Advantages of Short-Term Investments**
The main advantages to short-term investments are the potential for fast growth and the fact that the term may only last a few weeks to a few months. Though there tends to be more fluctuation in many forms of short-term loans, these loans allow more control over your money and it usually isn't out of your possession for very long.

**Disadvantages of Short-Term Investments**
As mentioned above, short-term investments tend to be a bit riskier and show a much higher rate of fluctuation than their long-term counterparts. While there is a good chance that you'll make money with a short-term investment, there is also a chance that you'll lose money.

This is especially the case when dealing with the stock market, since many of the short-term investments made with stocks and bonds involve precision timing to sell when the stocks or bonds are at their peak just before they begin to drop.

**Advantages of Long-Term Investments**
Just the opposite of short-term investments, long-term investments have the ability to gain small amounts of money over a longer period of time. The slow but steady pace of long-term investments allow for a much greater degree of stability and a much lower risk than short-term investments. They are also ideal for making your savings or retirement fund grow. The investments usually continue to grow over the years, maturing just as you need them.

**Disadvantages of Long-Term Investments**
Of course, the main disadvantage of long-term investments is that they increase in value slowly and can take years to mature.

For those individuals who need a high yield in a short period of time, long-term investments are definitely not the way to go... between the fees that are associated with some types of investment and the small fluctuations that any investment will experience, many long-term investments might actually go down in value before they begin to climb over time. Additionally, with many of the long-term investments that you'll find, you tend to have much less control over your money until the investment matures... there are usually penalties or fines for early withdrawal or selling stocks and bonds through long-term investment programs.

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### Cash Investments Instruments – A Potential Short-Term Investment Strategy

#### Lesson No. M5.2

<table>
<thead>
<tr>
<th>lesson objectives:</th>
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<tbody>
<tr>
<td>After completing this lesson participants should be able to:</td>
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<tr>
<td>- Recognize the options for cash investments.</td>
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<tr>
<td>- Understand what are savings accounts, CDs, money market accounts, and money market funds.</td>
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<td>30 Minutes</td>
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<th>lesson teaching tips:</th>
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<tr>
<td>- Prior to this lesson, ask participants to collect bank ads describing their cash investment products.</td>
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<tr>
<td>- You can also go online to visit local or regional bank Web sites and gather from them the advertised cash investment products, interest rates, and terms.</td>
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<th>questions to generate discussion:</th>
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<tr>
<td>- What investment products are offered by our local banks?</td>
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<tr>
<td>- Let’s examine some of the local bank ads. What are the cash investments products offered by them?</td>
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<tr>
<td>- What are their terms and conditions?</td>
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<th>powerpoint slides thumbnails:</th>
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<table>
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<th>slide notes:</th>
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<tbody>
<tr>
<td>- Discuss the options.</td>
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<tr>
<td>- Ask participants to review local banks ads.</td>
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<tr>
<td>- Using bank ads, compute the annual yield of a $1,000 deposit in different types of accounts deposited at different banking institutions.</td>
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Certificates of Deposits (CDs)
A CD is a special type of deposit account with a bank or thrift institution that typically offers a higher rate of return compared to a regular savings account.

When you purchase a CD, you invest a fixed sum of money for a fixed period of time—six months, one year, five years, or more—and, in exchange, the issuing bank pays you interest, typically at regular intervals. When you cash in or redeem your CD, you receive the money you originally invested plus any accrued interest. But if you redeem your CD before it matures, you may have to pay an “early withdrawal” penalty.

Develop the discussion of CDs as investments by following the slide bullets.

Define the terms: “call features” and “maturity date.”

Use the local bank ads to discuss the CD products offered in your area.

Strongly recommend participants to make the suggested questions before investing their cash on a CD.

Closure:
- Review lesson objectives with participants.
- Remind participants to review different cash investment products before making any deposit; shop around.

Learning Assessment:
- Ask participants to list investment / savings options available to invest cash and what are their differences.
When investing your money, you will be placing money in many different types of cash investment instruments, including very safe and stable investments vehicles. This is especially necessary for money that you are going to need in the short-term (as compared to long-term investments, such as buying a house). This category includes bank savings accounts and money market mutual funds, some of the safest short-term investments.

When placing your money with a bank or money market fund, you earn interest, or yield, which fluctuates, depending on general rates of interest.

**Saving Accounts**

Savings accounts are accounts maintained by commercial banks, savings and loan associations, credit unions, and mutual savings banks that pay interest but cannot be used directly as money (by, for example, writing a check). These accounts let customers set aside a portion of their liquid assets that could be used to make purchases while earning a monetary return.

Obtaining funds held in a savings account may not be as convenient as from a demand account. For example, one may need to visit an ATM or bank branch, instead of writing a check or using a debit card. However, this transference is easy enough that savings accounts are often termed near money.

Some savings accounts require funds to be kept on deposit for a minimum length of time, but most permit unlimited access to funds. True savings accounts do not
offer check-writing privileges, although many institutions will call their higher-interest demand accounts or money market accounts "savings accounts."

All savings accounts offer itemized lists of all financial transactions, traditionally through a passbook, but also through a bank statement.

**Growth**
With the advent of the Internet, high-yield savings accounts have become more prevalent from virtual banks. The Internet savings account business model is to offer interest rates generally higher than those available at storefront banks while maintaining few if any retail locations and keeping customer service costs low through automated and computer systems. The growth of online high-yield accounts have pushed many brick and mortar banks to create their own high-yield savings accounts.
What are Money Market Accounts?

A money market account is a type of savings account offered by banks and credit unions just like regular savings accounts. The difference is that they usually pay higher interest, have higher minimum balance requirements (sometimes $1000-$2500), and only allow three to six withdrawals per month. Another difference is that, similar to a checking account, many money market accounts will let you write up to three checks each month.

With bank accounts, the money in a money market account is insured by the Federal Deposit Insurance Corporation (FDIC), which means that even if the bank or credit union goes out of business (which is very rare) your money will still be there. The FDIC is an independent agency of the federal government that was created in 1933 because thousands of banks had failed in the 1920s and early 1930s. Not a single person has lost money in a bank or credit union that was insured by the FDIC since it began. With credit unions, the money in a money market account is insured by the National Credit Union Administration (NCUA), a federal agency.

How Money Market Accounts Work?

When you put your money into a money market savings account it earns interest just like in a regular savings account. Interest is money the bank pays you so that they can use your money to fund loans to other people. That doesn't mean you can't have your money whenever you want it, though. That's just how banks make money -- by selling money! Basically, it works like this:

- You open a money market account at the bank.
- The bank pays you interest on the money that you deposit and leave in that account.
- The bank then loans that money out to other people, only they charge a slightly higher interest for the loan than what they pay you for your account.

The difference in interest they pay you versus the interest they charge others is part of how they stay in business.

Like a basic savings account, money market accounts let you withdraw your money whenever you want. However, you usually are limited to a certain number of withdrawals each month. Banks will usually charge a fee (typically around $5) if you don't maintain a certain balance in your money market account. There may also be a fee (typically around $5-10) for every withdrawal in excess of the maximum (usually six) the bank allows each month.
Because of these possible fees, you should always shop around and compare what different banks are offering. Things you should look at include:

- Fees and services charges on the account
- Minimum balance requirements
- Interest rate paid on your balance

What happens once you have a money market account?

With a money market account you'll get a small book called a register (like a checkbook register) where you write in your beginning balance (the amount you originally deposit) and all of your future deposits and withdrawals. This tool helps you keep track of how much money you have.

Each month, your bank (or credit union) will send you a statement of your account either in the mail or by e-mail if you prefer. The statement will list all of your transactions as well as any fees charged to your account and interest your money has earned. In order to make sure you didn't forget to write down any withdrawals and/or deposits (and also to double-check the bank's activities) you should go through each entry in your register and compare it with the bank statement. They should match up -- this process is called reconciling. If they don't, you'll need to find your mistake and correct it in your register (unless it is a bank error, but that isn't very likely).

The only other thing is to remember to make regular deposits into your money market account and sit back and watch your money grow even faster!

Money Market Funds:

Similar to bank savings accounts are money market funds. Money market accounts are available from mutual fund companies. They are similar, but you usually get a better return with money market funds. Also, since these funds are not held with a bank, they are not FDIC insured. However, they are invested in very short-term bonds, which tend to be less risky than longer-term bonds and invest in safe government investments, corporate commercial paper, and other related investments. In addition, they are regulated by the U.S. Securities and Exchange commission. Those money market mutual funds that invest exclusively in U.S. government securities have very little risk, while giving you better rates of return than typical bank savings accounts.

Characteristics of Money Market Funds

1. **Safety** – The instruments that these funds invest in are by and large some of the most stable and safe investments. Money market instruments provide a
fixed return with short maturity. By purchasing debt securities issued by banks, large corporations and the government, money market funds carry a relatively low default risk while still offering high returns in comparison to similar low-risk/liquid products.

2. **Low Initial Investment** – Money market instruments generally have large minimum purchase requirements, thereby disqualifying the majority of personal investors from buying them. Money market funds, on the other hand, have substantially lower requirements, which are sometimes even lower than average mutual fund minimum requirements. Without necessarily requiring copious amounts of cash for their purchases, money market funds allow you to take advantage of the safety related to money market instruments.

3. **Fixed Net Asset Value** – The net asset value (NAV) for money market funds is usually fixed at a constant value of $1 per unit, giving investors more flexibility than most mutual funds, which have a transaction-day-plus-three (T+3) settlement. Money market funds offer investors a same-day settlement similar to regular money market instruments.

**What are Certificates of Deposits (CDs)?**

Investors searching for relatively low-risk investments that can easily be converted into cash often turn to certificates of deposit (CDs). A CD is a special type of deposit account with a bank or thrift institution that typically offers a higher rate of interest than a regular savings account. Unlike other investments, CDs feature federal deposit insurance up to $100,000.2

Here’s how CDs work: When you purchase a CD, you invest a fixed sum of money for fixed period of time – six months, one year, five years, or more – and, in exchange, the issuing bank pays you interest, typically at regular intervals. When you cash in or redeem your CD, you receive the money you originally invested plus any accrued interest. But if you redeem your CD before it matures, you may have to pay an “early withdrawal” penalty or forfeit a portion of the interest you earned.

Although most investors have traditionally purchased CDs through local banks, many brokerage firms and independent salespeople now offer CDs. These individuals and entities – known as "deposit brokers" – can sometimes negotiate a higher rate of interest for a CD by promising to bring a certain amount of deposits to the institution. The deposit broker can then offer these "brokered CDs" to their customers.

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2 Source: U.S. Securities and Exchange Commission: Certificates of Deposit – Tips for Investors
http://www.sec.gov/investor/pubs/certific.htm
At one time, most CDs paid a fixed interest rate until they reached maturity. But, like many other products in today’s markets, CDs have become more complicated. Investors may now choose among variable rate CDs, long-term CDs, and CDs with other special features.

Some long-term, high-yield CDs have "call" features, meaning that the issuing bank may choose to terminate – or call – the CD after only one year or some other fixed period of time. Only the issuing bank may call a CD, not the investor. For example, a bank might decide to call its high-yield CDs if interest rates fall. But if you've invested in a long-term CD and interest rates subsequently rise, you'll be locked in at the lower rate.

Considerations when buying CDs

Before you consider purchasing a CD from your bank or brokerage firm, make sure you fully understand all of its terms. Carefully read the disclosure statements, including any fine print. And don't be dazzled by high yields. Ask questions – and demand answers – before you invest. These tips can help you assess what features make sense for you:

- **Find Out When the CD Matures** – As simple as this sounds, many investors fail to confirm the maturity dates for their CDs and are later shocked to learn that they've tied up their money for five, ten, or even twenty years. Before you purchase a CD, ask to see the maturity date in writing.

- **Investigate Any Call Features** – Callable CDs give the issuing bank the right to terminate-or "call"-the CD after a set period of time. But they do not give you that same right. If interest rates fall, the issuing bank might call the CD. In that case, you should receive the full amount of your original deposit plus any unpaid accrued interest. But you'll have to shop for a new one with a lower rate of return. Unlike the bank, you can never "call" the CD and get your principal back. So if interest rates rise, you'll be stuck in a long-term CD paying below-market rates. In that case, if you want to cash out, you will lose some of your principal. That's because your broker will have to sell your CD at a discount to attract a buyer. Few buyers would be willing to pay full price for a CD with a below-market interest rate.

- **Understand the Difference Between Call Features and Maturity** – Don't assume that a "federally insured one-year non-callable" CD matures in one year. It doesn't. These words mean the bank cannot redeem the CD during the first year, but they have nothing to do with the CD's maturity date. A "one-year non-callable" CD may still have a maturity date 15 or 20 years in the future. If you have any doubt, ask the sales representative at your bank or brokerage firm to explain the CD's call features and to confirm when it matures.
• **For Brokered CDs, Identify the Issuer** – Because federal deposit insurance is limited to a total aggregate amount of $100,000 for each depositor in each bank or thrift institution, it is very important that you know which bank or thrift issued your CD. Your broker may plan to put your money in a bank or thrift where you already have other CDs or deposits. You risk not being fully insured if the brokered CD would push your total deposits at the institution over the $100,000 insurance limit. (If you think that might happen, contact the institution to explore potential options for remaining fully insured, or call the FDIC.)

• **Find Out How the CD Is Held** – Unlike traditional bank CDs, brokered CDs are sometimes held by a group of unrelated investors. Instead of owning the entire CD, each investor owns a piece. Confirm with your broker how your CD is held, and be sure to ask for a copy of the exact title of the CD. If several investors own the CD, the deposit broker will probably not list each person's name in the title. But you should make sure that the account records reflect that the broker is merely acting as an agent for you and the other owners (for example, "XYZ Brokerage as Custodian for Customers"). This will ensure that your portion of the CD qualifies for up to $100,000 of FDIC coverage.

• **Research Any Penalties for Early Withdrawal** – Deposit brokers often tout the fact that their CDs have no penalty for early withdrawal. While technically true, these claims can be misleading. Be sure to find out how much you'll have to pay if you cash in your CD before maturity and whether you risk losing any portion of your principal. If you are the sole owner of a brokered CD, you may be able to pay an early withdrawal penalty to the bank that issued the CD to get your money back. But if you share the CD with other customers, your broker will have to find a buyer for your portion. If interest rates have fallen since you purchased your CD and the bank hasn’t called it, your broker may be able to sell your portion for a profit. But if interest rates have risen, there may be less demand for your lower-yielding CD. That means you would have to sell the CD at a discount and **lose some of your original deposit**—despite no "penalty" for early withdrawal.

• **Thoroughly Check Out the Broker** – Deposit brokers do not have to go through any licensing or certification procedures, and no state or federal agency licenses, examines, or approves them. Since anyone can claim to be a deposit broker, you should always check whether your broker or the company he or she works for has a history of complaints or fraud. You can do this by calling your state securities regulator or by checking with the National Association of Securities Dealers' "Central Registration Depository" at 1-800-289-9999.

• **Confirm the Interest Rate You’ll Receive and How You’ll Be Paid** – You should receive a disclosure document that tells you the interest rate on your CD and whether the rate is fixed or variable. Be sure to ask how often the bank pays interest – for example, monthly or semiannually. And
confirm how you’ll be paid – for example, by check or by an electronic transfer of funds.

- **Ask Whether the Interest Rate Ever Changes** – If you’re considering investing in a variable-rate CD, make sure you understand when and how the rate can change. Some variable-rate CDs feature a "multistep" or "bonus-rate" structure in which interest rates increase or decrease over time according to a preset schedule. Other variable-rate CDs pay interest rates that track the performance of a specified market index, such as the S&P 500 or the Dow Jones Industrial Average.

The bottom-line question you should always ask yourself is: does this investment make sense for me? A high-yield, long-term CD with a maturity date of 15 to 20 years may make sense for many younger investors who want to diversify their financial holdings. But it might not make sense for elderly investors.

Don’t be embarrassed if you invested in a long-term, brokered CD in the mistaken belief that it was a shorter-term instrument - you are not alone. Instead, you should complain promptly to the broker who sold you the CD. By complaining early you may improve your chances of getting your money back. Here are the steps you should take:

1. Talk to the broker who sold you the CD and explain the problem fully, especially if you misunderstood any of the CD’s terms. Tell your broker how you want the problem resolved.
2. If your broker can’t resolve your problem, then talk to his or her branch manager.
3. If that doesn’t work, then write a letter to the compliance department at the firm’s main office. The branch manager should be able to provide with contact information for that department. Explain your problem clearly, and tell the firm how you want it resolved. Ask the compliance office to respond to you in writing within 30 days.
4. If you’re still not satisfied, then send your complaint using a SEC online complaint form. Be sure to attach copies of any letters you’ve sent already to the firm. If you don’t have access to the Internet, please write to SEC at the address below:

Office of Investor Education and Advocacy  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549-0213
Lesson No. M5.3

Lesson Objectives:
After completing this lesson participants should be able to:
- Understand what stocks are
- Recognize the different types of stocks
- Understand how to buy and sell stocks
- Understand what are stocks dividends
- Understand what shareholders meetings are

Time Required: 40 Minutes

Lesson Teaching Tips
- Review the concepts of long-term and short-term investments and risk level.
- Suggest participants to go online and use the Stock Market Game [http://smgww.org/](http://smgww.org/). This is a simulation “game” where users are provided with $100,000 to invest. Participants will learn how the stock markets work and will be evaluated based on their investments yields.

Questions to Generate Discussion
- How can you own part of a publicly traded corporation?
- Do you know how and where to buy stocks?

PowerPoint Slides Thumbnails

Slide Notes
- Discuss the concept of stocks.
- Stocks investments are a long-term investment option if you buy and hold.
- Please note that we are not promoting day trading.
Discuss the different levels of stocks and their potential to generate yields.

Discuss the differences between the two types of stocks and the risks associated with each.

Stock prices are in general determined by the company past performance, the state of the economy, the economy future outlook, and by offer and demand forces, among others. In summary, it is a complex process.

Remind participants of the definition of market risk.
Emphasize on the fact that they should look long term.
### One of the first steps should be to select an investment professional and seek advice.

- Get advice on the type of industry and then the company you would like to invest in.

### Discuss the function of the stock brokers.

- Ask participants to look in their Yellow Pages area for available stock brokers, and to look at their credentials and services. Discuss the findings.

### Discuss the concept.

- Follow the discussion of the “practical example of stocks dividends” presented in the manual.

### Remind participants that as stock holders, they are “owners” of the company.

- Stock holders meetings are owners meetings where company decisions are made.
Most probably you will not be able to attend a stockholders meeting, then you will authorize another person to vote for you at the meeting following your desire actions.

**Closure:**
- Review lesson objectives with participants.
- Remind participants of the old adage “No pain no gain”. Investments in stocks can produce high yield but they carry a risk. Recommend to seek professional advice.

**Learning Assessment:**
- Ask participants to define what is a stock and how investing in stocks can help reaching their long-term financial goals.

**Reference Materials**
Introduction to Stocks:
A stock is a certificate that shows that you own a small fraction of a corporation. When you buy a stock, you are paying for a small percentage of everything that that company owns buildings, chairs, computers, etc. When you own a stock, you are referred to as a shareholder or a stockholder. In essence, a stock is a representation of the amount of a company that you own.

The benefit of owning stock in a corporation is that whenever the corporation profits, you profit as well. For example, if you buy stock in Coca Cola, and they come out with a new drink that everyone buys in massive quantities, then the company will profit tremendously, and so will you. A stock also gives you the right to make decisions that may influence the company. Each stock you own has a little bit of voting power, so the more stocks you own, the more decision making power you have.

In order to vote, you must either attend a corporate meeting or fill out a proxy ballot. A proxy ballot is a "substitute" for your absence at the corporate meeting. A ballot is a series of proposals that you may either vote for or against. Common questions are who should be on the board of directors, and whether or not to issue additional stock. You can profit more by making smart decisions, such as voting for a smarter board of directors. Also, if you think that issuing additional stock may increase the value of the stock, then you would vote for issuing additional stock.

There are four levels of stock you can purchase. The lowest level of stock are the penny stocks. Penny stocks are small companies that have almost no chance of making it big, and they are usually of no value. These stocks could be a local chain of stores or a company that does not provide anything desirable.

Moving up one level, there are the growth stocks. Growth stocks are new companies that have a lot of potential for success, but they are not stable, and do not always become successful. These growth stocks are not always a safe investment, since they are not well established. Secondary issues are well-established businesses that are almost totally insured to continue growing in strength. They are a good investment, since the profit can increase a lot, but finding the companies can be hard. The highest level of stocks you can buy are blue chip stocks. The older companies usually are blue chip, such as International Business Machines (IBM) and AT&T, and Coca Cola. These blue chip stocks are the safest investment you can make, but they also take a lot more time to profit with.
Types of Stocks

Blue chip, secondary issues, growth stock, and penny stock corporations can issue different types of stock. The basic two types of stock are common stock and preferred stock. Both types of stock have their pros and cons, so before buying a corporation's stock, you must decide which one pleases you most.

A common stock is the basic stock a corporation issues. It just shows that you own a fraction of the company. The common stocks are directly influenced by failures and successes of the company. Since there is a higher chance of making profit, common stock owners are issued their dividends or profits after the preferred stock.

After all the common stock has been issued, companies begin to distribute preferred stock. The preferred stock owners are given their dividends before the common stock owners are. Also, if the company goes out of business, and liquidates, the preferred stock owners are paid back the money they invested before the common stockholders are reimbursed. The main drawback of preferred stocks is that they cannot benefit as much from company profits because they are only paid a fixed dividend payment.

There are also classes of preferred stock. These different classes are often labeled A, B, C, and so on. The different classes usually have different market prices, restrictions, and dividend payments.

When no one is buying a stock because of a high price, companies will often issue a stock split. When they issue a stock split, a company gives you more stock for your money. They simply distribute more stocks, and decrease the price for a stock. This just allows someone who doesn't have as much money to invest in a company. If you own stock in a company that splits two for one, you would get twice the amount of stocks that you had before, but each stock will have decreased in value by 50 percent. Stocks can split into any number, but they can also reverse split, which means that the stocks double in value, but you only get to keep half the stocks you had before. In either split, you do not lose any money. It is just like trading in two five-dollar bills for one ten-dollar bill, or vice versa.
How are Stock Prices Determined?

Stock prices are set by a combination of factors that no analyst can consistently understand or predict. In general, economists say, they reflect the long-term earnings potential of companies. Investors are attracted to stocks of companies they expect will earn substantial profits in the future; because many people wish to buy stocks of such companies, prices of these stocks tend to rise. On the other hand, investors are reluctant to purchase stocks of companies that face bleak earnings prospects; because fewer people wish to buy and more wish to sell these stocks, prices fall.

When deciding whether to purchase or sell stocks, investors consider the general business climate and outlook, the financial condition and prospects of the individual companies in which they are considering investing, and whether stock prices relative to earnings already are above or below traditional norms.

Interest rate trends also influence stock prices significantly. Rising interest rates tend to depress stock prices -- partly because they can foreshadow a general slowdown in economic activity and corporate profits, and partly because they lure investors out of the stock market and into new issues of interest-bearing investments. Falling rates, conversely, often lead to higher stock prices, both because they suggest easier borrowing and faster growth, and because they make new interest-paying investments less attractive to investors.

A number of other factors complicate matters, however. For one thing, investors generally buy stocks according to their expectations about the unpredictable future, not according to current earnings. Expectations can be influenced by a variety of factors, many of them not necessarily rational or justified. As a result, the short-term connection between prices and earnings can be tenuous.

Momentum also can distort stock prices. Rising prices typically attract more buyers into the market, and the increased demand, in turn, drives prices higher still. Speculators often add to this upward pressure by purchasing shares in the expectation they will be able to sell them later to other buyers at even higher prices. Analysts describe a continuous rise in stock prices as a "bull" market. When speculative fever can no longer be sustained, prices start to fall. If enough investors become worried about falling prices, they may rush to sell their shares, adding to downward momentum. This is called a "bear" market.

Why the stock market goes up and down? – Market Risks

Why does the stock market go up and down? These fluctuations occur partly because companies make money, or lose money, but it is much more involved than that. A stock is only worth what someone will pay for it. Usually, if a company makes a lot of money, its value rises, because people are willing to pay
more for a company's stock if the company is doing well. There are many other factors that affect the value of stocks. One example is interest rates, or the amount of money you have to pay a bank to loan money, or how much it has to pay you to keep your money in their bank. If interest rates are high, stock prices generally go down, because if people can make a decent amount of money, by keeping their money in banks, or buying bonds, they feel like they should not take the risk in the stock market.

Many other factors have an effect on the stock market - for example, the state of the economy. If there is more money floating around, there is more flowing into companies making their prices rise. Yet another factor is the time of year and publicity. Many stocks are seasonal, meaning they do well during certain times of the year and worse during others. An example is an ice company, the ones that package ice that you buy at the supermarket. During the summer, with picnics, and sweltering heat, their product sells well, and thus their stock price goes up; But during the winter, when people are not as interested in a picnic with 20 below temperatures, their price goes down. Publicity has an effect on stock prices. If an article comes out saying that company ABC has just invented this new type of ice that will revolutionize the industry, odds are their price will increase. Conversely, if an article comes out saying that company ABC's president is a crook and stole the pension funds, it is a good bet that the price will go down.

How to Buy and Sell Stocks

The first step when buying stocks is to decide what company to buy stock in. You can buy stock in any publicly held corporation, which means that the public can control the corporation. You cannot buy stock in a privately held or closely held corporation, which are corporations that are controlled either by a small group of individuals or by close friends and family. Fortunately, most of the larger companies are publicly held, and you can buy from them. When selecting a company to invest in, you should make sure they are in a strong industry, and make sure the company is strong or growing. For example, Coca Cola Enterprises is a large company that is one of the strongest in the soft drinks industry. This would make it a good stock to invest in, although finding a newer company that is growing rapidly might get you more profits quicker. Choosing the company to invest in is no easy job, and there are many different methods people have come up with to select one. Fundamental analysis is one method, in which you study the company's current management and position in the market. Technical analysis is another method that is totally based on charts, in
which you identify trends the company has and invest accordingly. One popular method is just throwing darts at the stock page, which often beats out all the other methods.

After you decide what company to invest in, you need to find a broker. A broker is the only person that can make an order to buy or sell stocks. There are two types of brokers that every brokerage firm has. The first type of broker is a stockbroker, who researches investments, helps make goals, and give advice on investing. Discount brokers on the other hand, do not offer advice and do not research. They just are middle men in the transactions. When you give a stockbroker your order, they relay the order to the floor brokers. The floor brokers do all the actual buying and selling, and they hold a seat on the exchange.

After you find a broker and buy the stocks, the broker does the rest of the work. You just have to call him up and place an order with him. The most basic order is the market order, where you just ask the broker to buy or sell your stocks at the best price he can get his hands on. Another type of order that takes more research and predicting on your part is a limit order. In a limit order, you tell the broker to trade only when the stock is at a certain price or better. A stop order is an order that can save you from extreme loss. In a stop order, you tell the broker to sell your shares if the stock drops too low, and you tell him the price not to let it drop below.

What are Stock Dividends?

A stock dividend is a pro-rata distribution of additional shares of a company’s stock to owners of the common stock. A company may opt for stock dividends for a number of reasons including inadequate cash on hand or a desire to lower the price of the stock on a per-share basis to prompt more trading and increase liquidity (i.e., how fast an investor can turn his holdings into cash). Why does lowering the price of the stock increase liquidity? On the whole, people are more likely to buy and sell a $50 stock than a $5,000 stock; this usually results in a large number of shares trading hands each day.
A practical example of stock dividends:

Company ABC has 1 million shares of common stock. The company has five investors who each own 200,000 shares. The stock currently trades at $100 per share, giving the business a market capitalization of $100 million.

The Company Management decides to issue a 20% stock dividend. It prints up an additional 200,000 shares of common stock (20% of 1 million) and sends these to the shareholders based on their current ownership. All of the investors own 200,000, or 1/5 of the company, so they each receive 40,000 of the new shares (1/5 of the 200,000 new shares issued).

Now, the company has 1.2 million shares outstanding; each investor owns 240,000 shares of common stock. The 20% dilution in value of each share, however, results in the stock price falling to $83.33. Here’s the important part: the company (and our investors) are still in the exact same position. Instead of owning 200,000 shares at $100, they now own 240,000 shares at $83.33. The company’s market capitalization is still $100 million.

What are Shareholder Meetings?

Every state has routine requirements for corporations to hold shareholder meetings. Generally, shareholders are required to have (at least) an annual meeting.

Annual Meetings

The main purpose of this meeting is to elect the Directors of the corporation, but may include any other matter within shareholder control. Notice of the annual meeting must be in writing and sent to shareholders within a specified period of time, usually between 10 and 60 days prior to the meeting. Check your state’s corporation statute for the minimum notice requirements, the specifics of which should be set forth in your corporation’s bylaws.

Special Meetings

Special shareholder meetings are not actually special. They are meetings of the shareholders other than the annual meeting, which is required. The Board of Directors will call a special shareholder meeting when it has a significant item of corporate business that requires shareholder approval. Special meetings may be called as designated in the bylaws or state corporation statute, by the Board of Directors or by a shareholder who has ownership of a designated percentage of corporation stock. Similar to annual shareholder meetings, notice of special shareholder meetings is also required.
Unlike the annual shareholder meeting, the only subjects that may be considered at a special shareholder meeting are those stated in the notice of the meeting. Most states require shareholder approval of the following items:

- Merger or reorganization of the corporation;
- Amendment to the Articles of Incorporation;
- Amendment of the Bylaws (other than an amendment settling the precise number of Directors within the range established by the Bylaws or Articles of Incorporation);
- Sale or transfer of all or substantially all of the corporation's assets;
- Issuance of certain securities;
- Adoption of certain stock option plans;
- Dissolution or winding up of the Corporation.

**Shareholder Action by Consent**

States have acknowledged that there may be instances where it is difficult for shareholders to physically attend required meetings. As a result, shareholders may conduct business by written consent without holding a meeting. Check your state’s corporation statute to review its procedural requirements for written consent of shareholders without holding a meeting. The authorization for action by written consent is included in the bylaws.

**Voting**

Shareholder voting requirements are stated in each state's corporation statute and set forth in the corporation's bylaws. Some special voting requirements are set forth in the corporation's Articles of Incorporation.

**Record Date**

A record date is set by the Board of Directors for the purpose of determining whether shareholders may vote at a particular meeting. The record date also determines whether shareholders will receive dividends or participate in any corporation action.

**Quorum**

A quorum is based on the number of corporate shares issued and outstanding. If the bylaws are silent on these issues, a majority of shares will constitute a quorum. No action may be taken by shareholders in the absence of a quorum. And if a quorum is present, action may be taken by majority vote except for those actions specified in the Articles of Incorporation, bylaws, or state laws that require a greater percentage vote or supermajority.

**Proxy Voting**
A proxy is a written authorization given by one person to another so that the second person can act for the first, such as that given by a shareholder to someone else to represent him or her and vote his or her shares, as directed, at a shareholder meeting.

Shareholders may vote by proxy. The proxy must be in writing. A proxy counts for purposes of determining whether a quorum exists at a shareholder meeting.

**Minutes and Written Consent**

The actions taken by shareholders at annual and special meetings must be reflected in meeting minutes. Actions taken by written consent should also be reflected in the minutes.
What is a Bond?

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<td><strong>Lesson Objectives:</strong></td>
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<td>After completing this lesson, participants should be able to:</td>
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<tr>
<td>- Understand what is a bond</td>
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<td>- Recognize types of bonds</td>
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<td>- Know questions to ask when preparing to buy or sell bonds</td>
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<td>- Recognize where and how to buy bonds</td>
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**Time Required:** 40 Minutes

**Lesson Teaching Tips**

- Remind participants of the concepts of diversification, risk level, and financial-goals time frames.
- Investment in bonds is a long-term investment strategy which yields are low but fairly secure.
- Bonds investments help balance the risks of investing in stocks.

**Questions to Generate Discussion**

- What is a bond?
- Why we need to invest in bonds as part of our investments portfolio?

**PowerPoint Slides Thumbnails**

- Discuss the definition of a bond.
List the reasons.
- Emphasize in: low risk, steady income and potential tax advantages.

Discuss the two types of bonds.
- Some government bonds provide tax incentives for buyers, thus providing an addition financial incentive for investing.

Discuss the definitions of “bond maturity” and “call feature.”
- For more information about Moddys bond ratings click here.

Discuss the definition of “coupon.”
- Tax status: make sure participants recognize the fact that bond issued by municipal, state, or federal agencies have different tax incentives.

- First, capital preservation. Unless a company goes bankrupt, a bondholder can be almost completely certain that they will receive the amount they originally invested.
- Secondly, bonds pay interest at set intervals of time. Bonds can also have large tax advantage for some people. When a government or municipality issues various types of bonds to raise money to build bridges, roads, etc., the interest that is earned is tax exempt.

- There are two major types of bonds: taxable (government and corporate) and tax free (municipal).
- Corporate Bonds: are issued by companies to roll over through the public securities markets to help finance part of their business.
- Municipal Bonds or Tax Free Bonds can provide you with tax benefits: Income from municipal bonds is often exempt from federal income tax and, if invested in your state of residence, from state and local taxes.

- What is the maturity of the bond? A bond's maturity is the date at which the bond issuer legally agrees to repay your principal (or initial investment).
- Does it have early redemption features such as a call date? A “call date” feature is when a bond issuer exercises the right to repay, or “call,” the bond earlier than the bond’s maturity date.
- What is the credit quality? What is the rating? Is it issued? A bond's credit rating is an indicator of what the marketplace thinks of the bond issuer's ability to repay principal and interest on a timely basis.
- If a bond is insured that means there is an insurance company standing behind the offering that is guaranteeing to repay investors their principal and interest in case of a default.

- What is the interest rate, or coupon, of the bond? The “coupon” is the stated interest rate that the borrower agrees to repay you on your investment.
- What is the price? The price is how much it costs to purchase/invest in the bond.
- What is the tax status? Different bonds have different tax status. For example, interest income from U.S. Treasuries is exempt from state and local taxes. Interest made on municipal bonds is free from federal income taxes.
Discuss the concept of “directional status” in reference to bond rating.

Recommend participants to contact a brokerage firm to purchase corporate, state, or municipal bonds.

The acquisition of U.S. Securities can be made online by individuals.

### Closure:
- Review lesson objectives with participants.
- Review the advantages of including bonds as part of a diverse investment portfolio.
- Remind participants of the tax incentives associated with municipal bonds.

### Learning Assessment:
- Ask participants to define what bonds are, their advantages, and disadvantages.

### Reference Materials
- Bond Investing – FINRA
Bonds Basics:
A Bond is simply an 'IOU' (I owe you) in which an investor agrees to loan money to a company or government in exchange for a predetermined interest rate.

If a business wants to expand, one of its options is to borrow money from individual investors. The company issues bonds at various interest rates and sells them to the public. Investors purchase them with the understanding that the company will pay back their original principal plus any interest that is due by a set date (this is called the "maturity").

A bondholder is mailed a check from the company at set intervals (for example, every month) until the "loan" is paid off.

The interest a bondholder earns depends on the strength of the corporation. For example, a blue chip is more stable and has a lower risk of defaulting on its debt.

When companies such as Exxon Mobile, General Electric, etc., issue bonds, they may only pay 7% interest, while a much less stable start-up pays 10%. A general rule of thumb when investing in bonds is "the higher the interest rate, the riskier the bond."

Who can issue bonds? Governments, municipalities, a variety of institutions, and corporations. "Commercial Paper" is simply referring to bonds issued by companies.

There are many types of bonds, each having different features and characteristics. A few of the most notable are zero coupon and convertible.

Why Would Anyone Invest in Bonds?
Most everyone knows that over the long run, nothing beats the stock market. This being the case, why would anyone invest in bonds? Although they pale in comparison to equities in the long run, bonds have several traits that stocks simply can't match.

First, capital preservation. Unless a company goes bankrupt, a bondholder can be almost completely certain that they will receive the amount they originally invested. Stocks, which are subordinate to bonds, bear the brunt of unfavorable developments.

Secondly, bonds pay interest at set intervals of time, which can provide valuable income for retired couples, individuals, or those who need the cash flow. For instance, if someone owned $100,000 worth of bonds that paid 8% interest annually (that would be $8,000 yearly), a fraction of that interest would be sent to the bondholder either monthly or quarterly, giving them money to live on or invest elsewhere.
Bonds can also have large tax advantage for some people. When a government or municipality issues various types of bonds to raise money to build bridges, roads, etc., the interest that is earned is tax exempt. This can be especially advantageous for those whom are retired or want to minimize their total tax liability.

**Types of Bonds**

There are two major types of bonds: taxable (government and corporate) and tax free (municipals).

**Corporate Bonds**

*Corporate Bonds* are issued by companies to sell debt through the public securities markets to help finance part of their business. A company then decides how much debt it wants to issue and what interest rate it will pay. High-yield bonds, also called junk bonds, are corporate bonds issued by companies whose credit quality is below investment grade. While junk bonds are considered to have higher risk than most bonds, they also have the potential of yielding high returns. Another type of corporate bond, convertible bonds, are bonds that can be converted into stock at a prestated price if certain qualifications are met.

**State and Municipal Bonds**

Municipal Bonds or Tax Free Bonds can provide you with tax benefits. Income from municipal bonds is often exempt from federal income tax and, if issued in your state of residence, from state and local taxes.

For some high-income taxpayers, income from certain municipal bonds may be subject to the alternative minimum tax, or AMT. Municipal bonds are often considered by investors in higher tax brackets because the higher your tax bracket, the higher pretax yield you would have to earn on a taxable bond to have the same after-tax income provided by a municipal bond.

**Questions to Ask When Preparing to Buy or Sell Bonds**

After having determined your overall investment strategy and educating yourself on the basics of bond transactions, you are ready to begin seriously evaluating the purchase or sale of a bond. Following are key questions that you should consider before buying or selling bonds. It may be helpful to print this section so you can complete the shaded boxes with information from the bond issue you are considering for investment. As always, working with a financial professional may help you identify your investment goals and the instruments that will help you achieve those goals.
The bond’s maturity date
is:____

What is the maturity of the bond?

A bond’s maturity is the date at which the bond issuer legally agrees to repay your principal (or initial investment). You need to know what the bond’s maturity is to factor into your overall investment objectives. For example, if you need to have access to the principal you are investing within 5 years then you might not want to invest in a bond with a 10-year maturity.

This bond does/does not have a call date: _____

Does it have early redemption features such as a call date?

A “call date” feature is when a bond issuer retains the right to repay, or “call” the loan earlier than the bond’s maturity date. Having a callable bond means that you may not earn as much interest on the bond investment as you had expected. Check to see if you are investing in a callable bond and consider what types of bonds you may want to think about investing in advance to offset any potential decrease in interest income if the bond is called.

The bond’s credit rating is: _____
The bond is/is not insured: _____

What is the credit quality? What is the rating? Is it insured?

A bond’s credit rating is an indicator of what the marketplace thinks of the bond issuer’s ability to repay principal and interest on a timely basis. It is very important to know if you are considering an investment grade bond or high-yield (and higher rate of risk) bond. If a bond is insured that means that there is an insurance company standing behind the offering that is guaranteeing to repay investors their principal and interest in a timely manner should the company, state or municipality issuing the bond, default. Investors can also purchase insurance on secondary market bond purchases.

The bond’s coupon is: _____

What is the interest rate, or coupon, of the bond?

The “coupon” is the stated interest rate that the borrower agrees to repay you on your investment.

The bond’s price is: _____
What is the price?

The stated price is how much it costs to purchase/invest in the bond issue. What is the yield to maturity? And what is the yield to call? A bond’s “yield to maturity” is the rate of return that you can expect until the bond matures or will be repaid. The “yield to call” is the rate of return you are guaranteed until the earliest date at which the bond may be called or repaid.

*The bond’s yield to maturity is: _____

*The bond’s yield to call is: _____

What is the tax status?

Different bonds have different tax status. For example, interest income from U.S. Treasuries is exempt from state and local taxes. Interest made on municipal bonds is free from federal income taxes, and some states will also drop state and local income taxes (in that case your interest income is “triple tax free”). The trade-off for tax breaks associated with certain bonds is that often you will get a lower interest rate than you may find with other taxable bonds. How much the tax break is worth to you depends on your income tax bracket and the state in which you live. It is always a good idea to consult an accountant and/or other financial professional before making investments that carry tax implications.

*The bond’s tax status is: _____

What will the actual yield be after my broker has taken out his/her commission and fees?

Calculating a bond’s yield is relatively simple:
Annual Interest ÷ Price = Yield

However, the yield you have just calculated above does not reflect any fees charged for the transaction, or your broker’s commission, which is figured as a percent of the purchase or sale. Ask your broker what his or her commission is and what, if any fees are associated with this transaction.

*The bond’s yield will be: _____

*My broker’s commissions and fees for this bond purchase/sale will be: _____

What is this bond’s credit rating and “directional outlook”?

Remember that a bond’s credit rating gives you insight into the ability of the issuer to repay your investment in a timely manner. The higher the rating (AAA being the highest), the lower the risk; conversely, the lower the rating, the higher
the risk of default (nonpayment) by the issuer. You can learn more about a bond issuer’s creditworthiness from reading its prospectus. In the prospectus you can learn how the issuer intends to raise money to repay the investment. A bond’s directional outlook is in what direction the market forecasts the bond being perceived in the future. A bond’s outlook affects its marketability (how much investors are willing to pay for the bond in the marketplace). While the market is constantly fluctuating, it can be helpful to know what the current outlook is on the bond(s) you are considering for your portfolio so that you have an idea of how the market might respond when you are ready to sell the bond.

*The bond’s credit rating is: _____*
*The bond’s directional outlook is: _____*

**Are there any call features or other unique features on this prospective bond?**

A call feature is a provision in the bond whereby the issuer retains the right to repay the investment before maturity. Calling the bond forces an investor to look for another investment, typically one that offers a lower interest rate.

*You may want to list any features associated with this bond: _____*

**What is the transaction type for this bond?**

When you purchase, or sell a bond, you will want to know whether or not this bond is being offered to investors for the first time (a new issue) or if this is an older, existing bond (a secondary market transaction) meaning that the broker-dealer will either sell the existing bond from its own inventory or go out into the market to find the bond in which you want to invest. Newer issue bonds may be more difficult to invest in since you are competing with large institutions as well as professional investors. Secondary market transactions may carry a markup if your broker needs to go outside his/her firm’s inventory (if they carry one) to purchase the bond from another broker to resell to you.

**Perspective**

These are the key variables to look at when preparing to buy or sell bonds. Together these factors help determine the value of your bond investment and the degree to which it may match your financial objectives.

**Where and how you buy bonds?**

Almost all investors who buy bonds buy them because they are generally safe investments. However, except for bonds from the federal government, bonds carry the potential risk of default, no matter how remote that risk might be. Whether it is a high-yield corporate bond or a bond sold by the sovereign state of
Virginia, there is always a chance that the entity that borrowed the money will not be able to make the interest payment.

Bond ratings were developed as a way to indicate how financially stable the issuer of the bonds really is. Developed by third parties like Standard and Poor’s and Moody’s, bond-rating services give bonds letter or mixed letter and number ratings based on the financial soundness of the bond issuer. To complicate things, the rating agencies use entirely different rating systems, making it very important that you check what the ratings mean before you make any assumptions. The higher the rating, the higher the quality of the bond, with Treasury bonds being rated the highest and "junk" bonds being those with the lowest ratings.

Depending on the bond, it can either trade very frequently at a low commission or it may be very difficult to find a buyer or seller and involve large transaction costs. "Liquidity" is the term used to describe how easy it is to sell something. Highly liquid bonds include U.S. Treasuries, which trade billions of dollars worth every day. Liquid bonds would include the bonds of a company viewed as close to bankruptcy. Because it is no longer a safe investment, only those speculating that there will be a corporate turnaround are willing to buy those bonds, meaning they trade a lot less frequently. Liquidity has a direct effect on the commission you pay to trade a bond, which unlike stocks, rarely trade on a fixed commission schedule.

**Use a Brokerage.** The most common way to buy bonds, much like stocks, is to use a brokerage account. You can either use a full-service (or full-price) broker or a discount broker to execute your trades. Bond commissions vary widely from brokerage to brokerage, so it does not hurt to shop around a little before making your decision. Through a brokerage, you can buy anything from a 30-year Treasury to a 3-month junk bond issued by a corporation on the edge of bankruptcy. You can either participate in the direct offering of the bonds or pick them up in the secondary market, depending on your brokerage.

**TreasuryDirect.** In an effort to make it easier for citizens to buy U.S. government bonds, the Bureau of the Public Debt started the TreasuryDirect program. This program enables individuals to purchase bonds directly from the Treasury, completely avoiding a brokerage. Investors can establish a single TreasuryDirect account that will hold all of their Treasury notes, bills, and bonds. Investors are issued account statements periodically. Interest and the repayment of principal are made electronically via direct deposit to a bank or brokerage designated by the account holder. As long as the investor has enough money, he can buy any type of Treasury security he wants. Additionally, you can transfer bonds to and from your account as you desire. The Bureau also allows you to direct deposit payments, reinvest money after a bond matures, and sell bonds for a flat fee of $34. To learn more, visit [TreasuryDirect](https://www.treasurydirect.gov) on the Web.
### U.S. Treasury Securities

<table>
<thead>
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<th>Lesson No. M5.5</th>
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<td><strong>Lesson Objectives:</strong></td>
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<tr>
<td>After completing this lesson participants should be able to:</td>
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<tr>
<td>• Understand what are U.S. Securities</td>
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<tr>
<td>• Recognize the options available in U.S. Securities</td>
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<tr>
<td>• Understand how and where to buy U.S. Securities</td>
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| Time Required: 30 Minutes |

<table>
<thead>
<tr>
<th>Lesson Teaching Tips</th>
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<tr>
<td>• Review the definition of bonds.</td>
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<tr>
<td>• If possible, connect your computer to the Internet to visit U.S. Treasury Securities Web sites.</td>
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<table>
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<tr>
<th>Questions to Generate Discussion</th>
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<tr>
<td>• What are U.S. Securities?</td>
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<td>• Do you know the advantages of investing in U.S. Securities?</td>
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<td>• Where can you buy U.S. Securities?</td>
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<th>PowerPoint Slides Thumbnails</th>
<th>Slide Notes</th>
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<tr>
<td>• Treasury securities are debt obligations of the U.S. government, and generally considered the safest of all investments.</td>
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<tr>
<td>• In summary, U.S. Treasury securities are:</td>
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<tr>
<td>• Are a debt of the U.S. government</td>
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<td>• Are easy to buy</td>
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<tr>
<td>• Generally pay higher interest rates than bank accounts</td>
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<tr>
<td>• Are exempt from state and local taxes.</td>
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<tr>
<td>• Discuss what U.S. Securities are.</td>
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<tr>
<td>• Discuss the advantages related to investing in U.S. Securities.</td>
<td></td>
</tr>
<tr>
<td>• Remind participants that U.S. Treasury Securities yield are lower than stocks but higher than bank accounts.</td>
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</tbody>
</table>
This slide presents the types of U.S. Treasury Securities to be discussed.

Use this slide bullets to present each of the types of U.S. Treasury Securities.

Present what U.S. Savings Bonds are and their advantages.

I Bonds are long-investment options, they are protected from inflation and are a better alternative to investing on CDs.
Investments: Resources for Reaching the American Dream

US Securities (4)

- Present the tax advantages of EE Bonds and their benefits when used to cover educational expenses.

- Discuss if you are concerned whether Inflation TIPS are a secure investment option.

INVESTMENTS

Treasury Securities and Inflation

- Treasury Inflation Protected Securities (TIPS) are linked to the inflation rate. They are available with terms of five, 10, and 20 years.
- When your security matures, the Treasury pays you the inflation-adjusted principal or the original principal, whichever is greater.
- TIPS pay a fixed rate of interest.

Closure:

- Review lesson objectives with participants.
- Reaffirm the notion that investing on U.S. Treasury Securities is a sound and safe investment strategy, but their yield might be lower than stocks.

Learning Assessment:

- Ask participants to define what U.S. Treasury securities are and the advantages of investing on them.

Reference Materials

- US Treasury Securities Frauds, Phonies, & Scams
  http://www.treasurydirect.gov/instit/statreg/fraud/fraud.htm
Treasury securities are debt obligations of the U.S. government, and generally considered the safest of all investments. This is because U.S. Treasury securities are “backed by the full faith and credit of the U.S. government.” (OK, we know what you’re probably thinking about how well the U.S. government keeps promises. But things are different when it comes to their own securities. The entire government would collapse if they failed to pay off their bonds.) In all Treasury security relationships, you are lending money to the U.S. government, and the government promises to pay you back, with interest.

There are huge markets in Treasury securities, so they are very “liquid,” meaning they can be bought and sold easily, quickly, and with a modest transaction cost. Since Treasury securities are so safe and liquid, they pay lower interest rates than most other securities that mature in the same length of time. Treasury securities can be purchased through a brokerage firm or directly from the United States Treasury. One other advantage of Treasury securities: the interest they pay is exempt from state and local taxes. You have to pay federal taxes on that interest, but not state and local taxes.

In summary, U.S. Treasury securities

- Are a debt of the U.S. government
- Are considered to be the safest of all investments
- Are easy to buy
- Generally pay higher interest rates than bank accounts
- Are exempt from state and local taxes

We will now discuss six types of U.S. Treasury securities:

- Treasury Bills
- Treasury Notes
- Treasury Bonds
- Treasury Inflation Protected Securities
- Treasury I Bonds, and
Treasury E Bonds

Treasury Bills, or T-Bills for short, are short-term investments—sometimes referred to as “obligations” because the federal government is obligated to repay them—issued with maturities of four weeks, 13 weeks, and 26 weeks. T-Bills are sold at a discount and mature at face value. For example, you could purchase a 52 week T-Bill for, say, $9,700 with a face value of $10,000. When the T-Bill reaches maturity, you can cash it in for the $10,000 face value. By doing so, you've earned $300 in interest.

Treasury Notes, sometimes called T-Notes, earn a fixed rate of interest every six months until maturity. Notes are issued in terms of 2, 5, and 10 years. They are sold at face value in $1,000 denominations and pay interest semiannually (twice a year).

Treasury Bonds are long-term investments, issued with terms of 30 years maximum. They are sold at face value in $1,000 denominations and pay interest semiannually (twice a year). The longest time they run for is 30 years.

Savings Bonds

Some Treasury Bonds are called “Savings Bonds.” They are a great way to save for the long term, and some of us may remember when our grandmother bought us a savings bond that we could cash out 10 or 20 or 30 years later.

Today there are three types of Savings Bonds: I Bonds, Series EE Savings Bonds, and Series HH Savings Bonds. These savings bonds are known as “nonmarketable securities.” This means you cannot sell Savings Bonds to or buy them from anyone except an issuing and paying agent authorized by the U.S. Treasury Department. There is no secondary market in them.

I Bonds and Series EE Savings Bonds are discussed elsewhere. They earn interest at variable rates and it is accrued, which means that you don’t receive your interest until you redeem the bond. Until then, your interest compounds. Series HH Savings Bonds, on the other hand, pay interest semiannually, and when you redeem them, you receive the same amount of money that you invested in the first place.

You can purchase these Savings Bonds directly from the U.S. Treasury Department (www.TreasuryDirect.gov) or from a bank.

I Savings Bonds

I Bonds are another low-risk, liquid security backed by the U.S. government. Like Treasury Inflation Protected Securities (TIPS), I Bonds pay interest and help protect your savings from inflation. They differ from TIPS in that you can purchase smaller amounts of I Bonds, and the way they protect you against
inflation is a little different. I Bonds are sold at face value, which means that you pay $50 for a $50 bond. You can purchase them in amounts of $25 or more with a $30,000 maximum purchase in any one calendar year. I Bonds have a maturity of 30 years. If you redeem I Bonds within the first five years, you'll forfeit the three most recent months' interest; if you redeem I Bonds after five years, you won't be penalized. I Bonds protect you against inflation by paying two separate interest rates:

- a fixed rate that stays the same for 30 years (set when the bond is purchased)
- an inflation rate that changes every six months

The semiannual inflation rate is determined each May 1 and November 1. It is the percentage change in the Consumer Price Index for all Urban Consumers (CPI-U) over six months. Each semiannual inflation rate applies to all outstanding I Bonds for six months. Then it is reset.

So, for example, you might purchase an I Bond with a fixed interest rate of 1.2% with an additional inflation rate of 1.8%. The total rate of return would be 3% (until the next inflation rate is set in six months, at which time it may change.)

**EE/E Savings Bonds**

**EE Bonds** (formerly E Bonds) are a type of savings bonds with special advantages when used to pay higher education expenses. In 1990, the Treasury Department announced the “Education Bond Program.” This program allows interest earned on EE Bonds to be completely or partially excluded from federal income tax the year the bonds are redeemed when 1) the bond owner pays qualified higher education expenses at an eligible higher education institution, or 2) the bond owner pays into an eligible state tuition plan. EE Bonds can be used for noneducational purposes also, and they are exempt from state and local tax.

**Treasury Securities and Inflation**

**Treasury Inflation Protected Securities (TIPS)** are linked to the inflation rate. They are available with terms of five, 10, and 20 years. You can hold a TIPS to maturity or sell it before it matures. Here’s how TIPS are tied to inflation: every six months, the U.S. Treasury adjusts the principal value of TIPS based on changes in the Consumer Price Index, and pays interest on the new, often higher value of the TIPS. If inflation occurs, the principal increases. If deflation occurs, the principal decreases.3

When your security matures, the Treasury pays you the inflation-adjusted principal or the original principal, whichever is greater. TIPS pay a fixed rate of

3 Source: Building Native Communities: Investing in the Future. First Nations Development Institute
interest. The interest rate is applied to the inflation-adjusted principal. If inflation occurs throughout the life of your security, every interest payment will be greater than the one before it. In the unlikely event of severe deflation (falling prices), interest payments would decrease in value.

When you purchase a TIPS, you don’t just see a price and interest rate and decide whether or not to purchase one. Instead, you participate in an auction, where the U.S. Treasury is selling huge amounts of securities to pay the government’s bills. This auction will determine the rates that the government pays on the TIPS that it is selling. The Treasury holds about 200 auctions a year. You decide how much you want to purchase, starting with a $1,000 minimum with increments of $1,000, and put in your order. You will get the interest rate that everyone else gets in the auction.

You can hold a TIPS until maturity or sell it at the market price at any time. There is a $45 fee for selling it before maturity; there is no fee if you wait until it matures. If you go through a broker, the fees may vary, so ask in advance.

**Purchase of U.S. Treasury Securities**

The U.S. Treasury has done an excellent job in recent years of opening up the huge and useful U.S. Treasury market to small investors. You can purchase various maturities of Treasury securities through its “TreasuryDirect” program, at its Web site: www.TreasuryDirect.gov. It works like this: you open an account on their Web site and link it to your bank account. When you purchase a security, the amount is deducted directly from your account. Then, when the security pays interest, that interest goes directly into your bank account.

If you don’t use the Internet, you can call the TreasuryDirect toll free number (800-722-2678) to get your regional Customer Contact Center. If you open an account directly with the U.S. Treasury, you can hold not only TIPS but also other Treasury securities. You can also buy EE Bonds and I Bonds through most financial institutions, banks, or brokers, and through a payroll deduction plan where you work, or use the new payroll feature on www.TreasuryDirect.gov.

If you need to sell your Treasury securities before they mature, visit your online account and go to Sell Direct. From there, Treasury will obtain quotes from different brokers, sell at the highest price, and deposit the proceeds directly into your bank account. The process usually takes only a couple of days.
What are Mutual Funds?

Lesson No. M5.6

Lesson Objectives:
After completing this lesson participants should be able to:
- Understand what mutual funds are
- Recognize the advantages and disadvantages of mutual funds
- Recognize the different types of mutual funds
- Understand how to buy and sell mutual funds
- Understand factors to consider when developing your long-term investment strategy based on mutual funds

Time Required: 45 Minutes

Lesson Teaching Tips
- This is a long and complex lesson. It is highly recommended to study it carefully and study all reference materials.
- You might want to divide this lesson in two parts with a break in between.

Questions to Generate Discussion
- What are mutual funds?
- What are the advantages and disadvantages of mutual funds?

PowerPoint Slides Thumbnails

Slide Notes
- Discuss what mutual funds are.
- Learn more at: What are Mutual Funds from AARP.
## Important Aspects of Mutual Funds

- Mutual funds are not guaranteed or insured by the FDIC or any other government agency;
- Past performance is not a reliable indicator of future performance;
- All mutual funds have costs that lower your investment returns.

## How Mutual Funds Work

Some of the traditional, distinguishing characteristics of mutual funds include the following:
- Investors purchase mutual fund shares from the fund itself (or through a broker for the fund) instead of from other investors on a secondary market.
- The price that investors pay for mutual fund shares is the fund’s per share net asset value (NAV) plus any shareholder fees that the fund imposes at the time of purchase.
- Mutual fund shares are “redemptions,” meaning investors can sell their shares back to the fund.

## How Mutual Funds Work (2)

- Mutual funds generally create and sell new shares to accommodate new investors.
- The investment portfolios of mutual funds typically are managed by separate entities known as “investment advisers” that are registered with the SEC.

## Advantages and Disadvantages of Mutual Funds

### Advantages
- Professionally Managed
- Diversified
- Affordability — Some mutual funds accommodate investors who don’t have a lot of money to invest by setting relatively low dollar amounts for initial/minimum.
- Liquidity — Mutual funds investors can easily release their shares at the current net asset value (NAV).

### Disadvantages
- Costs Despite Negative Returns — Investors must pay sales charges, annual fees, and other expenses regardless of how the fund performs.
- Lack of Control — Investors typically cannot influence the asset breakdown of a fund’s portfolio at any given time.
- Price Volatility — the price at which you purchase or sell shares will typically depend on the fund’s NAV.

## Mutual funds are not risk free.

When buying mutual funds, you will be paying a fee that in turn could lower your return.

• The following two slides discuss how mutual funds work.

• More about how mutual funds work.

• In general, mutual funds are very attractive to many investors because of their advantages.
Participants must recognize that the various types of funds carry different risks levels.

In general, there are three basic types of funds: money market funds, bond funds, and stocks funds.

These funds have lower risks as compared to other mutual funds.

Inflation could be a factor impacting the yield of this fund.

Emphasize that the higher the potential yield the higher the level of risk.

These funds can potentially yield higher interest rates than other funds.

Indicate that stock funds have the highest performance but at a high risk.
Recommend to get advice for their investment advisor.

Emphasize that you can purchase share from the fund and sell them back to the fund.

This slide discusses the three main ways mutual funds generate revenue for the investor.

The following three slides present a number of factors to consider when developing a long-term investment strategy based on mutual funds.

Among the elements to consider: fund risk level and fees.

This slide presents some of the fees a fund can impose to investors.

These fees may reduce the net yield of the shares.

Recommend to get advice for their investment advisor.

Emphasize that you can purchase share from the fund and sell them back to the fund.

This slide discusses the three main ways mutual funds generate revenue for the investor.

The following three slides present a number of factors to consider when developing a long-term investment strategy based on mutual funds.

Among the elements to consider: fund risk level and fees.

This slide presents some of the fees a fund can impose to investors.

These fees may reduce the net yield of the shares.
These are additional fees and expenses to consider when buying mutual funds.

There are three classes of funds.

Each class has different fees and expenses and differ in performance.

Discuss differences in tax implications between stocks and mutual funds.

To avoid problems use common sense: get as much information as possible about the fund.

Where? In the prospectus (define what is a prospectus?).

- Annual Fund Operating Expenses
  - Management fees — fees that are paid out of fund assets to the fund’s investment advisor for investment portfolio management.
  - Distribution [and Service] fees (“12b-1” fee) — fees paid by the fund out of fund assets when the costs of marketing and selling fund shares are reasonable in the cost of providing shareholder services.
  - Other Expenses — expenses not included under “Management Fees” or “Distribution or Service (12b-1)” fees.
- Total Annual Fund Operating Expenses (“Expense Ratio”) — the line of the tabular that represents the total of all of a fund’s annual fund operating expenses, expressed as a percentage of the fund’s average net assets.

A multi-class structure offers investors the ability to select a fee and expense structure that is most appropriate for their investment goals:
- Class A Shares — Class A shares typically impose a front-end sales load. They also tend to have a lower 12b-1 fee and lower annual expenses than other mutual fund share classes.
- Class B Shares — Class B shares typically do not have a front-end sales load. Instead, they may impose a contingent deferred sales load and a 12b-1 fee.
- Class C Shares — Class C shares might have a 12b-1 fee, lower annual expenses, and either a front- or back-end sales load.

Discuss differences in tax implications between stocks and mutual funds.

To avoid problems use common sense: get as much information as possible about the fund.

Where? In the prospectus (define what is a prospectus?).
This slide presents other sources of information to determine the potential performance of funds and their costs.

Closure:

- Review lesson objectives with participants.
- As a closing statement, suggest participants to closely examine the possibility to invest on mutual funds as one of the options for developing their long-term investment strategy.

Learning Assessment:

- Ask participants to define what mutual funds are and their advantages and disadvantages.

Reference Materials

- Mutual Funds – FINRA
Mutual Funds Basics:
Over the past decade, American investors increasingly have turned to mutual funds to save for retirement and other financial goals. Mutual funds can offer the advantages of diversification and professional management. But, as with other investment choices, investing in mutual funds involves risk. And fees and taxes will diminish a fund’s returns. It pays to understand both the upsides and the downsides of mutual fund investing and how to choose products that match your goals and tolerance for risk.  

Important Aspects of Mutual Funds

- Mutual funds are not guaranteed or insured by the FDIC or any other government agency — even if you buy through a bank and the fund carries the bank’s name. You can lose money investing in mutual funds.
- Past performance is not a reliable indicator of future performance. So don’t be dazzled by last year’s high returns. But past performance can help you assess a fund’s volatility over time.
- All mutual funds have costs that lower your investment returns. Shop around, and use a mutual fund cost calculator at www.sec.gov/investor/tools.shtml to compare many of the costs of owning different funds before you buy.

How Mutual Funds Work - What They Are

A mutual fund is a company that pools money from many investors and invests the money in stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. The combined holdings the mutual fund owns are known as its portfolio. Each share represents an investor’s proportionate ownership of the fund's holdings and the income those holdings generate.

Other Types of Investment Companies

Legally known as an "open-end company," a mutual fund is one of three basic types of investment companies. While this brochure discusses only mutual funds, you should be aware that other pooled investment vehicles exist and may offer features that you desire. The two other basic types of investment companies are:

Closed-end funds — which, unlike mutual funds, sell a fixed number of shares at one time (in an initial public offering) that later trade on a secondary market; and

Unit Investment Trusts (UITs) — which make a one-time public offering of only a specific, fixed number of redeemable securities called "units" and which will terminate and dissolve on a date specified at the creation of the UIT.

"Exchange-traded funds" (ETFs) are a type of investment company that aims to achieve the same return as a particular market index. They can be either open-end companies or UITs. But ETFs are not considered to be, and are not permitted to call themselves, mutual funds.

Some of the traditional, distinguishing characteristics of mutual funds include the following:

- Investors purchase mutual fund shares from the fund itself (or through a broker for the fund) instead of from other investors on a secondary market, such as the New York Stock Exchange or Nasdaq Stock Market.

- The price that investors pay for mutual fund shares is the fund's per share net asset value (NAV) plus any shareholder fees that the fund imposes at the time of purchase (such as sales loads).

- Mutual fund shares are "redeemable," meaning investors can sell their shares back to the fund (or to a broker acting for the fund).

- Mutual funds generally create and sell new shares to accommodate new investors. In other words, they sell their shares on a continuous basis, although some funds stop selling when, for example, they become too large.

- The investment portfolios of mutual funds typically are managed by separate entities known as "investment advisers" that are registered with the SEC.

A Word About Hedge Funds and "Funds of Hedge Funds"

"Hedge fund" is a general, nonlegal term used to describe private, unregistered investment pools that traditionally have been limited to sophisticated, wealthy investors. Hedge funds are not mutual funds and, as such, are not subject to the numerous regulations that apply to mutual
funds for the protection of investors — including regulations requiring a certain degree of liquidity, regulations requiring that mutual fund shares be redeemable at any time, regulations protecting against conflicts of interest, regulations to assure fairness in the pricing of fund shares, disclosure regulations, regulations limiting the use of leverage, and more.

"Funds of hedge funds," a relatively new type of investment product, are investment companies that invest in hedge funds. Some, but not all, register with the SEC and file semiannual reports. They often have lower minimum investment thresholds than traditional, unregistered hedge funds and can sell their shares to a larger number of investors. Like hedge funds, funds of hedge funds are not mutual funds. Unlike open-end mutual funds, funds of hedge funds offer very limited rights of redemption. And, unlike ETFs, their shares are not typically listed on an exchange.

You'll find more information about hedge funds on our Web site. To learn more about funds of hedge funds, please read FINRA's Investor Alert entitled Funds of Hedge Funds: Higher Costs and Risks for Higher Potential Returns.

Advantages and Disadvantages of Mutual Funds

Every investment has advantages and disadvantages. But it's important to remember that features that matter to one investor may not be important to you. Whether any particular feature is an advantage for you will depend on your unique circumstances. For some investors, mutual funds provide an attractive investment choice because they generally offer the following features:

- **Professional Management** — Professional money managers research, select, and monitor the performance of the securities the fund purchases.

- **Diversification** — Diversification is an investing strategy that can be neatly summed up as "Don't put all your eggs in one basket." Spreading your investments across a wide range of companies and industry sectors can help lower your risk if a company or sector fails. Some investors find it easier to achieve diversification through ownership of mutual funds rather than through ownership of individual stocks or bonds.

- **Affordability** — Some mutual funds accommodate investors who don't have a lot of money to invest by setting relatively low dollar amounts for initial purchases, subsequent monthly purchases, or both.

- **Liquidity** — Mutual fund investors can readily redeem their shares at the current NAV — plus any fees and charges assessed on redemption — at any time.
But mutual funds also have features that some investors might view as disadvantages, such as:

- **Costs Despite Negative Returns** — Investors must pay sales charges, annual fees, and other expenses (which we'll discuss below) regardless of how the fund performs. And, depending on the timing of their investment, investors may also have to pay taxes on any capital gains distribution they receive — even if the fund went on to perform poorly after they bought shares.

- **Lack of Control** — Investors typically cannot ascertain the exact make-up of a fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades.

- **Price Uncertainty** — With an individual stock, you can obtain real-time (or close to real-time) pricing information with relative ease by checking financial Web sites or by calling your broker. You can also monitor how a stock's price changes from hour to hour — or even second to second. By contrast, with a mutual fund, the price at which you purchase or redeem shares will typically depend on the fund's NAV, which the fund might not calculate until many hours after you've placed your order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

### Different Types of Funds

When it comes to investing in mutual funds, investors have literally thousands of choices. Before you invest in any given fund, decide whether the investment strategy and risks of the fund are a good fit for you. The first step to successful investing is figuring out your financial goals and risk tolerance — either on your own or with the help of a financial professional. Once you know what you're saving for, when you'll need the money, and how much risk you can tolerate, you can more easily narrow your choices.

Most mutual funds fall into one of three main categories — money market funds, bond funds (also called "fixed income" funds), and stock funds (also called "equity" funds). Each type has different features and different risks and rewards. Generally, the higher the potential return, the higher the risk of loss.

### Money Market Funds

Money market funds have relatively low risks, compared to other mutual funds (and most other investments). By law, they can invest in only certain high-quality, short-term investments issued by the U.S. government, U.S. corporations, and state and local governments. Money market funds try to keep their net asset value (NAV) — which represents the value of one share in a fund — at a stable
$1.00 per share. But the NAV may fall below $1.00 if the fund's investments perform poorly. Investor losses have been rare, but they are possible.

Money market funds pay dividends that generally reflect short-term interest rates, and historically the returns for money market funds have been lower than for either bond or stock funds. That's why "inflation risk" — the risk that inflation will outpace and erode investment returns over time — can be a potential concern for investors in money market funds.

**Bond Funds**

Bond funds generally have higher risks than money market funds, largely because they typically pursue strategies aimed at producing higher yields. Unlike money market funds, the SEC's rules do not restrict bond funds to high-quality or short-term investments. Because there are many different types of bonds, bond funds can vary dramatically in their risks and rewards. Some of the risks associated with bond funds include:

**Credit Risk** — the possibility that companies or other issuers whose bonds are owned by the fund may fail to pay their debts (including the debt owed to holders of their bonds). Credit risk is less of a factor for bond funds that invest in insured bonds or U.S. Treasury bonds. By contrast, those that invest in the bonds of companies with poor credit ratings generally will be subject to higher risk.

**Interest Rate Risk** — the risk that the market value of the bonds will go down when interest rates go up. Because of this, you can lose money in any bond fund, including those that invest only in insured bonds or Treasury bonds. Funds that invest in longer-term bonds tend to have higher interest rate risk.

**Prepayment Risk** — the chance that a bond will be paid off early. For example, if interest rates fall, a bond issuer may decide to pay off (or "retire") its debt and issue new bonds that pay a lower rate. When this happens, the fund may not be able to reinvest the proceeds in an investment with as high a return or yield.

**Stock Funds**

Although a stock fund's value can rise and fall quickly (and dramatically) over the short term, historically stocks have performed better over the long term than other types of investments — including corporate bonds, government bonds, and treasury securities.

Overall "market risk" poses the greatest potential danger for investors in stocks funds. Stock prices can fluctuate for a broad range of reasons — such as the overall strength of the economy or demand for particular products or services.

Not all stock funds are the same. For example:
● **Growth funds** focus on stocks that may not pay a regular dividend but have the potential for large capital gains.

● **Income funds** invest in stocks that pay regular dividends.

● **Index funds** aim to achieve the same return as a particular market index, such as the S&P 500 Composite Stock Price Index, by investing in all — or perhaps a representative sample — of the companies included in an index.

● **Sector funds** may specialize in a particular industry segment, such as technology or consumer products stocks.

### How to Buy and Sell Shares

You can purchase shares in some mutual funds by contacting the fund directly. Other mutual fund shares are sold mainly through brokers, banks, financial planners, or insurance agents. All mutual funds will redeem (buy back) your shares on any business day and must send you the payment within seven days.

The easiest way to determine the value of your shares is to call the fund’s toll-free number or visit its Web site. The financial pages of major newspapers sometimes print the NAVs for various mutual funds. When you buy shares, you pay the current NAV per share plus any fee the fund assesses at the time of purchase, such as a purchase sales load or other type of purchase fee. When you sell your shares, the fund will pay you the NAV minus any fee the fund assesses at the time of redemption, such as a deferred (or back-end) sales load or redemption fee. A fund's NAV goes up or down daily as its holdings change in value.

### Exchanging Shares

A “family of funds” is a group of mutual funds that share administrative and distribution systems. Each fund in a family may have different investment objectives and follow different strategies.

Some funds offer exchange privileges within a family of funds, allowing
shareholders to transfer their holdings from one fund to another as their investment goals or tolerance for risk change. While some funds impose fees for exchanges, most funds typically do not. To learn more about a fund’s exchange policies, call the fund’s toll-free number, visit its Web site, or read the "shareholder information" section of the prospectus.

Bear in mind that exchanges have tax consequences. Even if the fund doesn't charge you for the transfer, you'll be liable for any capital gain on the sale of your old shares — or, depending on the circumstances, eligible to take a capital loss. We'll discuss taxes in further detail below.

How Funds Can Earn Money for You

You can earn money from your investment in three ways:

1. **Dividend Payments** — A fund may earn income in the form of dividends and interest on the securities in its portfolio. The fund then pays its shareholders nearly all of the income (minus disclosed expenses) it has earned in the form of dividends.

2. **Capital Gains Distributions** — The price of the securities a fund owns may increase. When a fund sells a security that has increased in price, the fund has a capital gain. At the end of the year, most funds distribute these capital gains (minus any capital losses) to investors.

3. **Increased NAV** — If the market value of a fund's portfolio increases after deduction of expenses and liabilities, then the value (NAV) of the fund and its shares increases. The higher NAV reflects the higher value of your investment.

With respect to dividend payments and capital gains distributions, funds usually will give you a choice: the fund can send you a check or other form of payment, or you can have your dividends or distributions reinvested in the fund to buy more shares (often without paying an additional sales load).

Factors to Consider When Developing your Long-Term Investment Strategy Based on Mutual Funds

Thinking about your long-term investment strategies and tolerance for risk can help you decide what type of fund is best suited for you. But you should also consider the effect that fees and taxes will have on your returns over time.
**Degrees of Risk**

All funds carry some level of risk. You may lose some or all of the money you invest — your principal — because the securities held by a fund go up and down in value. Dividend or interest payments may also fluctuate as market conditions change.

Before you invest, be sure to read a fund’s prospectus and shareholder reports to learn about its investment strategy and the potential risks. Funds with higher rates of return may take risks that are beyond your comfort level and are inconsistent with your financial goals.

**Fees and Expenses**

As with any business, running a mutual fund involves costs — including shareholder transaction costs, investment advisory fees, and marketing and distribution expenses. Funds pass along these costs to investors by imposing fees and expenses. It is important that you understand these charges because they lower your returns.

Some funds impose “shareholder fees” directly on investors whenever they buy or sell shares. In addition, every fund has regular, recurring, fund-wide "operating expenses." Funds typically pay their operating expenses out of fund assets — which means that investors indirectly pay these costs.

SEC rules require funds to disclose both shareholder fees and operating expenses in a "fee table" near the front of a fund's prospectus. The lists below will help you decode the fee table and understand the various fees a fund may impose:

**Shareholder Fees**

- **Sales Charge (Load) on Purchases** — the amount you pay when you buy shares in a mutual fund. Also known as a "front-end load," this fee typically goes to the brokers that sells the fund's shares. Front-end loads reduce the amount of your investment. For example, let's say you have $1,000 and want to invest it in a mutual fund with a 5% front-end load. The $50 sales load you must pay comes off the top, and the remaining $950 will be invested in the fund. According to FINRA rules, a front-end load cannot be higher than 8.5% of your investment.

- **Purchase Fee** — another type of fee that some funds charge their shareholders when they buy shares. Unlike a front-end sales load, a purchase fee is paid to the fund (not to a broker) and is typically imposed to defray some of the fund's costs associated with the purchase.
Deferred Sales Charge (Load) — a fee you pay when you sell your shares. Also known as a "back-end load," this fee typically goes to the brokers that sell the fund's shares. The most common type of back-end sales load is the "contingent deferred sales load" (also known as a "CDSC" or "CDSL"). The amount of this type of load will depend on how long the investor holds his or her shares and typically decreases to zero if the investor holds his or her shares long enough.

Redemption Fee — another type of fee that some funds charge their shareholders when they sell or redeem shares. Unlike a deferred sales load, a redemption fee is paid to the fund (not to a broker) and is typically used to defray fund costs associated with a shareholder's redemption.

Exchange Fee — a fee that some funds impose on shareholders if they exchange (transfer) to another fund within the same fund group or "family of funds."

Account fee — a fee that some funds separately impose on investors in connection with the maintenance of their accounts. For example, some funds impose an account maintenance fee on accounts whose value is less than a certain dollar amount.

Annual Fund Operating Expenses

Management Fees — fees that are paid out of fund assets to the fund's investment adviser for investment portfolio management, any other management fees payable to the fund's investment adviser or its affiliates, and administrative fees payable to the investment adviser that are not included in the "Other Expenses" category (discussed below).

Distribution [and/or Service] Fees ("12b-1" Fees) — fees paid by the fund out of fund assets to cover the costs of marketing and selling fund shares and sometimes to cover the costs of providing shareholder services. "Distribution fees" include fees to compensate brokers and others who sell fund shares and to pay for advertising, the printing and mailing of prospectuses to new investors, and the printing and mailing of sales literature. "Shareholder Service Fees" are fees paid to persons to respond to investor inquiries and provide investors with information about their investments.

Other Expenses — expenses not included under "Management Fees" or "Distribution or Service (12b-1) Fees," such as any shareholder service expenses that are not already included in the 12b-1 fees, custodial expenses, legal and accounting expenses, transfer agent expenses, and other administrative expenses.
• **Total Annual Fund Operating Expenses ("Expense Ratio")** — the line of the fee table that represents the total of all of a fund's annual fund operating expenses, expressed as a percentage of the fund's average net assets. Looking at the expense ratio can help you make comparisons among funds.

### A Word About "No-Load" Funds

Some funds call themselves "no-load." As the name implies, this means that the fund does not charge any type of sales load. But, as discussed above, not every type of shareholder fee is a "sales load." A no-load fund may charge fees that are not sales loads, such as purchase fees, redemption fees, exchange fees, and account fees. No-load funds will also have operating expenses.

Be sure to review carefully the fee tables of any funds you're considering, including no-load funds. Even small differences in fees can translate into large differences in returns over time. For example, if you invested $10,000 in a fund that produced a 10% annual return before expenses and had annual operating expenses of 1.5%, then after 20 years you would have roughly $49,725. But if the fund had expenses of only 0.5%, then you would end up with $60,858 — an 18% difference.

A **mutual fund cost calculator** can help you understand the impact that many types of fees and expenses can have over time. It takes only minutes to compare the costs of different mutual funds.

### A Word About Breakpoints

Some mutual funds that charge front-end sales loads will charge lower sales loads for larger investments. The investment levels required to obtain a reduced sales load are commonly referred to as "breakpoints."

The SEC does not require a fund to offer breakpoints in the fund's sales load. But, if breakpoints exist, the fund must disclose them. In addition, a FINRA member brokerage firm should not sell you shares of a fund in an amount that is "just below" the fund's sales load breakpoint simply to earn a higher commission.

Each fund company establishes its own formula for how they will calculate whether an investor is entitled to receive a breakpoint. For that reason, it is important to seek out breakpoint information from your financial advisor or the fund itself. You'll need to ask how a particular fund establishes eligibility for breakpoint discounts, as well as what the fund's breakpoint
Classes of Funds

Many mutual funds offer more than one class of shares. For example, you may have seen a fund that offers "Class A" and "Class B" shares. Each class will invest in the same "pool" (or investment portfolio) of securities and will have the same investment objectives and policies. But each class will have different shareholder services and/or distribution arrangements with different fees and expenses. As a result, each class will likely have different performance results.

A multiclass structure offers investors the ability to select a fee and expense structure that is most appropriate for their investment goals (including the time that they expect to remain invested in the fund). Here are some key characteristics of the most common mutual fund share classes offered to individual investors:

- **Class A Shares** — Class A shares typically impose a front-end sales load. They also tend to have a lower 12b-1 fee and lower annual expenses than other mutual fund share classes. Be aware that some mutual funds reduce the front-end load as the size of your investment increases. If you're considering Class A shares, be sure to inquire about breakpoints.

- **Class B Shares** — Class B shares typically do not have a front-end sales load. Instead, they may impose a contingent deferred sales load and a 12b-1 fee (along with other annual expenses). Class B shares also might convert automatically to a class with a lower 12b-1 fee if the investor holds the shares long enough.

- **Class C Shares** — Class C shares might have a 12b-1 fee, other annual expenses, and either a front- or back-end sales load. But the front- or back-end load for Class C shares tends to be lower than for Class A or Class B shares, respectively. Unlike Class B shares, Class C shares generally do not convert to another class. Class C shares tend to have higher annual expenses than either Class A or Class B shares.

Tax Consequences

When you buy and hold an individual stock or bond, you must pay **income tax** each year on the dividends or interest you receive. But you won't have to pay any **capital gains tax** until you actually sell and unless you make a profit.
**Mutual funds are different.** When you buy and hold mutual fund shares, you will owe income tax on any ordinary dividends in the year you receive or reinvest them. And, in addition to owing taxes on any personal capital gains when you sell your shares, you may also have to pay taxes each year on the fund's capital gains. That's because the law requires mutual funds to distribute capital gains to shareholders if they sell securities for a profit that can’t be offset by a loss.

**Tax Exempt Funds**

If you invest in a tax-exempt fund — such as a municipal bond fund — some or all of your dividends will be exempt from federal (and sometimes state and local) income tax. You will, however, owe taxes on any capital gains.

Bear in mind that if you receive a capital gains distribution, you will likely owe taxes — even if the fund has had a negative return from the point during the year when you purchased your shares. For this reason, you should call the fund to find out when it makes distributions so you won't pay more than your fair share of taxes. Some funds post that information on their Web sites.

SEC rules require mutual funds to disclose in their prospectuses after-tax returns. In calculating after-tax returns, mutual funds must use standardized formulas similar to the ones used to calculate before-tax average annual total returns. You'll find a fund's after-tax returns in the "Risk/Return Summary" section of the prospectus. When comparing funds, be sure to take taxes into account.

**Avoiding Common Pitfalls**

If you decide to invest in mutual funds, be sure to obtain as much information about the fund before you invest. And don't make assumptions about the soundness of the fund based solely on its past performance or its name.

**Sources of Information**

**Prospectus**

When you purchase shares of a mutual fund, the fund must provide you with a prospectus. But you can — and should — request and read a fund's prospectus before you invest. The prospectus is the fund’s selling document and contains valuable information, such as the fund’s investment objectives or goals, principal strategies for achieving those goals, principal risks of investing in the fund, fees and expenses, and past performance. The prospectus also identifies the fund’s managers and advisers and describes how to purchase and redeem fund shares.
While they may seem daunting at first, mutual fund prospectuses contain a treasure trove of valuable information. The SEC requires funds to include specific categories of information in their prospectuses and to present key data (such as fees and past performance) in a standard format so that investors can more easily compare different funds.

Here's some of what you'll find in mutual fund prospectuses:

- **Date of Issue** — The date of the prospectus should appear on the front cover. Mutual funds must update their prospectuses at least once a year, so always check to make sure you're looking at the most recent version.

- **Risk/Return Bar Chart and Table** — Near the front of the prospectus, right after the fund's narrative description of its investment objectives or goals, strategies, and risks, you'll find a **bar chart** showing the fund's annual total returns for each of the last 10 years (or for the life of the fund if it is less than 10 years old). All funds that have had annual returns for at least one calendar year must include this chart.

- Except in limited circumstances, funds also must include a **table** that sets forth returns — both before and after taxes — for the past 1-, 5-, and 10-year periods. The table will also include the returns of an appropriate broad-based index for comparison purposes. Here's what the table will look like:

<table>
<thead>
<tr>
<th></th>
<th>1-year</th>
<th>5-year (or life of fund)</th>
<th>10-year (or life of fund)</th>
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</thead>
<tbody>
<tr>
<td>Return before taxes</td>
<td></td>
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<td></td>
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<tr>
<td>Return after taxes on distributions</td>
<td></td>
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<td></td>
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<tr>
<td>Return after taxes on distributions and sale of fund shares</td>
<td></td>
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<tr>
<td>Index (reflects no deductions for [fees, expenses, or taxes])</td>
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</tbody>
</table>

*Note*: Be sure to read any footnotes or accompanying explanations to make sure that you fully understand the data the fund provides in the bar chart and table. Also, bear in mind that the bar chart and table for a multiple-class fund (that
offers more than one class of fund shares in the prospectus) will typically show performance data and returns for only one class.

- **Fee Table** — Following the performance bar chart and annual returns table, you'll find a table that describes the fund's fees and expenses. These include the shareholder fees and annual fund operating expenses described in greater detail above. The fee table includes an example that will help you compare costs among different funds by showing you the costs associated with investing a hypothetical $10,000 over a 1-, 3-, 5-, and 10-year period.

- **Financial Highlights** — This section, which generally appears toward the back of the prospectus, contains audited data concerning the fund's financial performance for each of the past 5 years. Here you'll find net asset values (for both the beginning and end of each period), total returns, and various ratios, including the ratio of expenses to average net assets, the ratio of net income to average net assets, and the portfolio turnover rate.

**Profile**

Some mutual funds also furnish investors with a "profile," which summarizes key information contained in the fund's prospectus, such as the fund's investment objectives, principal investment strategies, principal risks, performance, fees and expenses, after-tax returns, identity of the fund's investment adviser, investment requirements, and other information.

**Statement of Additional Information ("SAI")**

Also known as "Part B" of the registration statement, the SAI explains a fund's operations in greater detail than the prospectus — including the fund's financial statements and details about the history of the fund, fund policies on borrowing and concentration, the identity of officers, directors, and persons who control the fund, investment advisory and other services, brokerage commissions, tax matters, and performance such as yield and average annual total return information. If you ask, the fund must send you an SAI. The back cover of the fund's prospectus should contain information on how to obtain the SAI.

**Shareholder Reports**

A mutual fund also must provide shareholders with annual and semiannual reports within 60 days after the end of the fund's fiscal year and 60 days after the fund's fiscal midyear. These reports contain a variety of updated financial information, a list of the fund's portfolio securities, and other information. The information in the shareholder reports will be current as of the date of the particular report (that is, the last day of the fund's fiscal year for the annual report, and the last day of the fund's fiscal midyear for the semiannual report).
Investors can obtain all of these documents by:
- calling or writing to the fund (all mutual funds have toll-free telephone numbers);
- visiting the fund's Web site;
- contacting a broker that sells the fund's shares;
- searching the SEC's EDGAR database and downloading the documents for free; or
- contacting the SEC's Office of Public Reference by telephone at (202) 551-8090, by fax at (202) 777-1027, or by e-mail at publicinfo@sec.gov.

**Past Performance**

A fund's past performance is not as important as you might think. Advertisements, rankings, and ratings often emphasize how well a fund has performed in the past. But studies show that the future is often different. This year's "number one" fund can easily become next year's below average fund.

Be sure to find out how long the fund has been in existence. Newly created or small funds sometimes have excellent short-term performance records. Because these funds may invest in only a small number of stocks, a few successful stocks can have a large impact on their performance. But as these funds grow larger and increase the number of stocks they own, each stock has less impact on performance. This may make it more difficult to sustain initial results.

While past performance does not necessarily predict future returns, it can tell you how volatile (or stable) a fund has been over a period of time. Generally, the more volatile a fund, the higher the investment risk. If you'll need your money to meet a financial goal in the near-term, you probably can't afford the risk of investing in a fund with a volatile history because you will not have enough time to ride out any declines in the stock market.

**Looking Beyond a Fund's Name**

Don't assume that a fund called the "XYZ Stock Fund" invests only in stocks or that the "Martian High-Yield Fund" invests only in the securities of companies headquartered on the planet Mars. The SEC requires that any mutual fund with a name suggesting that it focuses on a particular type of investment must invest at least 80% of its assets in the type of investment suggested by its name. But funds can still invest up to one-fifth of their holdings in other types of securities — including securities that you might consider too risky or perhaps not aggressive enough.
Bank Products versus Mutual Funds

Many banks now sell mutual funds, some of which carry the bank's name. But mutual funds sold in banks, including money market funds, are not bank deposits. As a result, they are not federally insured by the Federal Deposit Insurance Corporation (FDIC).
## Exchange Traded Funds

### Lesson No. M5.7

**Lesson Objectives:**
After completing this lesson participants should be able to:
- Understand what Exchange Traded Funds (ETF) are
- Recognize when and how to use ETFs
- Recognize the differences between ETFs and mutual funds

### Time Required:
20 Minutes

### Lesson Teaching Tips
- Prior to the lesson, visit the suggested SEC site that describes ETFs.

### Questions to Generate Discussion
- Do you know what Exchange Traded funds are?
- Under which conditions you should consider buying these funds.

### PowerPoint Slides Thumbnails

**Slide Notes**
- Point out that one of the differences between mutual funds and ETFs is that the later is traded on a stock exchange.
Discuss the advantages and disadvantages of ETFs.

ETFs fees are higher than those of mutual funds and might make them unattractive.

Present the three situations where investing on ETFs might be attractive: lump-sum investment, market timing (day trading), and taxable investments.

This slide presents details of situations where it will make sense to invest in ETFs.

Closure:

- Review lesson objectives with participants.
- ETFs might not be a long-term investment option for most participants, unless they are into one condition where investing in ETFs makes sense.

Learning Assessment:

- Ask participants to define what exchange traded funds are, their advantages, and disadvantages.
Exchange Traded Funds (ETFs) are similar to index mutual funds, but are traded more like a stock. As their name implies, ETFs represent a basket of securities that are traded on an exchange. As with all investment products, exchange traded funds have their share of advantages and disadvantages.

Advantages of Exchange Traded Funds

Being similar to stocks, exchange traded funds offer more flexibility than your typical mutual fund.

- ETFs can be bought and sold throughout the trading day, allowing for intraday trading - which is rare with mutual funds.
- Traders have the ability to short or buy ETFs on margin.
- Low annual expenses rival the cheapest mutual funds.
- Tax efficiency - due to SEC regulations, ETF tend to beat out mutual funds when it comes to tax efficiency (if it is a nontaxable account, then they are equal).

Disadvantages of ETFs

Unfortunately, exchange traded funds do have some negatives:

- Commissions - as with stocks, you pay a commission when trading exchange traded funds.
- Only institutions and the extremely wealthy deal directly with the ETF companies.
- Unlike mutual funds, ETFs don’t necessarily trade at the net asset values of their underlying holdings, meaning an ETF could potentially trade above or below the value of the underlying portfolios.
- Slippage - as with stocks, there is a bid-ask spread. This means you might buy the ETF for 15 1/8 but can only sell it for 15 (which is basically a hidden charge).

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5 Your Guide to Mutual Funds, Dustin Woodard, [http://mutualfunds.about.com/od/etfs/a/etfbest.htm](http://mutualfunds.about.com/od/etfs/a/etfbest.htm)
When and how to use ETFs

After comparing the advantages and disadvantages of trading ETFs, you might conclude that they are a better deal than mutual funds. This is not necessarily true. Commissions may make ETFs unattractive. If your portfolio is a tax-deferred investment, like a 401(k) or an IRA, then you can avoid paying commissions by investing directly with a mutual fund company. Even in a taxable account, commissions make exchange traded funds look bad.

Morningstar (an independent investment research company based in Chicago, Illinois) provides a great example: a lump-sum investment of $10,000 in the iShares S&P 500 Index, with a very low trading cost of $8, would need to be held for two years to beat out the Vanguard 500 Index's costs. If you are investing less than $10,000 and are paying more than $8 commissions, or you are investing more than once, this example would make ETFs look much worse.

Investing directly with a mutual fund company generally is better than investing in ETFs, especially in these situations:

- Nontaxable accounts
- Small investments - if you invest a certain amount each month or are on some sort of automatic investment plan (ETF commissions would kill your investment).
- Active traders - although ETFs are primarily geared toward active traders, an active trader might be better off with mutual funds that don't charge commissions (most mutual funds discourage active trading, but some, other encourage it).

In many cases mutual funds are still the better choice, but in some situations ETFs are the right choice. Let's explore those situations.

Lump Sum Investment

One of the biggest advantages of mutual funds is the ability to purchase them without trading costs. However, if you have a large amount of money to invest, perhaps from an inheritance or a 401(k) rollover, trading fees may be of little concern to you. A $15 commission on a $100 investment is catastrophic (a 15 percent hit), but on a $100,000 investment, it isn't bad at all.

Market Timing

If you are a market timer, ETFs may be a pleasant surprise for you because you can trade them intraday. ETFs also allow you to trade certain industries, countries, and indices that may not be as easily available in the fund or stock markets.
Ever since mutual funds came under fire because a few fund companies allowed market timers to cheat the system, timing mutual funds has become more difficult. Mutual fund companies have placed more restrictions or penalties on short-term trades than ever before. ETFs are a way to avoid these restrictions because they are traded like stocks.

Despite the market timing appeal of ETFs, there are a couple of fund companies you should consider before you jump in.

**Taxable Investments**

One disadvantage of mutual funds is that they must pay distributions at the end of the year, per IRS rules. ETFs get around this. However, when you sell your ETF, it is subject to normal IRS capital gains rules (remember ETFs trade like stocks).

**In Summary**

Generally, mutual funds are the better choice, but in the situations like those mentioned above, an ETF might serve you best. We realize the opportunity and convenience that ETFs offer.
## Lesson No. M5.8

### Lesson Objectives:
After completing this lesson participants should be able to:

- Understand what Socially Responsible Investments (SRI) are

### Time Required:
30 Minutes

### Lesson Teaching Tips

- For individuals who think “green,” socially responsible investments might be an attractive alternative.
- Suggest participants to explore which companies’ stocks fall under this category and the products and/or services they provide.

### Questions to Generate Discussion

- Who would like to align their social and/or environmental values to his/her investment decisions?
- What are socially responsible investments?

### PowerPoint Slides Thumbnails

#### Socially Responsible Investments

- Socially responsible investing (SRI) is an umbrella term for a philosophy of investing by both financial and social criteria. SRI investors seek to align their personal values and financial goals by choosing to invest in companies and organizations displaying values comparable to their own.

#### Slide Notes

- This slide provides the definition of what S RI is.
- Suggest participants to explore more about SRI by visiting the suggested Web sites presented on the reference section.
Socially responsible investing, often abbreviated as SRI, is an umbrella term for a philosophy of investing by both financial and social criteria. SRI investors seek to align their personal values and financial goals by choosing to invest in companies and organizations displaying values comparable to their own. With SRI, you can put your money to work to build a better tomorrow while earning competitive returns today.

Social investors include individuals and institutions such as corporations, universities, hospitals, foundations, insurance companies, pension funds, nonprofit organizations, churches, and synagogues.

How SRI Works?

Three key SRI strategies have evolved over the years: Screening, Shareholder Advocacy, Community Investment, and Social Venture Capital. This is how they work:

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Screening

Screening describes the inclusion or exclusion of corporate securities in investment portfolios based on social or environmental criteria. Socially concerned investors generally seek to own profitable companies with respectable employee relations, strong records of community involvement, excellent environmental impact policies and practices, respect for human rights around the world, and safe and useful products. Conversely, they often avoid investments in those firms that fall short in these areas.

Shareholder Advocacy

Shareholder advocacy means using your position as an owner in a company to push for improved corporate performance. At Calvert, our social investment research analysts regularly engage in shareholder advocacy work, such as dialogue with company executives, proxy voting, and filing shareholder resolutions.  

Community Investment and Social Venture Capital

Venture capital is money used to support new or unusual undertakings; equity, risk or speculative investment capital. This funding is provided to new or existing firms that exhibit potential for above-average growth.

Social Venture Capital is a type of screening, but refers specifically to investing that integrates community and environmental concerns into professionally managed venture capital portfolios. The essence of social venture capital lies between providing capital and management assistance to companies creating innovative solutions to social and environmental problems, and institutional investors investing on potential one-billion-dollar technologies.

Does Socially Responsible Investments Negatively Impacts Your Return?

You might ask yourself if SRI lowers investment returns. After all, don’t you have to give up your financial resources when you do “good” with your investment? More and more, studies are showing that shares of companies with records of good environmental practice and other corporate citizenship actually outperform shares of companies that are bad environmental and corporate citizens. So the lesson here is that applying your social values when you screen and invest in mutual funds or stocks does not necessarily harm your investment and potentially can lead to higher returns.

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## Investing in Real Estate

### Lesson No. M5.9

<table>
<thead>
<tr>
<th>Lesson Objectives:</th>
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<tbody>
<tr>
<td>After completing this lesson participants should be able to:</td>
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<tr>
<td>- Recognize investing in real estate as one of the long-term investments options</td>
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<tr>
<td>- Understand the difference between homeownership to landownership</td>
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<tr>
<td>- Recognize the different types of real estate investment strategies</td>
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### Time Required: 30 Minutes

### Lesson Teaching Tips

- **MISSING!!!!!!**

### Questions to Generate Discussion

- Ask participants what is the difference between homeownership and landownership?
- Why real estate is an attractive long-term investment.

### PowerPoint Slides Thumbnails

<table>
<thead>
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<th>Slide Notes</th>
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<tr>
<td>- Explain why real estate property is an attractive investment possibility.</td>
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Discuss the different real estate investment strategies, other than homeownership.

These two slides present the four main investment strategies in real estate.

Discuss what real estate trading and REIts are.

These are some of the issues you might want to suggest participants to consider when planning on investing in real estate.

Review lesson objectives with participants.

Investing in real estate is attractive to a large number of investors because of its yields and tax-sheltering incentives. This might be one of the options you might want to consider when planning your long-term investment strategy.

Ask participants to list the benefits of investing in real estate.
Real Estate Investment

Some investors believe that the most viable investment available that involves possible tax incentives is still real estate. There is seldom reason to fear a downturn, the return can be substantial, and property that is purchased right and properly cared for will almost always appreciate in value.

Income property investments are typically held for long-term gain, as well as a hedge against inflation. Real estate investors actually profit from inflation because with a 30% equity, just a 3% inflationary increase in property values results in a 10% return on investment. Without even considering normal operating profits and tax benefits!

Real estate can be purchased in many forms, including: shopping centers, industrial buildings, warehouse net leases, apartments, single-family residential housing, and even raw land. The investment can be direct or through various kinds of partnerships and investment trusts.

Real Estate Investment Strategies

Basic Rental Properties

This is an investment as old as the practice of landownership. A person will buy a property and rent it out to a tenant. The owner, known as the landlord, is responsible for paying the mortgage, taxes, and costs of maintaining the property. Ideally, the landlord charges enough rent to cover all of the aforementioned costs. A landlord may also
charge more in order to produce a monthly profit, but the most common strategy is to be patient and only charge enough rent to cover expenses until the mortgage has been paid, at which time the majority of the rent becomes profit. Furthermore, the property may also have appreciated in value over the course of the mortgage (according to the U.S. Census Bureau, real estate has consistently increased in value since 1940), leaving the landlord with a more valuable asset.

There are, of course, blemishes on the face of what seems like an ideal investment. You can end up with a bad tenant who damages the property or, worse still, end up having no tenant at all. This leaves you with a negative monthly cash flow, meaning that you might have to scramble to cover your mortgage payments. There is also the matter of finding the right property - you will want to pick an area where vacancy rates are low (due to demand) and choose a place that people will want to rent.

Perhaps the biggest difference between a rental property and other investments is the amount of time and work you have to devote to maintaining your investment. When you buy a stock, it simply sits in your brokerage account and (hopefully) increases in value. If you invest in a rental property, there are many responsibilities that come along with being a landlord. When the furnace stops working in the middle of the night, it's you who gets the phone call. If you don't mind handyman work, this may not bother you; otherwise, a professional property manager would be glad to take the problem off your hands - for a price, of course.

**Real Estate Investment Groups**

Real estate investment groups are sort of like small mutual funds for rental properties. If you want to own a rental property, but don't want the hassle of being a landlord, a real estate investment group may be the solution for you. A company will buy or build a set of apartment blocks or condos and then allow investors to buy them through the company (thus joining the group). A single investor can own one or multiple units (self-contained living space), but the company operating the investment group collectively manages all the units - taking care of maintenance, advertising vacant units, and interviewing tenants. In exchange for this management, the company takes a percentage of the monthly rent.

There are several versions of investment groups, but in the standard version, the lease is in the investor's name and all of the units pool a portion of the rent to guard against occasional vacancies, meaning that you will receive enough to pay the mortgage even if your unit is empty. The quality of an investment group depends entirely on the company offering it. In theory, it is a safe way to get into real estate investment, but groups are vulnerable to the same fees that haunt the mutual fund industry. Once again, research is the key.
Real Estate Trading

This is the wild side of real estate investment. Like the day traders who are leagues away from a buy-and-hold investor, the real estate traders are an entirely different breed from the buy-and-rent landlords. Real estate traders buy properties with the intention of holding them for a short period of time (often no more than three to four months), whereupon they hope to sell them for a profit. This technique is also called flipping properties and is based on buying properties that are either significantly undervalued or are in a very hot market.

Pure property flippers will not put any money into a house for improvements - the investment has to have the intrinsic value to turn a profit without alteration or they won't consider it. Flipping in this manner is a short-term cash investment. If a property flipper gets caught in a situation where he or she can't unload a property, it can be devastating because these investors generally don't keep enough ready cash to pay the mortgage on a property for the long term. This can lead to continued losses for a real estate trader who is unable to offload the property in a bad market.

A second class of property flipper also exists. These investors make their money by buying reasonably priced properties and adding value by renovating them. This can be a longer-term investment depending on the extent of the improvements. The limiting feature of this investment is that it is time intensive and often only allows investors to take on one property at a time.

REITs

Real estate has been around since our cave-dwelling ancestors started chasing strangers out of their space, so it's not surprising that Wall Street has found a way to turn real estate into a publicly-traded instrument. A real estate investment trust (REIT) is created when a corporation (or trust) uses investors' money to purchase and operate income properties. REITs are bought and sold on the major exchanges just like any other stock. A corporation must pay out 90% of its taxable profits in the form of dividends to keep its status as an REIT. By doing this, REITs avoid paying corporate income tax, whereas a regular company would be taxed its profits and then have to decide whether or not to distribute its after-tax profits as dividends.

Much like regular dividend-paying stocks, REITs are a solid investment for stock market investors that want regular income. In comparison to the aforementioned types of real estate investment, REITs allow investors into nonresidential investments (malls, office buildings, etc.) and are highly liquid - in other words, you won't need a realtor to help you cash out your investment.

Leverage
With the exception of REITs, investing in real estate gives an investor one tool that is not available to stock market investors: leverage. If you want to buy a stock, you have to pay the full value of the stock at the time you place the buy order. Even if you are buying on margin, the amount you can borrow is still much less than with real estate. Most "conventional" mortgages require 25% down. However, depending on where you live, there are many types of mortgages that require as little as 5%. This means that you can control the whole property and the equity it holds by only paying a fraction of the total value. Of course, your mortgage will eventually pay the total value of the house at the time you purchased it, but you control it the minute the papers are signed.

This is what emboldens real estate flippers and landlords alike. They can take out a second mortgage on their homes and put down payments on two or three other properties. Whether they rent these out so that tenants pay the mortgage or they wait for an opportunity to sell for a profit, they control these assets despite having only paid for a small part of the total value.

**Issues to Consider When Investing In Real Estate**

You may think that investing in real estate is simple, but you first must decide what your investment objectives are. This is equally important for sole owners of real estate, those investing in Tenant in Common investments (TICs), and those with limited or general real estate partnerships.

**Sample Investment Objective Questions:**

- Are you sheltering income and need losses to write off against it?
- Are you building your assets with an objective to break even or generate cash flow?
- Do you need the cash flow to live on?
- Are you a real estate agent?
- Are you actively involved in managing/developing your real estate assets?

To use the question of sheltering income as an example, we see that with every separate situation the tax implications are different, so you should consult with your CPA to make sure you are understanding correctly the expected tax results.

**Passive Activity and Material Participation:**
A passive activity is any activity involving the conduct of any trade or business in which the taxpayer doesn't materially participate. Rental activities are passive activities. Material participation requires involvement in the management or rental operations of property on a regular, continuous, and substantial basis. You are considered to be materially involved if:

1. You participate in the activity for more than 500 hours in the day-to-day operations during the year, or
2. Your participation was substantially all of the participation in the activity, or
3. You participated in the activity for more than 100 hours in the tax year and at least as much as anyone else for that year.

Participation includes making rental decisions, repairs, hiring vendors, inspecting property, reviewing financial documents, and establishing financing or refinancing.

For real estate professionals, rental real estate activities are not subject to the passive activity rules, if during the tax year:

1. More than 50 percent of your personal services are performed in real property business in which you materially participated, and
2. More than 750 hours are spent in real property businesses in which you materially participated.

Real property businesses are those that are actively involved in real estate development, conversion, rental, operation, management, leasing, or brokerage.
Passive Losses:

Passive losses, generated by passive investments, are deductible only against passive income. Unallowed passive losses cannot be used to reduce nonpassive income, like income from your work, dividends, or interest unless you qualify due to low modified adjusted gross Income (MAGI), as explained below. (Unused passive losses are carried over to future years and can be used to offset future passive gains.)

Modified Adjusted Gross Income (MAGI): If your MAGI is less than $100,000, it is possible to deduct passive losses up to $25,000 from rental real estate. If your MAGI is over $100,000, passive losses can be used to offset nonpassive income at the rate of 50 cents for every dollar up to $150,000 of adjusted gross income. No passive losses are currently deductible when MAGI exceeds $150,000. These limitations are illustrated in the following table.

<table>
<thead>
<tr>
<th>If Your Modified MAGI is</th>
<th>Your Passive Activity Loss Allowance is</th>
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<tbody>
<tr>
<td>Up to $100,000</td>
<td>$25,000</td>
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<tr>
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<td>$150,000 or more</td>
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Your MAGI is most of your nonpassive income. It is the same as your adjusted gross income without including any of the following:

- IRA contributions
- Taxable Social Security benefits
- Adoption assistance payments
- Income from U.S. savings bonds that you used to pay higher education tuition and fees
- Interest on qualified student loans
- Passive activity loss in real property businesses
- The ½ of self-employment taxes deduction
- The tuition and fees deduction
- Any overall loss from a publicly traded partnership

Married persons filing separate tax returns who lived together at any time during the tax year may not claim this offset on their tax returns. Married persons filing separate tax returns who lived apart at all times during the tax year are each allowed a $12,500 maximum offset for passive real estate activities.
The rules related to the deduction of losses from real estate rental activities are very complex. You should consult with your CPA when determining how those rules impact your real estate activities.
Additional Learning Resources

Please visit the following online resources to learn more about the subjects presented on this module:

- For more information about federal deposit insurance, visit the Federal Deposit Insurance Corporation’s Web site (http://www.fdic.gov/) and read its publication “Your Insured Deposit” or call the FDIC's Consumer Information Center at 1-877-275-3342. The phone numbers for the hearing impaired are 1-800-925-4618 or (202) 942-3147.