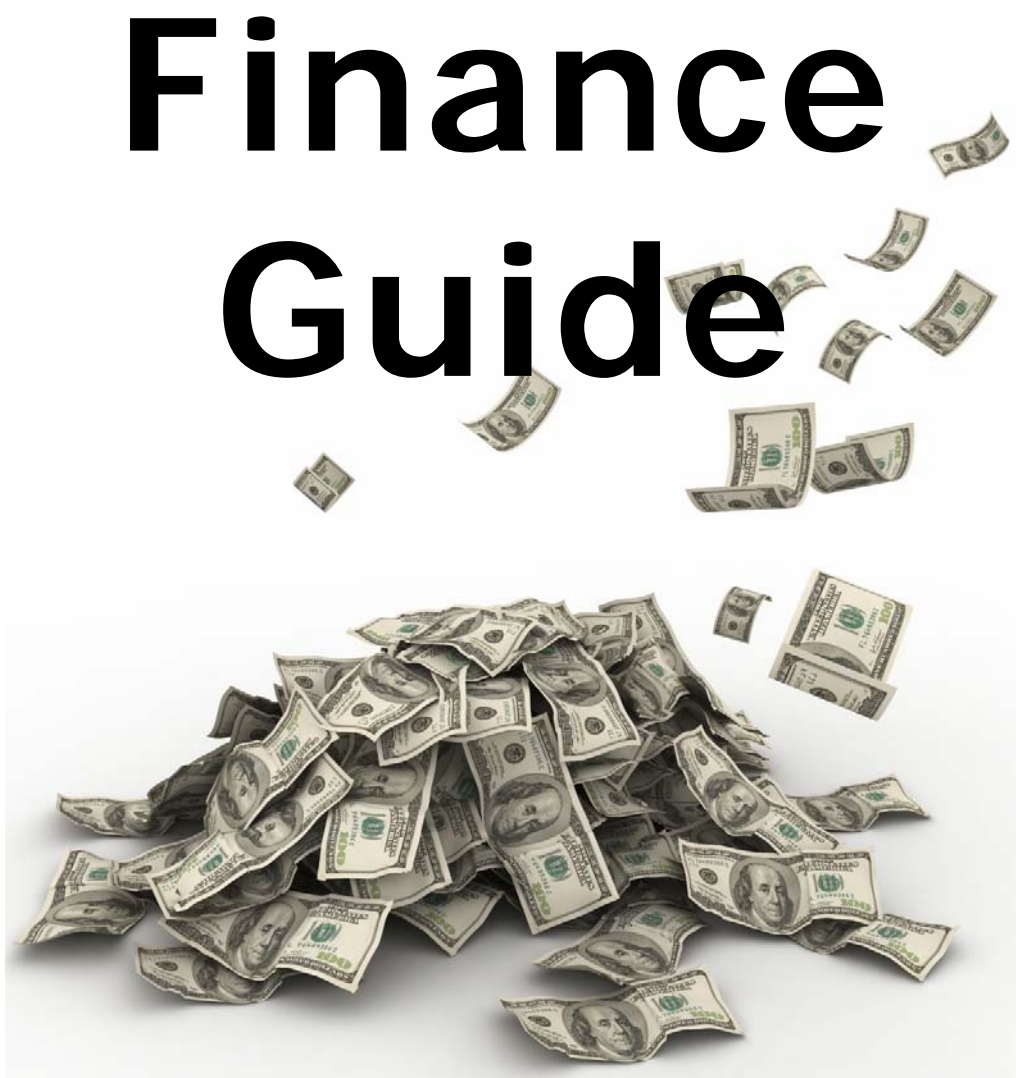


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1

Introduction

Knowing how to secure your financial well-being is one of the most important things you'll ever need in life. You don't have to be a genius to do it. You just need to know a few basics, form a plan, and be ready to stick to it. No matter how much or little money you have, the important thing is to educate yourself about your opportunities.

There is no guarantee that you'll make money from investments you make. But if you get the facts about saving and investing and follow through with an intelligent plan, you should be able to gain financial security over the years and enjoy the benefits of managing your money.

No one is born knowing how to save or to invest. Every successful investor starts with the basics – the information you're about to read. A few people may stumble into financial security – a wealthy relative may die, or a business may take off. But for most people, the only way to attain financial security is to save and invest over a long period of time. Time after time, people of even modest means who begin the journey reach financial security and all that it promises: buying a home, educational opportunities for their children, and a comfortable retirement.

This guide contains practical steps and information that can help all of us get our fiscal act together. Specifically, it will outline reasonable investment approaches, help you understand various investment vehicles, and provide information on how to choose investment brokers and advisors.

2

Taking Stock: Getting Your Finances Under Control

This chapter will help you approach your financial education sensibly and realistically.

Assess. Periodically, it is a good idea to sit down and really figure out where you are with your finances. Pull out your banking and brokerage account statements, check your balances, and gather in one place all your fiscal information. Then take a good, hard look at what you see. If you have questions about the information presented on your brokerage or mutual fund statements, don't ignore those questions. Speak up, ask questions, and get answers.

After learning where you are, figure out where you want to be. What are your savings goals? Are they long-term (retirement, college education for your babies) or short-term (down payment on a house, college education for your high-school age kids)? Your goals determine your own personal tolerance for risk. If you'll need your money in the short term, more conservative investments are appropriate. If you're saving for the long haul, you might decide to take more risks. Just remember - your risk tolerance is a very personal matter, based on your age and your personal savings goals. Your neighbor or your Uncle Fred may be much more conservative or aggressive than you are. But that doesn't mean their investing strategy is right for you!

See the worksheets in the chapter on “Developing Your Financial Plan” later in this guide.

Invest for the long term. Before you invest, make sure you have enough money to eat and put a roof over your head. Pay yourself first - get rid of high-cost credit card debt. But the earlier you get a start on your savings goals, the less you'll have to put away monthly to reach them. Historically, the investment that has provided the highest average rate of return over the long term has been stocks. But there are no guarantees of profits when you buy stock. Markets go up and markets go down in the short-term. That's why it is best to think long-term when considering stock market investments.

Diversify. There is no better way -- over the long term -- to distribute risk than to diversify your investments. It is true that in some years, single stocks or individual sectors will outperform a diversified investment strategy, at least in the short term. But don't forget that investors who hope to gain fantastic returns by investing in a single stock or one sector have also assumed the higher risks of a more narrow investing strategy. While diversifying your investments won't bring you sky-high returns in boom times, it also means that you won't lose everything when the boom times bust.

One way to diversify is to consider mutual funds. And here is where a little work can pay off handsomely - be sure to pay attention to a fund's fees and expenses. Over time, expenses and fees can really make a difference. On an investment held for 20 years, a 1 percent annual fee will reduce the ending account balance by 18 percent. Another way to diversify is to make sure that your retirement funds aren't all invested in your employer's stock. Even if that stock is a good long-term prospect, it is risky to have your retirement security depend in whole or in large part upon the fate of any one company.

Know yourself. Be honest. Do you really have the time and energy to adequately research individual stock investments? Most of us don't have the experience and expertise of Wall Street traders who read financial statements for a living. It is important to be realistic about your own time commitments. Talking to co-workers and watching TV is not good investment research! That's why many Americans begin investing not with individual stock picks, but with a broad based, low cost index fund. That way you're broadly diversified from the beginning. As you find more time and gain confidence, you'll know whether you've got the interest to select individual stocks.

Do your homework. You owe it to yourself to check out any investment and investment professional with whom you do business. A few simple steps can save a great deal of heartache.

- Before doing business with any investment professional, take full advantage of the power of the internet to check computerized databases for disciplinary information. Then contact your state securities regulator to find out if they have any additional information.
- Before buying any stock, check out the company's financial statements on the SEC's website. (See chapter in this guide on "Understanding Financial Statements.") All but the smallest public companies have to file financial statements with us. If the company doesn't file with us, you'll have to do a great deal of work on your own to make sure the company is legitimate and the investment appropriate for you. That's because the lack of reliable, readily available information about company finances can open the door to fraud.
- Before purchasing any investment, make sure you read and understand all the disclosures you're given. The federal securities laws require that you be given lots of helpful information, such as a prospectus, but you'll have to take the initiative to understand what you're given.

It's up to you to educate yourself to make sure that all of your investments match your goals and tolerance for risk. Don't be afraid to ask questions - it is your money!

Protect yourself. Always remember that people who sell investment products make money by doing so. Which doesn't mean that they'll give you bad advice, but it does mean that you've got to take responsibility for evaluating any recommendations you get. We advise people to never rely solely on an analyst's recommendation when deciding whether to buy, hold, or sell a stock. Instead, do your own research-such as reading the prospectus for new companies or for public companies, the quarterly and annual reports filed with the SEC-to confirm whether a particular investment is appropriate for you in light of your individual financial circumstances. Don't buy any investment product you don't understand. And remember, any investment promising high returns necessarily carries a high risk that you'll lose your money.

Developing a Financial Plan

Define Your Goals. To end up where you want to be, you'll need a roadmap, a financial plan. To get started on your plan, you'll need to ask yourself what are the things you want to save and invest for. Here are some possibilities:

- A home
- A car
- An education
- A comfortable retirement
- Your children
- Medical or other emergencies
- Periods of unemployment
- Caring for parents

Make your own list and then think about which goals are the most important to you. List your most important goals first.

What do you want to save for?

By When?

- | | | |
|----|--|--|
| 1. | | |
| 2. | | |
| 3. | | |

Decide how many years you have to meet each specific goal, because when you save or invest you'll need to find a savings or investment option that fits your time frame for meeting each goal.

Assessing Your Finances

Sit down and take an honest look at your entire financial situation. You can never take a journey without knowing where you're starting from, and a journey to financial security is no different. You'll need to figure out on paper your current situation – what you own and what you owe. You'll be creating a "net worth statement." On one side of the page, list what you own. These are your "assets." And on the other side list what you owe other people, your "liabilities"/debts.

Your Net Worth Statement	Assets	Current Value	Liabilities	Amount
	cash	_____	mortgage balance	_____
	checking account	_____	credit cards	_____
	savings	_____	bank loans	_____
	cash value of life insurance	_____	car loans	_____
	retirement accounts	_____	personal loans	_____
	real estate	_____	real estate	_____
	home	_____		_____
	other	_____		_____
	investments	_____		_____
	personal property	_____		_____
	total	_____	total	_____

Subtract your liabilities from your assets. If your assets are larger than your liabilities, you have a “positive” net worth. If your liabilities are greater than your assets, you have a “negative” net worth. You’ll want to update your “net worth statement” every year to keep track of how you are doing. Don’t be discouraged if you have a negative net worth. If you follow a plan to get into a positive position, you’re doing the right thing.

Know Your Expenses and Income. The next step is to keep track of your income and your expenses for every month. Write down what you and others in your family earn, and then your monthly expenses. Include a category for savings and investing. What are you paying yourself every month? Many people get into the habit of saving and investing by following this advice: always pay yourself or your family first. Many people find it easier to pay themselves first if they allow their bank to automatically remove money from their paycheck and deposit it into a savings or investment account. Likely even better, for tax purposes, is to participate in an employer sponsored retirement plan such as a 401(k), 403(b), or 457(b). These plans will typically not only automatically deduct money from your paycheck, but will immediately reduce the taxes you are paying. Additionally, in many plans the employer matches some or all of your contribution. When your employer does that, it’s offering “free money.” Any time you have automatic deductions made from your paycheck or bank account, you’ll increase the chances of being able to stick to your plan and to realize your goals.

“But I Spend Everything I Make.” If you are spending all your income, and never have money to save or invest, you’ll need to look for ways to cut back on your expenses. When you watch where you spend your money, you will be surprised how small everyday expenses that you can do without add up over a year.

Monthly Income & Expenses Worksheet

Income:	_____
Expenses:	
Savings	_____
Investments	_____
Housing:	
Rent	_____
Mortgage	_____
Electricity	_____
Gas/Oil	_____
Telephone	_____
Sewer/Water	_____
Property Tax	_____
Furniture	_____
Food	_____
Transportation	_____
Loans	_____
Insurance	_____
Education	_____
Recreation	_____
Healthcare	_____
Gifts	_____
Other	_____
Total Expenses	_____

Small Savings Add Up to Big Money. How much does a cup of coffee cost you? Would you believe \$465.84? Or more? If you buy a cup of coffee every day for \$1.00 (an awfully good price for a decent cup of coffee, nowadays), that adds up to \$365.00 a year. If you saved that \$365.00 for just one year, and put it into a savings account or investment that earns 5% a year, it would grow to \$465.84 by the end of 5 years, and by the end of 30 years, to \$1,577.50.

That's the power of "compounding." With compound interest, you earn interest on the money you save and on the interest that money earns. Over time, even a small amount saved can add up to big money.

If you are willing to watch what you spend and look for little ways to save on a regular schedule, you can make money grow. You just did it with one cup of coffee. If a small cup of coffee can make such a huge difference, start looking at how you could make your money grow if you decided to spend less on other things and save those extra dollars. If you buy on impulse, make a rule that you'll always wait 24 hours to buy anything. You may lose your desire to buy it after a day. And try emptying your pockets and wallet of spare change at the end of each day. You'll be surprised how quickly those nickels and dimes add up!

Pay Off Credit Card or Other High Interest Debt. Speaking of things adding up, there is no investment strategy anywhere that pays off as well as, or with less risk than, merely paying off all high interest debt you may have. Many people have wallets filled with credit cards, some of which they've "maxed out" (meaning they've spent up to their credit limit). Credit cards can make it seem easy to buy expensive things when you don't have the cash in your pocket—or in the bank. But credit cards aren't free money.

Most credit cards charge high interest rates—as much as 18 percent or more—if you don't pay off your balance in full each month. If you owe money on your credit cards, the wisest thing you can do is pay off the balance in full as quickly as possible. Virtually no investment will give you the high returns you'll need to keep pace with an 18 percent interest charge. That's why you're better off eliminating all credit card debt before investing savings. Once you've paid off your credit cards, you can budget your money and begin to save and invest.

Here are some tips for avoiding credit card debt:

- **Put Away the Plastic** - Don't use a credit card unless your debt is at a manageable level and you know you'll have the money to pay the bill when it arrives.
- **Know What You Owe** - It's easy to forget how much you've charged on your credit card. Every time you use a credit card, write down how much you have spent and figure out how much you'll have to pay that month. If you know you won't be able to pay your balance in full, try to figure out how much you can pay each month and how long it'll take to pay the balance in full.
- **Pay Off the Card with the Highest Rate** - If you've got unpaid balances on several credit cards, you should first pay down the card that charges the highest rate. Pay as much as you can toward that debt each month until your balance is once again zero, while still paying the minimum on your other cards. The same advice goes for any other high interest debt (about 8% or above) which does not offer the tax advantages of, for example, a mortgage. Once you have paid off those credit cards and begun to set aside some money to save and invest, you're in the savings habit! Now you are freeing up some money to save and invest.

Savings. Your "savings" are usually put into the safest places or products that allow you access to your money at any time. Examples include savings accounts, checking accounts, and certificates of deposit. At some banks and savings and loan associations your deposits may be insured by the Federal Deposit Insurance Corporation (FDIC). But there's a tradeoff for security and ready availability. Your money is paid a low wage as it works for you.

Most smart investors put enough money in a savings product to cover an emergency, like sudden unemployment. Some make sure they have up to 6 months of their income in savings so that they know it will absolutely be there for them when they need it.

But how "safe" is a savings account if you leave all your money there for a long time, and the interest it earns doesn't keep up with inflation? Let's say you save a dollar when it can buy a loaf of bread. But years later when you withdraw that dollar plus the interest you earned, it might only be able to buy half a loaf. That is why many people put some of their money in savings, but look to investing so they can earn more over long periods of time, say three years or longer.

Investing. When you "invest," you have a greater chance of losing your money than when you "save." Unlike FDIC-insured deposits, the money you invest in securities, mutual funds, and other similar investments are not federally insured. You could lose your "principal," which is the amount you've invested. That's true even if you purchase your investments through a bank. But when you invest, you also have the opportunity to earn more money than when you save.

But what about risk? All investments involve taking on risk. It's important that you go into any investment in stocks, bonds or mutual funds with a full understanding that you could lose some or all of your money in any one investment. While over the long term the stock market has historically provided around 10% annual returns (closer to 6% or 7% "real" returns when you subtract for the effects of inflation), the long term does sometimes take a rather long, long time to play out. Those who invested all of their money in the stock market at its peak in 1929 (before the stock market crash) would wait over 20 years to see the stock market return to the same level. However, those that kept adding money to the market throughout that time would have done very well for themselves, as the lower cost of stocks in the 1930s made for some hefty gains for those who bought and held over the course of the next twenty years or more.

Diversification. It is true that the greater the risk, the greater the potential rewards in investing, but taking on unnecessary risk is often avoidable. Investors best protect themselves against risk by spreading their money among various investments, hoping that if one investment loses money, the other investments will more than make up for those losses. This strategy, called "diversification," can be neatly summed up as, "Don't put all your eggs in one basket." Investors also protect themselves from the risk of investing all their money at the wrong time (think 1929) by following a consistent pattern of adding new money to their investments over long periods of time.

Once you've saved money for investing, consider carefully all your options and think about what diversification strategy makes sense for you. While the SEC cannot recommend any particular investment product, you should know that a vast array of investment products exists—including stocks and stock mutual funds, corporate and municipal bonds, bond mutual funds, certificates of deposit, money market funds, and U.S. Treasury securities. Diversification can't *guarantee* that your investments won't suffer if the market drops. But it can improve the chances that you won't lose money, or that if you do, it won't be as much as if you weren't diversified.

Risk Tolerance. What are the best saving and investing products for you? The answer depends on when you will need the money, your goals, and if you will be able to sleep at night if you purchase a risky investment where you could lose your principal.

For instance, if you are saving for retirement, and you have 35 years before you retire, you may want to consider riskier investment products, knowing that if you stick to only the "savings" products or to less risky investment products, your money will grow too slowly—or given inflation or taxes, you may lose the purchasing power of your money. A frequent mistake people make is putting money they will not need for a very long time in investments that pay a low amount of interest.

On the other hand, if you are saving for a short-term goal, five years or less, you don't want to choose risky investments, because when it's time to sell, you may have to take a loss. Since investments often move up and down in value rapidly, you want to make sure that you can wait and sell at the best possible time.

3

Investment Products: Your Choices

When you make an investment, you are giving your money to a company or an enterprise, hoping that it will be successful and pay you back with even more money. Some investments make money, and some don't.

You can potentially make money in an investment if:

- The company performs better than its competitors. Other investors recognize it's a good company, so that when it comes time to sell your investment, others want to buy it.
- The company makes profits, meaning they make enough money to pay you interest for your bond, or maybe dividends on your stock.

You can lose money if:

- The company's competitors are better than it is.
- Consumers don't want to buy the company's products or services.
- The company's officers fail at managing the business well, they spend too much money, and their expenses are larger than their profits.
- Other investors that you would need to sell to think the company's stock is too expensive given its performance and future outlook.
- The people running the company are dishonest. They use your money to buy homes, clothes, and vacations, instead of using your money on the business.
- They lie about any aspect of the business: claim past or future profits that do not exist, claim it has contracts to sell its products when it doesn't, or make up fake numbers on their finances to dupe investors.
- The brokers who sell the company's stock manipulate the price so that it doesn't reflect the true value of the company. After they pump up the price, these brokers dump the stock, the price falls, and investors lose their money.
- For whatever reason, you have to sell your investment when the market is down.

Two investment options that you may consider making are Stocks & Bonds and Mutual Funds. Below we will outline each investment type.

Stocks and Bonds

Many companies offer investors the opportunity to buy either stocks or bonds. The following example shows you how stocks and bonds differ.

Let's say you believe that a company that makes automobiles may be a good investment. Everyone you know is buying one of its cars, and your friends report that the company's cars rarely break down and run well for years. You either have an investment professional investigate the company and read as much as possible about it, or you do it yourself.

After your research, you're convinced it's a solid company that will sell many more cars in the years ahead. The automobile company offers both stocks and bonds. With the bonds, the company agrees to pay you back your initial investment in ten years, plus pay you interest twice a year at the rate of 8% a year.

If you buy the stock, you take on the risk of potentially losing a portion or all of your initial investment if the company does poorly or the stock market drops in value. But you also may see the stock increase in value beyond what you could earn from the bonds. If you buy the stock, you become an "owner" of the company.

You wrestle with the decision. If you buy the bonds, you will get your money back plus the 8% interest a year. And you think the company will be able to honor its promise to you on the bonds because it has been in business for many years and doesn't look like it could go bankrupt. The company has a long history of making cars and you know that its stock has gone up in price by an average of 9% a year, plus it has typically paid stockholders a dividend of 3% from its profits each year.

You take your time and make a careful decision. Only time will tell if you made the right choice. You'll keep a close eye on the company and keep the stock as long as the company keeps selling a quality car that consumers want to drive, and it can make an acceptable profit from its sales.

Mutual Funds

Because it is sometimes hard for investors to become experts on various businesses—for example, what are the best steel, automobile, or telephone companies—investors often depend on professionals who are trained to investigate companies and recommend companies that are likely to succeed.

Since it takes work to pick the stocks or bonds of the companies that have the best chance to do well in the future, many investors choose to invest in mutual funds.

An Introduction to Mutual Funds. 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.

This section explains the basics of mutual fund investing – how mutual funds work, what factors to consider before investing, and how to avoid common pitfalls.

Key Points to Remember:

- 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. 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, non-legal 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 semi-annual 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.

Advantages and Disadvantages. 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 websites 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 website. 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 website, 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.

You can earn money from your investment in Funds in three ways:

- **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.
- **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.
- **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. 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.

A Word About Derivatives

Derivatives are financial instruments whose performance is derived, at least in part, from the performance of an underlying asset, security, or index. Even small market movements can dramatically affect their value, sometimes in unpredictable ways.

There are many types of derivatives with many different uses. A fund's prospectus will disclose whether and how it may use derivatives. You may also want to call a fund and ask how it uses these instruments.

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 sell 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 NASD 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 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 NASD 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 amounts are.

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 multi-class 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).

Key characteristics of the most common mutual fund share classes offered to individuals:

- **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 websites.

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:

	1- year	5-year (or life of fund)	10-year (or life of fund)
Return before taxes	___%	___%	___%
Return after taxes on distributions	___%	___%	___%
Return after taxes on distributions and sale of fund shares	___%	___%	___%
<hr/>			
<i>Index</i> (reflects no deductions for [fees, expenses, or taxes])	___%	___%	___%

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 towards 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 semi-annual reports within 60 days after the end of the fund's fiscal year and 60 days after the fund's fiscal mid-year. 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 mid-year for the semi-annual 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 website
- Contacting a broker that sells the fund's shares
- Searching the SEC's online databases

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).

Money Market Matters

Don't confuse a "money market fund" with a "money market deposit account." The names are similar, but they are completely different:

A money market fund is a type of mutual fund. It *is not* guaranteed or FDIC insured. When you buy shares in a money market fund, you should receive a prospectus.

A money market deposit account is a bank deposit. It *is* guaranteed and FDIC insured. When you deposit money in a money market deposit account, you should receive a Truth in Savings form.

If You Have Problems. If you encounter a problem with your mutual fund, you can complete a complaint form online at the SEC website or complete and send an SEC complaint form by mail.

Glossary of Key Mutual Fund Terms

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.

Account Fee — a fee that some funds separately impose on investors for the maintenance of their accounts. For example, accounts below a specified dollar amount may have to pay an account fee.

Back-end Load — a sales charge (also known as a "deferred sales charge") investors pay when they redeem (or sell) mutual fund shares, generally used by the fund to compensate brokers.

Classes — different types of shares issued by a single fund, often referred to as *Class A* shares, *Class B* shares, and so on. Each class invests in the same "pool" (or investment portfolio) of securities and has the same investment objectives and policies. But each class has different shareholder services and/or distribution arrangements with different fees and expenses and therefore different performance results.

Closed-End Fund — a type of investment company that does not continuously offer its shares for sale but instead sells a fixed number of shares at one time (in the initial public offering) which then typically trade on a secondary market, such as the New York Stock Exchange or the Nasdaq Stock Market. Legally known as a "closed-end company."

Contingent Deferred Sales Load — a type of back-end load, the amount of which depends on the length of time the investor held his or her shares. For example, a contingent deferred sales load might be (X)% if an investor holds his or her shares for one year, (X-1)% after two years, and so on until the load reaches zero and goes away completely.

Conversion — a feature some funds offer that allows investors to automatically change from one class to another (typically with lower annual expenses) after a set period of time. The fund's prospectus or profile will state whether a class ever converts to another class.

Deferred Sales Charge — see "back-end load" (above).

Distribution Fees — fees paid out of fund assets to cover expenses for marketing and selling fund shares, including advertising costs, compensation for brokers and others who sell fund shares, and payments for printing and mailing prospectuses to new investors and sales literature prospective investors. Sometimes referred to as "12b-1 fees."

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

Exchange-Traded Funds — a type of an investment company (either an open-end company or UIT) whose objective is to achieve the same return as a particular market index. ETFs differ from traditional open-end companies and UITs, because, pursuant to SEC exemptive orders, shares issued by ETFs trade on a secondary market and are only redeemable from the fund itself in very large blocks (blocks of 50,000 shares for example).

Expense Ratio — the fund's total annual operating expenses (including management fees, distribution (12b-1) fees, and other expenses) expressed as a percentage of average net assets.

Front-end Load — an upfront sales charge investors pay when they purchase fund shares, generally used by the fund to compensate brokers. A front-end load reduces the amount available to purchase fund shares.

Index Fund — describes a type of mutual fund or Unit Investment Trust (UIT) whose investment objective typically is to achieve the same return as a particular market index, such as the S&P 500 Composite Stock Price Index, the Russell 2000 Index, or the Wilshire 5000 Total Market Index.

Investment Adviser — generally, a person or entity who receives compensation for giving individually tailored advice to a specific person on investing in stocks, bonds, or mutual funds. Some investment advisers also manage portfolios of securities, including mutual funds.

Investment Company — a company (corporation, business trust, partnership, or limited liability company) that issues securities and is primarily engaged in the business of investing in securities. The three basic types of investment companies are mutual funds, closed-end funds, and unit investment trusts.

Load — see "Sales Charge."

Management Fee — fee paid out of fund assets to the fund's investment adviser or its affiliates for managing the fund's portfolio, any other management fee payable to the fund's investment adviser or its affiliates, and any administrative fee payable to the investment adviser that are not

included in the "Other Expenses" category. A fund's management fee appears as a category under "Annual Fund Operating Expenses" in the Fee Table.

Market Index — a measurement of the performance of a specific "basket" of stocks considered to represent a particular market or sector of the U.S. stock market or the economy. For example, the Dow Jones Industrial Average (DJIA) is an index of 30 "blue chip" U.S. stocks of industrial companies (excluding transportation and utility companies).

Mutual Fund — the common name for an open-end investment company. Like other types of investment companies, mutual funds pool money from many investors and invest the money in stocks, bonds, short-term money-market instruments, or other securities. Mutual funds issue redeemable shares that investors purchase directly from the fund (or through a broker for the fund) instead of purchasing from investors on a secondary market.

NAV (Net Asset Value) — the value of the fund's assets minus its liabilities. SEC rules require funds to calculate the NAV at least once daily. To calculate the NAV per share, simply subtract the fund's liabilities from its assets and then divide the result by the number of shares outstanding.

No-load Fund — a fund that does not charge any type of sales load. But not every type of shareholder fee is a "sales load," and a no-load fund may charge fees that are not sales loads. No-load funds also charge operating expenses.

Open-End Company — the legal name for a mutual fund. An open-end company is a type of investment company

Operating Expenses — the costs a fund incurs in connection with running the fund, including management fees, distribution (12b-1) fees, and other expenses.

Portfolio — an individual's or entity's combined holdings of stocks, bonds, or other securities and assets.

Profile — summarizes key information about a mutual fund's costs, investment objectives, risks, and performance. Although every mutual fund has a prospectus, not every mutual fund has a profile.

Prospectus — describes the mutual fund to prospective investors. Every mutual fund has a prospectus. The prospectus contains information about the mutual fund's costs, investment objectives, risks, and performance. You can get a prospectus from the mutual fund company (through its website or by phone or mail). Your financial professional or broker can also provide you with a copy.

Purchase Fee — a shareholder fee that some funds charge when investors purchase mutual fund shares. Not the same as (and may be in addition to) a front-end load.

Redemption Fee — a shareholder fee that some funds charge when investors redeem (or sell) mutual fund shares. Redemption fees (which must be paid to the fund) are not the same as (and may be in addition to) a back-end load (which is typically paid to a broker). The SEC generally limits redemption fees to 2%.

Sales Charge (or "Load") — the amount that investors pay when they purchase (front-end load) or redeem (back-end load) shares in a mutual fund, similar to a commission. The SEC's rules do

not limit the size of sales load a fund may charge, but NASD rules state that mutual fund sales loads cannot exceed 8.5% and must be even lower depending on other fees and charges assessed.

Shareholder Service Fees — fees paid to persons to respond to investor inquiries and provide investors with information about their investments. See also "12b-1 fees."

Statement of Additional Information (SAI) — conveys information about an open- or closed-end fund that is not necessarily needed by investors to make an informed investment decision, but that some investors find useful. Although funds are not required to provide investors with the SAI, they must give investors the SAI upon request and without charge. Also known as "Part B" of the fund's registration statement.

Total Annual Fund Operating Expense — the total of a fund's annual fund operating expenses, expressed as a percentage of the fund's average net assets. You'll find the total in the fund's fee table in the prospectus.

Unit Investment Trust (UIT) — a type of investment company that typically makes a one-time "public offering" of only a specific, fixed number of units. A UIT will terminate and dissolve on a date established when the UIT is created (although some may terminate more than fifty years after they are created). UITs do not actively trade their investment portfolios.

Certificates of Deposit: Tips for Investors

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.

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.

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.

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.) For more information about federal deposit insurance, 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.
- 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 semi-annually. 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 "multi-step" or "bonus rate" structure in which interest rates increase or decrease over time according to a pre-set 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:

- 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.
- If your broker can't resolve your problem, then talk to his or her branch manager.

- 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.
- If you're still not satisfied, then send a complaint using an online complaint form at the SEC. 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 the address below:

Office of Investor Education and Advocacy
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-0213

The SEC will forward your complaint to the firm's compliance department and ask that they look into the problem and respond to you in writing.

Please note that sometimes a complaint can be successfully resolved. But in many cases, the firm denies wrongdoing, and it comes down to one person's word against another's. In that case, we cannot do anything more to help resolve the complaint. We cannot act as a judge or an arbitrator to establish wrongdoing and force the firm to satisfy your claim. And we cannot act as your lawyer.

You should also contact the banking regulator that oversees the bank that issued the CD:

- The Board of Governors of the Federal Reserve System oversees state-chartered banks and trust companies that belong to the Federal Reserve System.
- The Federal Deposit Insurance Corporation regulates state-chartered banks that do not belong to the Federal Reserve System.
- The Office of the Controller of the Currency regulates banks that have the word "National" in or the letters "N.A." after their names.
- The National Credit Union Administration regulates federally chartered credit unions.
- The Office of Thrift Supervision oversees federal savings and loans and federal savings banks.

4

Beginner's Guide to Financial Statements

The Basics

If you can read a nutrition label or a baseball box score, you can learn to read basic financial statements. If you can follow a recipe or apply for a loan, you can learn basic accounting. The basics aren't difficult and they aren't rocket science.

This section is designed to help you gain a basic understanding of how to read financial statements. Just as a CPR class teaches you how to perform the basics of cardiac pulmonary resuscitation, this brochure will explain how to read the basic parts of a financial statement. It will not train you to be an accountant (just as a CPR course will not make you a cardiac doctor), but it should give you the confidence to be able to look at a set of financial statements and make sense of them.

Let's begin by looking at what financial statements do.

"Show me the money!" We all remember Cuba Gooding Jr.'s immortal line from the movie *Jerry Maguire*, "Show me the money!" Well, that's what financial statements do. They show you the money. They show you where a company's money came from, where it went, and where it is now.

There are four main financial statements:

- Balance sheets
- Income statements
- Cash flow statements
- Statements of shareholders' equity

Balance sheets show what a company owns and what it owes at a fixed point in time. Income statements show how much money a company made and spent over a period of time. Cash flow statements show the exchange of money between a company and the outside world also over a period of time. The fourth financial statement, called a "statement of shareholders' equity," shows changes in the interests of the company's shareholders over time.

Balance Sheets

A balance sheet provides detailed information about a company's assets, liabilities and shareholders' equity.

Assets are things that a company owns that have value. This typically means they can either be sold or used by the company to make products or provide services that can be sold. Assets include physical property, such as plants, trucks, equipment and inventory. It also includes things that can't be touched but nevertheless exist and have value, such as trademarks and patents. And cash itself is an asset. So are investments a company makes.

Liabilities are amounts of money that a company owes to others. This can include all kinds of obligations, like money borrowed from a bank to launch a new product, rent for use of a building, money owed to suppliers for materials, payroll a company owes to its employees, environmental cleanup costs, or taxes owed to the government. Liabilities also include obligations to provide goods or services to customers in the future.

Shareholders' equity is sometimes called capital or net worth. It's the money that would be left if a company sold all of its assets and paid off all of its liabilities. This leftover money belongs to the shareholders, or the owners, of the company.

The following formula summarizes what a balance sheet shows:

ASSETS = LIABILITIES + SHAREHOLDERS' EQUITY

A company's assets have to equal, or "balance," the sum of its liabilities and shareholders' equity.

A company's balance sheet is set up like the basic accounting equation shown above. On the left side of the balance sheet, companies list their assets. On the right side, they list their liabilities and shareholders' equity. Sometimes balance sheets show assets at the top, followed by liabilities, with shareholders' equity at the bottom.

Assets are generally listed based on how quickly they will be converted into cash. Current assets are things a company expects to convert to cash within one year. A good example is inventory. Most companies expect to sell their inventory for cash within one year. Noncurrent assets are things a company does not expect to convert to cash within one year or that would take longer than one year to sell. Noncurrent assets include fixed assets. Fixed assets are those assets used to operate the business but that are not available for sale, such as trucks, office furniture and other property.

Liabilities are generally listed based on their due dates. Liabilities are said to be either current or long-term. Current liabilities are obligations a company expects to pay off within the year. Long-term liabilities are obligations due more than one year away.

Shareholders' equity is the amount owners invested in the company's stock plus or minus the company's earnings or losses since inception. Sometimes companies distribute earnings, instead of retaining them. These distributions are called dividends.

A balance sheet shows a snapshot of a company's assets, liabilities and shareholders' equity at the end of the reporting period. It does not show the flows into and out of the accounts during the period.

Income Statements

An income statement is a report that shows how much revenue a company earned over a specific time period (usually for a year or some portion of a year). An income statement also shows the costs and expenses associated with earning that revenue. The literal "bottom line" of the statement usually shows the company's net earnings or losses. This tells you how much the company earned or lost over the period.

Income statements also report earnings per share (or "EPS"). This calculation tells you how much money shareholders would receive if the company decided to distribute all of the net earnings for the period. (Companies almost never distribute all of their earnings. Usually they reinvest them in the business.)

To understand how income statements are set up, think of them as a set of stairs. You start at the top with the total amount of sales made during the accounting period. Then you go down, one step at a time. At each step, you make a deduction for certain costs or other operating expenses associated with earning the revenue. At the bottom of the stairs, after deducting all of the expenses, you learn how much the company actually earned or lost during the accounting period. People often call this "the bottom line."

At the top of the income statement is the total amount of money brought in from sales of products or services. This top line is often referred to as gross revenues or sales. It's called "gross" because expenses have not been deducted from it yet. So the number is "gross" or unrefined.

The next line is money the company doesn't expect to collect on certain sales. This could be due, for example, to sales discounts or merchandise returns.

When you subtract the returns and allowances from the gross revenues, you arrive at the company's net revenues. It's called "net" because, if you can imagine a net, these revenues are left in the net after the deductions for returns and allowances have come out.

Moving down the stairs from the net revenue line, there are several lines that represent various kinds of operating expenses. Although these lines can be reported in various orders, the next line after net revenues typically shows the costs of the sales. This number tells you the amount of money the company spent to produce the goods or services it sold during the accounting period.

The next line subtracts the costs of sales from the net revenues to arrive at a subtotal called "gross profit" or sometimes "gross margin." It's considered "gross" because there are certain expenses that haven't been deducted from it yet.

The next section deals with operating expenses. These are expenses that go toward supporting a company's operations for a given period – for example, salaries of administrative personnel and costs of researching new products. Marketing expenses are another example. Operating expenses are different from "costs of sales," which were deducted above, because operating expenses cannot be linked directly to the production of the products or services being sold.

Depreciation is also deducted from gross profit. Depreciation takes into account the wear and tear on some assets, such as machinery, tools and furniture, which are used over the long term. Companies spread the cost of these assets over the periods they are used. This process of spreading these costs is called depreciation or amortization. The “charge” for using these assets during the period is a fraction of the original cost of the assets.

After all operating expenses are deducted from gross profit, you arrive at operating profit before interest and income tax expenses. This is often called “income from operations.”

Next companies must account for interest income and interest expense. Interest income is the money companies make from keeping their cash in interest-bearing savings accounts, money market funds and the like. On the other hand, interest expense is the money companies paid in interest for money they borrow. Some income statements show interest income and interest expense separately. Some income statements combine the two numbers. The interest income and expense are then added or subtracted from the operating profits to arrive at operating profit before income tax.

Finally, income tax is deducted and you arrive at the bottom line: net profit or net losses. (Net profit is also called net income or net earnings.) This tells you how much the company actually earned or lost during the accounting period. Did the company make a profit or did it lose money?

Earnings Per Share or EPS. Most income statements include a calculation of earnings per share or EPS. This calculation tells you how much money shareholders would receive for each share of stock they own if the company distributed all of its net income for the period. To calculate EPS, you take the total net income and divide it by the number of outstanding shares of the company.

Cash Flow Statements

Cash flow statements report a company’s inflows and outflows of cash. This is important because a company needs to have enough cash on hand to pay its expenses and purchase assets. While an income statement can tell you whether a company made a profit, a cash flow statement can tell you whether the company generated cash.

A cash flow statement shows changes over time rather than absolute dollar amounts at a point in time. It uses and reorders the information from a company’s balance sheet and income statement.

The bottom line of the cash flow statement shows the net increase or decrease in cash for the period. Generally, cash flow statements are divided into three main parts. Each part reviews the cash flow from one of three types of activities: (1) operating activities; (2) investing activities; and (3) financing activities.

Operating Activities. The first part of a cash flow statement analyzes a company’s cash flow from net income or losses. For most companies, this section of the cash flow statement reconciles the net income (as shown on the income statement) to the actual cash the company received from or used in its operating activities. To do this, it adjusts net income for any non-cash items (such as adding back depreciation expenses) and adjusts for any cash that was used or provided by other operating assets and liabilities.

Investing Activities. The second part of a cash flow statement shows the cash flow from all investing activities, which generally include purchases or sales of long-term assets, such as property, plant and equipment, as well as investment securities. If a company buys a piece of machinery, the cash flow statement would reflect this activity as a cash outflow from investing activities because it used cash. If the company decided to sell off some investments from an investment portfolio, the proceeds from the sales would show up as a cash inflow from investing activities because it provided cash.

Financing Activities. The third part of a cash flow statement shows the cash flow from all financing activities. Typical sources of cash flow include cash raised by selling stocks and bonds or borrowing from banks. Likewise, paying back a bank loan would show up as a use of cash flow.

Read the Footnotes

It's very important to *read the footnotes*. The footnotes to financial statements are packed with information. Here are some of the highlights:

- **Significant accounting policies and practices** – Companies are required to disclose the accounting policies that are most important to the portrayal of the company's financial condition and results. These often require management's most difficult, subjective or complex judgments.
- **Income taxes** – The footnotes provide detailed information about the company's current and deferred income taxes. The information is broken down by level – federal, state, local and/or foreign, and the main items that affect the company's effective tax rate are described.
- **Pension plans and other retirement programs** – The footnotes discuss the company's pension plans and other retirement or post-employment benefit programs. The notes contain specific information about the assets and costs of these programs, and indicate whether and by how much the plans are over- or under-funded.
- **Stock options** – The notes also contain information about stock options granted to officers and employees, including the method of accounting for stock-based compensation and the effect of the method on reported results.

Read the MD&A

You can find a narrative explanation of a company's financial performance in a section of the quarterly or annual report entitled, "Management's Discussion and Analysis of Financial Condition and Results of Operations." MD&A is *management's* opportunity to provide investors with its view of the financial performance and condition of the company. It's management's opportunity to tell investors what the financial statements show and do not show, as well as important trends and risks that have shaped the past or are reasonably likely to shape the company's future.

The SEC's rules governing MD&A require disclosure about trends, events or uncertainties known to management that would have a material impact on reported financial information. The purpose of MD&A is to provide investors with information that the company's management believes to be necessary to an understanding of its financial condition, changes in financial

condition and results of operations. It is intended to help investors to see the company through the eyes of management. It is also intended to provide context for the financial statements and information about the company's earnings and cash flows.

Financial Statement Ratios and Calculations

You've probably heard people banter around phrases like "P/E ratio," "current ratio" and "operating margin." But what do these terms mean and why don't they show up on financial statements? Listed below are just some of the many ratios that investors calculate from information on financial statements and then use to evaluate a company. As a general rule, desirable ratios vary by industry.

- Debt-to-equity ratio compares a company's total debt to shareholders' equity. Both of these numbers can be found on a company's balance sheet. To calculate debt-to-equity ratio, you divide a company's total liabilities by its shareholder equity, or

$$\text{Debt-to-Equity Ratio} = \text{Total Liabilities} / \text{Shareholders' Equity}$$

If a company has a debt-to-equity ratio of 2 to 1, it means that the company has two dollars of debt to every one dollar shareholders invest in the company. In other words, the company is taking on debt at twice the rate that its owners are investing in the company.

- Inventory turnover ratio compares a company's cost of sales on its income statement with its average inventory balance for the period. To calculate the average inventory balance for the period, look at the inventory numbers listed on the balance sheet. Take the balance listed for the period of the report and add it to the balance listed for the previous comparable period, and then divide by two. (Remember that balance sheets are snapshots in time. So the inventory balance for the previous period is the beginning balance for the current period, and the inventory balance for the current period is the ending balance.) To calculate the inventory turnover ratio, you divide a company's cost of sales (just below the net revenues on the income statement) by the average inventory for the period, or

$$\text{Inventory Turnover Ratio} = \text{Cost of Sales} / \text{Average Inventory for the Period}$$

If a company has an inventory turnover ratio of 2 to 1, it means that the company's inventory turned over twice in the reporting period.

- Operating margin compares a company's operating income to net revenues. Both of these numbers can be found on a company's income statement. To calculate operating margin, you divide a company's income from operations (before interest and income tax expenses) by its net revenues, or

$$\text{Operating Margin} = \text{Income from Operations} / \text{Net Revenues}$$

Operating margin is usually expressed as a percentage. It shows, for each dollar of sales, what percentage was profit.

- P/E ratio compares a company's common stock price with its earnings per share. To calculate a company's P/E ratio, you divide a company's stock price by its earnings per share, or

$$\text{P/E Ratio} = \text{Price per share} / \text{Earnings per share}$$

If a company's stock is selling at \$20 per share and the company is earning \$2 per share, then the company's P/E Ratio is 10 to 1. The company's stock is selling at 10 times its earnings.

- Working capital is the money leftover if a company paid its current liabilities (that is, its debts due within one-year of the date of the balance sheet) from its current assets.

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

Bringing It All Together

Although this guide discusses each financial statement separately, keep in mind that they are all related. The changes in assets and liabilities that you see on the balance sheet are also reflected in the revenues and expenses that you see on the income statement, which result in the company's gains or losses. Cash flows provide more information about cash assets listed on a balance sheet and are related, but not equivalent, to net income shown on the income statement. And so on. No one financial statement tells the complete story. But combined, they provide very powerful information for investors. And information is the investor's best tool when it comes to investing wisely.

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How to Pick A Financial Advisor

Are you the type of person who will read as much as possible about potential investments and ask questions about them? If so, maybe you don't need investment advice.

But if you're busy with your job, your children, or other responsibilities, or feel you don't know enough about investing on your own, then you may need professional investment advice. Investment professionals offer a variety of services at a variety of prices. It pays to comparison shop.

You can get investment advice from most financial institutions that sell investments, including brokerages, banks, mutual funds, and insurance companies. You can also hire a broker, an investment adviser, an accountant, a financial planner, or other professional to help you make investment decisions.

Investment Advisers and Financial Planners

Some financial planners and investment advisers offer a complete financial plan, assessing every aspect of your financial life and developing a detailed strategy for meeting your financial goals. They may charge you a fee for the plan, a percentage of your assets that they manage, or receive commissions from the companies whose products you buy, or a combination of these. You should know exactly what services you are getting and how much they will cost.

People or firms that get paid to give advice about investing in securities generally must register with either the SEC or the state securities agency where they have their principal place of business. To find out about advisers and whether they are properly registered, you can read their registration forms, called the "Form ADV." The Form ADV has two parts. Part 1 has information about the adviser's business and whether they've had problems with regulators or clients. Part 2 outlines the adviser's services, fees, and strategies. Before you hire an investment adviser, always ask for and carefully read both parts of the ADV. You can view an adviser's most recent Form ADV online by visiting the SEC website.

Remember, there is no such thing as a free lunch. Professional financial advisers do not perform their services as an act of charity. If they are working for you, they are getting paid for their efforts. Some of their fees are easier to see immediately than are others. But, in all cases, you should always feel free to ask questions about how and how much your adviser is being paid. And if the fee is quoted to you as a percentage, make sure that you understand what that translates to in dollars.

Brokers

Brokers make recommendations about specific investments like stocks, bonds, or mutual funds. While taking into account your overall financial goals, brokers generally do not give you a detailed financial plan. Brokers are generally paid commissions when you buy or sell securities through them. If they sell you mutual funds make sure to ask questions about what fees are included in the mutual fund purchase. Brokerages vary widely in the quantity and quality of the services they provide for customers. Some have large research staffs, large national operations, and are prepared to service almost any kind of financial transaction you may need. Others are small and may specialize in promoting investments in unproven and very risky companies. And there's everything else in between.

A discount brokerage charges lower fees and commissions for its services than what you'd pay at a full-service brokerage. But generally you have to research and choose investments by yourself.

A full-service brokerage costs more, but the higher fees and commissions pay for a broker's investment advice based on that firm's research. The best way to choose an investment professional is to start by asking your friends and colleagues who they recommend. Try to get several recommendations, and then meet with potential advisers face-to-face. Make sure you get along. Make sure you understand each other. After all, it's your money.

You'll want to find out if a broker is properly licensed in your state and if they have had run-ins with regulators or received serious complaints from investors. You'll also want to know about the brokers' educational backgrounds and where they've worked before their current jobs. To get this information, you can ask either your state securities regulator or the NASD to provide you with information from the CRD, which is a computerized database that contains information about most brokers, their representatives, and the firms they work for. Your state securities regulator may provide more information from the CRD than NASD, especially when it comes to investor complaints, so you may want to check with them first. You can find out how to get in touch with your state securities regulator through the North American Securities Administrators Association, Inc.'s website. You call NASD toll-free at (800) 289-9999.

Opening a Brokerage Account

When you open a brokerage account, whether in person or online, you will typically be asked to sign a new account agreement. You should carefully review all the information in this agreement because it determines your legal rights regarding your account.

Do not sign the new account agreement unless you thoroughly understand it and agree with the terms and conditions it imposes on you. Do not rely on statements about your account that are not in this agreement. Ask for a copy of any account documentation prepared for you by your broker.

The broker should ask you about your investment goals and personal financial situation, including your income, net worth, investment experience, and how much risk you are willing to take on. Be honest. The broker relies on this information to determine which investments will best meet your investment goals and tolerance for risk. If a broker tries to sell you an investment before asking you these questions, that's a very bad sign. It signals that the broker has a greater interest in earning a commission than recommending an investment to you that meets your needs.

The new account agreement requires that you make three critical decisions:

- Who will make the final decisions about what you buy and sell in your account?

You will have the final say on investment decisions unless you give “discretionary authority” to your broker. Discretionary authority allows your broker to invest your money without consulting you about the price, the type of security, the amount, and when to buy or sell. Do not give discretionary authority to your broker without seriously considering the risks involved in turning control over your money to another person.

- How will you pay for your investments?

Most investors maintain a “cash” account that requires payment in full for each security purchase. But if you open a “margin” account, you can buy securities by borrowing money from your broker for a portion of the purchase price.

Be aware of the risks involved with buying stocks on margin. Beginning investors generally should not get started with a margin account. Make sure you understand how a margin account works, and what happens in the worst case scenario before you agree to buy on margin.

Unlike other loans, like for a car or a home, that allow you to pay back a fixed amount every month, when you buy stocks on margin you can be faced with paying back the entire margin loan all at once if the price of the stock drops suddenly and dramatically. The firm has the authority to immediately sell any security in your account, without notice to you, to cover any shortfall resulting from a decline in the value of your securities. You may owe a substantial amount of money even after your securities are sold. The margin account agreement generally provides that the securities in your margin account may be lent out by the brokerage firm at any time without notice or compensation to you.

- How much risk should you assume?

In a new account agreement, you must specify your overall investment objective in terms of risk. Categories of risk may have labels such as “income,” “growth,” or “aggressive growth.” Be certain that you fully understand the distinctions among these terms, and be certain that the risk level you choose accurately reflects your age, experience and investment goals. Be sure that the investment products recommended to you reflect the category of risk you have selected.

When opening a new account, the brokerage firm may ask you to sign a legally binding contract to use the arbitration process to settle any future dispute between you and the firm or your sales representative. Signing this agreement means that you give up the right to sue your sales representative and firm in court.

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Ask Questions

You can never ask a dumb question about your investments and the people who help you choose them, especially when it comes to how much you will be paying for any investment, both in upfront costs and ongoing management fees.

Questions You Should Ask – and What To Do If You Run Into Problems

That's the best advice we can give you about how to invest wisely. We see too many investors who might have avoided trouble and losses if they had asked basic questions from the start.

We encourage you to thoroughly evaluate the background of any financial professional with whom you intend to do business – *before* you hand over your hard-earned cash.

Investor Tip

Which financial professional you select is very important for several reasons. You'll want to investigate thoroughly before doing business with a financial professional or firm that has a history of complaints or problems with regulators. Also, you should know that if your financial professional or his or her firm goes out of business or declares bankruptcy, you might not be able to recover your money—even if an arbitrator or a court rules in your favor.

It doesn't matter if you are a beginner or have been investing for many years, it's never too early or too late to start asking questions. It's almost impossible to ask a dumb question about how you are investing your money. Don't feel intimidated. Remember, it's your money at stake. You are paying for the assistance of a financial professional.

A good financial professional will welcome your questions, no matter how basic. Financial professionals know that an educated client is an asset, not a liability. They would rather answer your questions before you invest, than confront your anger and confusion later.

In this section, you'll find some questions that you should ask about investment products, the people who sell those products, and the people who provide investment advice to you. We've also included some tips on how to monitor your investments and handle any problems.

Keep this information on hand when considering an investment and use it by asking the right questions before you buy. Have a pen and piece of paper ready to take notes on the answers. They can come in handy if there is a dispute later about what was said during the transaction. Taking notes also sends a signal to your financial professional: I'm a smart and serious investor who wants to know more about the risks and rewards of investing.

Questions about Products:

- Is this investment product registered with the SEC and my state securities agency?
- Does this investment match my investment goals? Why is this investment suitable for me?
- How will this investment make money? (Dividends? Interest? Capital gains?) Specifically, what must happen for this investment to increase in value? (For example, increase in interest rates, real estate values, or market share?)
- What are the total fees to purchase, maintain, and sell this investment? Are there ways that I can reduce or avoid some of the fees that I'll pay, such as purchasing the investment directly? After all the fees are paid, how much does this investment have to increase in value before I break even?
- How liquid is this investment? How easy would it be to sell if I needed my money right away?
- What are the specific risks associated with this investment? What is the maximum I could lose? (For example, what will be the effect of changing interest rates, economic recession, high competition, or stock market ups and downs?)
- How long has the company been in business? Is its management experienced? Has management been successful in the past? Have they ever made money for investors before?
- Is the company making money? How are they doing compared to their competitors?
- Where can I get more information about this investment? Can I get the latest reports filed by the company with the SEC: a prospectus or offering circular, or the latest annual report and financial statements?

For mutual funds:

- How has this fund performed over the long run? Where can I get an independent evaluation of this fund?
- What specific risks are associated with this fund?
- What type of securities does the fund hold? How often does the portfolio change?
- Does this mutual fund invest in any type of securities that could cause the value to go up or down rapidly in a short period of time? (For example, derivatives?)

- How does the fund perform compared to other funds of the same type or to an index of the same type of investment?
- How much will the fund charge me when I buy shares? What ongoing fees are charged? How much will the fund charge me when I sell shares?
- Is the fund portable? If I move my assets to another firm, will I be able to continue holding the fund or will I need to liquidate it?

Questions About The People Who Sell Investments or Provide Investment Advice:

- Are you registered with our state securities regulator? Have you ever been disciplined by the SEC, a state regulator, or other organization (such as the Financial Industry Regulatory Authority (FINRA) or one of the stock exchanges)?
- How long has your firm been in business? How many arbitration awards have been filed against your firm?
- What training and experience do you have? How long have you been in the business? What other firms have you been registered with? What is the status of those firms today?
- Have you personally been involved in any arbitration cases? What happened?
- What is your investment philosophy?
- Describe your typical client. Can you provide me with some names and telephone numbers of your long term clients?
- How do you get paid? By commission? Amount of assets you manage? Another method?
- Do I have any choices on how to pay you? Should I pay you by the transaction? Or a flat fee regardless of how many transactions I have?
- Do you make more if I buy this stock (or bond, or mutual fund) rather than another? If you weren't making extra money, would your recommendation be the same?
- Are you participating in a sales contest? Is this purchase really in my best interest, or are you trying to win a prize?
- You've told me what it costs me to buy this stock (or bond, or mutual fund); how much will I receive if I sell it today?
- Where do you send my order to be executed? Can we get a better price if we send it to another market?
- If your financial professional changes firms, ask: Did they pay you to change firms? Do you get anything for bringing me along?

Questions About the Progress of Your Investments:

- How frequently do I get statements? Do I understand what the statement tells me?
- Is the return on my investment meeting my expectations and goals? Is this investment performing as I was led to believe?
- How much money will I get back if I sell my investment today?
- How much am I paying in commission or fees?
- Have my goals changed? If so, are my investments still suitable?
- What criteria will I use to decide when to sell?

How to Handle Problems:

Act promptly! By law, you only have a limited time to take legal action. Follow these steps to solve your problem:

- Talk to your financial professional and explain the problem. Where is the fault? Were communications clear? Refer to your notes. What did the financial professional tell you? What do your notes say?
- If your financial professional can't resolve your problem, then talk to the financial professional's supervisor (which, for brokers, is often the firm's branch manager).
- If the problem is still not resolved, write to the compliance department at the firm's main office. Explain your problem clearly, and how you want it resolved. Ask the compliance office to respond to you within 30 days. If you're still not satisfied Send your complaint to the SEC by using the SEC online complaint form or you can reach the SEC directly as follows:

Securities and Exchange Commission
Office of Investor Education and Advocacy
100 F Street, N.E.
Washington, D.C. 20549-0213

The SEC will research your complaint, contact the firm or person you have complained about and ask them to respond to your specific complaint or question. Sometimes our intervention yields a satisfactory result. If these steps don't work, you may need to take legal action on your own. We can send you information on mediation and arbitration, and suggest how to locate a lawyer if you need one.

7

Monitoring Your Investment

Investing makes it possible for your money to work for you. In a sense, your money has become your employee, and that makes you the boss. You'll want to keep a close watch on how your employee, your money, is doing.

Some people like to look at the stock quotations every day to see how their investments have done. That's probably too often. You may get too caught up in the ups and downs of the "trading" value of your investment, and sell when its value goes down temporarily—even though the performance of the company is still stellar. Remember, you're in for the long haul.

Some people prefer to see how they're doing once a year. That's probably not often enough. What's best for you will most likely be somewhere in between, based on your goals and your investments.

But it's not enough to simply check an investment's performance. You should compare that performance against an index of similar investments over the same period of time to see if you are getting the proper returns for the amount of risk that you are assuming. You should also compare the fees and commissions that you're paying to what other investment professionals charge.

While you should monitor performance regularly, you should pay close attention every time you send your money somewhere else to work.

- Every time you buy or sell an investment you will receive a confirmation slip from your broker. Make sure each trade was completed according to your instructions. Make sure the buying or selling price was what your broker quoted. And make sure the commissions or fees are what your broker said they would be.
- Watch out for unauthorized trades in your account. If you get a confirmation slip for a transaction that you didn't approve beforehand, call your broker. It may have been a mistake. If your broker refuses to correct it, put your complaint in writing and send it to the firm's compliance officer. Serious complaints should always be made in writing.
- Remember, too, that if you rely on your investment professional for advice, he or she has an obligation to recommend investments that match your investment goals and tolerance for risk. Your investment professional should not be recommending trades simply to generate commissions. That's called "churning," and it's illegal.

How to Avoid Problems

Choosing someone to help you with your investments is one of the most important investment decisions you will ever make. While most investment professionals are honest and hardworking, you must watch out for those few unscrupulous individuals. They can make your life's savings disappear in an instant.

Securities regulators and law enforcement officials can and do catch these criminals. But putting them in jail doesn't always get your money back. Too often, the money is gone. The good news is you can avoid potential problems by protecting yourself.

Let's say you've already met with several investment professionals based on recommendations from friends and others you trust, and you've found someone who clearly understands your investment objectives. Before you hire this person, you still have more homework.

Make sure the investment professional and her firm are registered with the SEC and licensed to do business in your state. And find out from your state's securities regulator whether the investment professional or her firm have ever been disciplined, or whether they have any complaints against them. You'll find contact information for securities regulators in the U.S. by visiting the website of the North American Securities Administrators Association (NASAA) or by calling (202) 737-0900.

You should also find out as much as you can about any investments that your investment professional recommends. First, make sure the investments are registered. Keep in mind, however, the mere fact that a company has registered and files reports with the SEC doesn't guarantee that the company will be a good investment.

Likewise, the fact that a company hasn't registered and doesn't file reports with the SEC doesn't mean the company is a fraud. Still, you may be asking for serious losses if, for instance, you invest in a small, thinly traded company that isn't widely known solely on the basis of what you may have read online. One simple phone call to your state regulator could prevent you from squandering your money on a scam.

Be wary of promises of quick profits, offers to share "inside information," and pressure to invest before you have an opportunity to investigate. These are all warning signs of fraud.

Ask your investment professional for written materials and prospectuses, and read them before you invest. If you have questions, now is the time to ask.

- How will the investment make money?
- How is this investment consistent with my investment goals?
- What must happen for the investment to increase in value?
- What are the risks?
- Where can I get more information?
- What If I Have a Problem?

Finally, it's always a good idea to write down everything your investment professional tells you. Accurate notes will come in handy if ever there's a problem.

Some investments make money. Others lose money. That's natural, and that's why you need a diversified portfolio to minimize your risk. But if you lose money because you've been cheated, that's not natural, that's a problem.

Sometimes all it takes is a simple phone call to your investment professional to resolve a problem. Maybe there was an honest mistake that can be corrected. If talking to the investment professional doesn't resolve the problem, talk to the firm's manager, and write a letter to confirm your conversation. If that doesn't lead to a resolution, you may have to initiate private legal action. You may need to take action quickly because legal time limits for doing so vary. Your local bar association can provide referrals for attorneys who specialize in securities law. At the same time, call or write to the SEC and let them know what the problem was. Investor complaints are very important to the SEC. You may think you're the only one experiencing a problem, but typically, you're not alone. Sometimes it takes only one investor's complaint to trigger an investigation that exposes a bad broker or an illegal scheme.



Beware: Investment Scams

Investment Scams

Although the investment world is a relatively safe place, unfortunately there are unscrupulous people who wish to prey on investors. In addition to following the steps on choosing reputable professions in the previous sections of this guide. It is important to watch for scams that have been identified by various law enforcement and government entities. Although these scams impact general investors, there are variations that have impacted those investing for educational purposes. Remember the old adage, “if it sounds too good to be true, it probably is.”

Ponzi Schemes. In this scheme investors are told a cover story about how the business will earn money to allow it to pay high returns to its investors. In fact, the business is earning little or no money. Instead it repays early investors “profits” which are really money raised from new investors. Eventually the scheme collapses when the pool of new investor money runs dry. The scam artists often blame government intervention as the reason why new investors did not get their promised returns.

How to protect yourself:

- When you are offered an investment promising high returns, stop and think before you commit yourself.
- Don’t be swayed by “scarcity” tactics saying that the supply of the investment is limited and you have to act now to make sure you can get in on the deal.
- Do you understand how the investment works?
- If the claimed return for an investment is much higher than other investments make sure you understand the risks of the investment. Remember that if an investment sounds too good to be true, it usually is.
- Check to see if the person selling the investment or the investment vehicle is registered with your state of the SEC

Senior Fraud. Seniors are targeted by scam artists because they are “where the money is.” Volatile stock markets, low interest rates, rising health care costs, and increasing life expectancy, combine to create a perfect storm for investment fraud against senior investors. Older investors are being targeted with increasingly complex investment scams involving unregistered securities, promissory notes, charitable gift annuities, viatical settlements, and

Ponzi schemes, all promising inflated returns. To learn more, visit NASAA's Senior Investor Resource Center at http://nasaa.org/Investor_Education/Senior_Investor_Resource_Center/.

How to protect yourself:

- Don't let scare tactics cause you to make a hasty decision to lock up your money in an illiquid investment.
- If there really is something to worry about, take the time to consult with trusted family members and advisors to see what options are available to you.
- Make sure you understand what the costs of the investment are, how much the person selling it will be paid if you buy, and any restrictions or costs that might limit your ability to get your money out if you want or need to.
- Check to see if the person selling the investment or the investment vehicle is registered with your state of the SEC

Promissory Notes. A long-time member of the Top 10 list, these short-term debt instruments often are issued by little known or non-existent companies promising high returns — upwards of fifteen percent monthly — with little or no risk. When interest rates are low, investors often are lured by the higher, fixed returns that promissory notes offer. These notes, however, can become vehicles for fraud when the issuer of the note has no intention or capability of ever delivering the returns promised by the sales person.

How to protect yourself:

- A promissory note is only as good as the ability of the company to pay on the note.
- Make sure you understand the financial condition of the company and whether it is likely to be in a position to pay you back.
- Make sure you get a financial statement for the company.
- If you aren't familiar with financial statements, have someone you trust with an accounting background look at the statement for you.
- Check to see if the person selling the investment or the investment vehicle is registered with your state of the SEC

Unscrupulous Brokers. While many investors find their stockbroker's assistance helpful, they should also take precautions and educate themselves to detect any problems that might occur.

How to protect yourself. Before you choose a broker:

- Make sure the broker is licensed
- Check to see if the broker has any history of complaints. Call FINRA's BrokerCheck Program hotline at 1.800.289-9999.
- Once you have established a relationship with a broker:

- Read and keep the materials the broker provides to you.
- Keep notes of conversations with your broker.
- Review statements carefully to see that your instructions were followed. If you see anything that does not look right, follow up with the broker promptly. If the broker does not answer your questions, speak with the branch manager.
- Remember that it's your account and your money so make sure that you understand and are comfortable with the level of risk of the investments in your account.

Affinity Fraud. Con artists know that it's only human nature for us to trust people who are like us. That's why scammers often use a victim's religious or ethnic identity to gain the victim's trust and then steal his or her life savings. No group seems to be immune from fraud.

How to protect yourself:

- Just because others you know have invested does not mean that an investment is right for you.
- Invest only if you understand how an investment works.
- Check to see if the person selling the investment or the investment vehicle is registered with your state of the SEC
- Ask what the person selling the investment will be paid if you buy the investment.
- Remember that if an investment sounds too good to be true, it usually is too good to be true.

Unlicensed Securities Sellers. Fraudulent and high-risk investments, such as promissory notes, oil and gas deals, gold or mining stock, and viatical settlements continue to be sold by unlicensed individuals. Scam artists continue to entice independent sales agents into selling investments they may know little about. The person running the scam instructs the independent sales force — sometimes investment advisers, insurance agents or accountants — to promise high returns with little or no risk.

How to protect yourself:

- Check to see if the person selling the investment or the investment vehicle is registered with your state of the SEC
- Check to see if the broker has any history of complaints. Call FINRA's BrokerCheck Program hotline at 1.800.289-9999.
- Find out whether the seller has been the subject of any complaints.

Prime Bank Schemes. Another perennial favorite of con artists who promise investors triple-digit returns through access to the investment portfolios of the world's elite or "prime" banks. Now it is common to avoid the term "Prime Bank" altogether and underplay the role of banks by referring to these schemes as "risk free guaranteed high yield instruments" or something equally

deceptive. These “High Yield Programs” often reference the use of “treasury securities,” “letters of credit” or similar methods. Scammers often use the allure of “tax free” money by using “offshore accounts” to entice investors.

How to protect yourself

- Don't fall prey to fantasies of great wealth.
- Beware if you are sworn to secrecy about the investment.
- Invest only if you understand how an investment works.
- Check to see if the person selling the investment or the investment vehicle is registered with your state of the SEC.
- Make sure you understand the investment. If it sounds too good to be true, it probably is.
- Don't let your natural dislike of paying taxes cause you to invest in an offshore scheme where you lose control of your money. It's better to pay some tax on the profits from your investment than to lose your whole investment to schemers.

Internet Fraud. Scams using the Internet have rapidly increased as scam artists have found that it is a cheap and anonymous way to reach their potential victims. Most Internet scams are not new, but simply done online rather than by mail, telephone or in person. Spam e-mails, chat rooms and online investment “newsletters” often promote stocks with hype and false information in the hope that unsuspecting investors looking to make a “quick profit” will buy and drive up the price of the stock.

Unfortunately, it is the promoters of the hype and false info who are able to sell their shares and leave investors “holding the empty bag” when the price stock crashes. Internet scam artists can be difficult to identify and may be located out of the country, beyond the reach of U.S. laws. Investors should ignore e-mail offers from individuals representing themselves as Nigerian or West African government, business officials or anyone in need of help to deposit large sums of money in overseas bank accounts. Don't be dot.conned.

How to protect yourself:

- Ignore unsolicited e-mail offers of investments. If you get an e-mail pitching a deal that can't be beat, hit delete.
- Ignore “phishing” e-mail messages that ask you to provide identifying information such as your birth date or social security number to update the records at your financial institution.
- Don't rely solely on what you read on a Web page.
- Remember that it is easy for scam artists to create slick and professional looking websites or post false information.

Free Lunches and Dinners. Many investments (particularly seniors) are being targeted with dubious free lunch or dinner seminars advertised as “educational.” A yearlong study of free-meal investment seminars by state securities regulators across the nation highlighted the

abusive tactics sometimes employed by seminar sponsors. Out of 110 supposedly "educational" seminars examined, all were actually sales presentations. Half of the seminars featured exaggerated or misleading claims about the performance of products being offered. Thirteen percent of the seminars were completely fraudulent.

How to protect yourself:

- Look at your alternatives before investing.
- Talk with trusted advisors or family members.
- Just because a sales agent did you a small favor, such as providing a meal does not mean you have any obligation to invest. Evaluate any investment offered on its merits, not on whether you received a favor from the seller.
- Ask what firm the presenter represents and what products he or she sells.
- Remember there are no free lunches.

Telemarketing Fraud. Hundreds of "boiler rooms" or high-pressure telephone sales operations peddle illegal or fraudulent investment products nationwide. These individuals will gladly accept the life savings of elderly persons who will never be able to recoup their loss. Many victims must return to the work force instead of enjoying the comfortable retirement they deserve, and the stress of their losses can have a deep impact on their emotional and physical well-being.

How to protect yourself:

- Don't let your politeness make you a victim:
- If you get an unsolicited telephone call offering a product, it's OK to hang up. If you start talking with the caller, it is easy to begin to see the caller as a friend. It's harder to say no to a friend, so it is best not to let the conversation get started.
- Practice what you will tell callers making unsolicited offers over the telephone: "Thank you, but I don't buy anything over the phone. [Click]"

WAEPA Life Insurance

For Civilian Federal Employees and Their Families

Better Insurance

WAEPA	FEGLI
Member Coverage \$25,000 up to \$750,000 (in \$25,000 increments)	Member Coverage Your Basic coverage is determined by your annual pay.
Dependent Coverage	Dependent Coverage
Spouse/Domestic Partner \$10,000 up to \$250,000 (in \$10,000 increments)	Spouse Option C is \$5,000 up to \$25,000 (in \$5,000 increments)
Children \$1,000 up to \$25,000	Children \$2,500 up to \$12,500 (in \$2,500 increments)

Better Prices

Prices based on bi-weekly premiums per \$1,000 of coverage.

Member's Age	WAEPA	FEGLI Basic	Basic Coverage Savings
25	2.3¢	15.0¢	85%
30	2.6¢	15.0¢	85%
35	3.1¢	15.0¢	79%
40	4.3¢	15.0¢	71%
45	6.2¢	15.0¢	59%
50	9.4¢	15.0¢	37%
55	14.3¢	15.0¢	5%
60	24.2¢	15.0¢	-

Better Value

- Premium Refunds: over \$39 million since 1996. In September 2008 alone WAEPA members received \$5.7 million in refunds.
- WAEPA College Scholarship Program: for children of WAEPA Life Insurance policyholders

WAEPA Eligibility Requirements

You're eligible if you're currently a non-military government or Postal Service employee, you are less than 65 years old, and you are a U.S. citizen.

You're also eligible if you are a former non-military federal employee, under age 65, currently receiving a government retirement annuity.

Act Today!

Complete the enclosed application to protect your family and start saving with WAEPA.

For a Complete Listing of Benefits and Rates, please visit

www.waepa.org

or call 1-800-368-3484

Underwritten by the following CIGNA companies:

Life Insurance Company of North America (LINA)
 Connecticut General Life Insurance Company (CG)
 CIGNA Companies (herein called the Insurance Company)

PLEASE COMPLETE PAGES 2, 3 & 4 OF THIS APPLICATION AND SIGN.

APPLICANT INFORMATION					
LIST BELOW ONLY INDIVIDUALS APPLYING FOR COVERAGE	RELATIONSHIP (TO APPLICANT)	BIRTH DATE (MM/DD/YY)	AGE	HEIGHT (FT. IN.)	WEIGHT (LBS.)
APPLICANT (Full Name)					
ELIGIBLE DEPENDENTS (Full Names)					

HEALTH QUESTIONS SECTION A

Within the last five years, have you or your eligible dependents been:

- diagnosed with any of the conditions shown in items A through J below,
 - told by a medical professional he/she has, or may have, any of the conditions shown in items A through J below,
 - or been treated by a medical professional for any of the conditions shown in items A through J below?
- A. High blood pressure, heart attack, chest pain or Angina, a heart murmur, poor circulation, or any other condition affecting the heart or circulatory system? Yes **or** No
- B. Diabetes, glandular condition, Hepatitis, or any condition affecting the esophagus, stomach, intestines, liver, or pancreas? Yes **or** No
- C. Asthma, Chronic Bronchitis, Emphysema, or any other condition affecting the lungs or respiratory tract? Yes **or** No
- D. Any condition affecting the kidneys, urinary tract, prostate gland, or reproductive system? Yes **or** No
- E. HIV infection, AIDS, or any other condition affecting the immune system or lymph nodes? Yes **or** No
- F. Stroke, Transient Ischemic Attack (TIA), Alzheimer's disease, paralysis, epilepsy, fainting, seizures, headaches, or other condition affecting the nervous system? Yes **or** No
- G. Anemia or any other condition affecting the blood, Lupus, Arthritis, deformity, or loss of limb? Yes **or** No
- H. Anxiety, Depression, Bipolar Disorder, or any other mental disorder or condition? Yes **or** No
- I. Cancer, Tumor, Leukemia, Hodgkin's Disease, Polyps, or Moles? Yes **or** No
- J. Alcohol or drug abuse or dependency? Yes **or** No

HEALTH QUESTIONS SECTION B

Within the last five years, have you or your eligible dependents:

- A. Used any controlled or illegal drug or other substance? Yes **or** No
- B. Been seen for, or been advised to have sought treatment for, observation and/or consultation for surgery, medical examination, and/or tests, such as blood, urine, X-rays, electrocardiograms, scans, biopsies, or any medical tests/exams not listed here or above, other than normal routine physical exams? Yes **or** No
- C. Used any medication prescribed by a physician or other medical practitioner, or used any form of alternative and complementary medical treatment or remedy, including herbs or acupuncture? Yes **or** No
- D. Been seen, sought treatment for, consulted, advised they had and/or received any medical advice from a health care practitioner for any disease, disorder and/or medical impairment not listed above? Yes **or** No

PHYSICIAN SECTION			
	Name	Contact Information	Street Address (City, State, & Zip)
Applicant Physician		Tel# Fax#	
Spouse/Domestic Partner Physician		Tel# Fax#	
Child(ren) Physician		Tel# Fax#	

Caution: Any person who knowingly and with intent to defraud any insurance company or other person: (1) files an application for insurance or statement of claim containing any materially false information; or (2) conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act.

USE THE SPACE BELOW TO EXPLAIN "YES" ANSWERS. IF MORE SPACE IS NEEDED, USE A NEW PAGE, SIGN AND DATE IT AND ATTACH TO THIS FORM.

Name of Person	Condition	Date Occurred	Duration/Treatment Received	Current Status

AGREEMENTS AND AUTHORIZATION

To the best of my knowledge and belief, all written, telephonic, and electronic information I gave is true and complete. I also understand that coverage for each of my dependents will not go into effect if a dependent is confined in a hospital or institution. The conditions for the requested insurance to be effective are described in the policy and certificate. The approval of this request by the Insurance Company is one of those conditions. I understand and agree that:

- (1) This request will be a part of the policy that provides the insurance.
- (2) I may need to provide more medical information.
- (3) I may need to take medical tests and report the results to the Insurance Company.
- (4) My dependent(s) may need to take medical tests. The results of those tests must be reported to the Insurance Company.
- (5) I must report any change in my health, or of a dependent for whom coverage is requested, that happens before the insurance is effective.
- (6) Requested insurance will not be effective for a person if the person does not meet the underwriting requirements on the date insurance is to be effective.

AUTHORIZATION

I permit any hospital, clinic, health care practitioner, pharmacy, benefit manager, employer, insurance company, or any other person or organization having information about the health, medical history, physical or mental condition, diagnosis or treatment, employment or income, or motor vehicle driving record, of me or my children to disclose to the Insurance Company or its authorized agent, any such information, for the purpose of underwriting this application for insurance or administering any claim under any insurance which is approved. This authorization is valid for 30 months from the date below. I accept that a copy of this Authorization is as valid as the original.

I understand that I and/or my authorized agent have the right to receive a copy of this authorization upon request.

I understand that the information will be used to assess my request for insurance.

I may revoke this authorization at any time in writing. Any such revocation will not: (1) change any action taken in reliance on the Authorization; and (2) change the Insurance Company's right to use the Authorization for contest of a claim or policy in accordance with the applicable law.

I understand that the information provided pursuant to this authorization may be disclosed by the recipient and is no longer subject to the protections of the Health Insurance Portability and Accountability Act (HIPAA). (The Insurance Companies are subject to the Gramm-Leach-Bliley act and state privacy laws. They do not disclose protected information except as permitted by those laws.)

X _____
 Applicant's Signature Date

X _____
 Signature of Spouse/Domestic Partner (if applying) Date

Notice: Personal information may be collected from persons other than those proposed for coverage. Information may be disclosed to third parties without your authorization as permitted by law. You have the right to access and correct all personal information collected. Additional information about the insurance company's privacy practices is available upon request.