भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

INVESTMENT PLANNING FOR RETIREMENT

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Published by:
Securities and Exchange Board of India, (SEBI)
October 2011

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Key Learning Objectives:

After reading this booklet, you will be able to understand the following:

- Need for an investment plan
- Financial implications of your investment decision
- Various investment avenues in the Indian financial market
- Investment strategies to achieve your financial goals
- Calculation of personal networth and annual personal budget

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1. INTRODUCTION

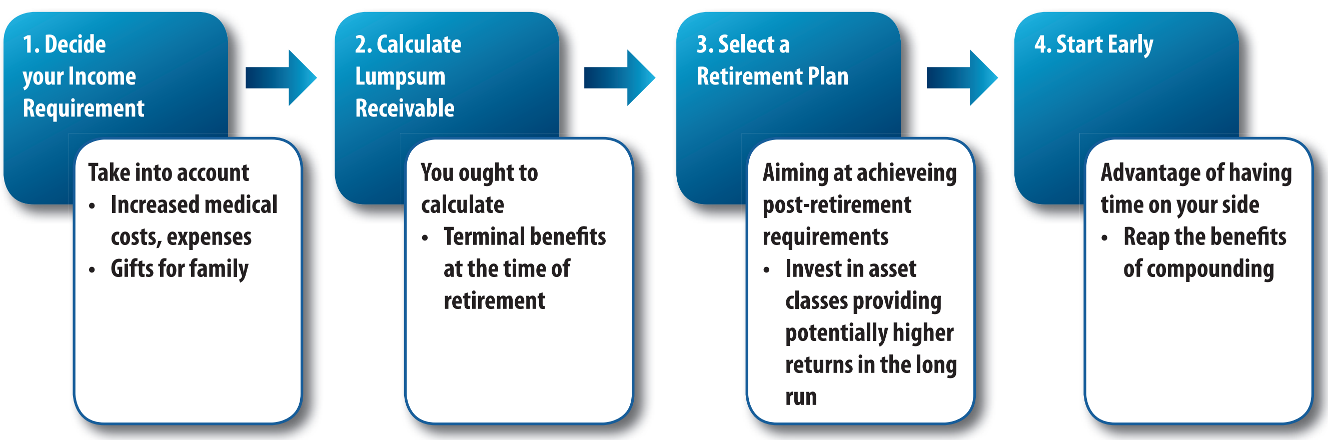
You have successfully passed through the many phases of life, overcame many hurdles in your long career, seen its ups and downs. Now it's the time to enter a new phase—Retirement. It means retiring from work, not life. Like changing from the fast lane to the slower lane where the drive is far more relaxed, scenic and full of pleasure. It's just another phase in one's life. However, don't forget that retirement is a state of mind as well as a financial issue.

For most people, the regular income comes in the form of a salary, which is paid monthly. Because of the regularity of income during our working life, we usually adapt our spending to fit in with our income patterns. By the time retirement comes around we usually have our income and spending patterns well practised, although these may change a little in retirement. During retirement, or at some stage before, we also need to plan what we are going to do with our retirement savings. Usually this will involve looking at what to do with our superannuation money and any other savings that we may have accumulated along the way. In view of the above facts, it falls on the concerned person to do financial planning in a way he/she not only maintains the lifestyle but also has financial independence as well.

2. RETIREMENT PLAN

There are many factors related to retirement planning and it is never too early to begin. You may define your retirement goals and need to start a retirement savings plan before considering actual retirement.
Follow the following four simple steps to arrive at an ideal retirement plan.

Step 1: Decide how much income you require to live comfortably in your post-retirement years. Remember to take into account aspects like increased medical costs, expenses and gifts for family.
Step 2: Calculate the amount to be received in lump sum (terminal benefits) at the time of retirement.
Step 3: Select the right retirement plan that enables you to meet your post-retirement requirements. Preferably, choose to invest in asset classes , which can provide you with potentially higher returns in the long run.
Step 4: Start investing early so that you have time on your side and can enjoy the power of compounding.



How much retirement income will I need?

An easy rule of thumb is that you'll need to replace 70 to 90 percent of your pre-retirement income. If you're earning ₹ 20,000 a month (before taxes), you might need ₹ 15,000 to ₹ 18000 a month in retirement income to enjoy the same standard of living you had before retirement.

The following example illustrates the amount needed as retirement corpus to ensure a steady flow of monthly income.

Calculation of retirement corpus:

Retirement Age	60
Current Age	58
Life expectancy	83
Years after retirement	23
Current Annual Expenses	₹ 1.80 lacs
Average Return on investment	12%
Inflation	5%
Inflation adjusted return	7%
Total retirement corpus required	₹ 15 lacs*

Action Points: How to Prepare for Retirement?

1. It's never too late to start. It's only too late if you don't start at all.
2. Deposit everything you can into your retirement plans and personal savings.
3. Reduce expenses and funnel the savings into your kitty.
4. Aim for higher returns and tax savings. Don't invest in anything you are not comfortable with.
5. Refine your goals. You may have to live a less expensive lifestyle in retirement.
6. Sell assets that are not producing income or growth and invest in income-producing assets.

* While a corpus of ₹ 15 lacs may be adequate at the beginning of your retirement, it would not be enough in later part of your retired life due to inflation that would increase your expenses for the same goods and services.

3. FINANCIAL PLANNING

"The best time to plant a tree was yesterday. The second best time to plant a tree is today."

Financial planning is the process of meeting your financial goals through the proper management of your finances. Financial planning helps you make advance provision for financial needs that will arise in the future. The objective of financial planning is to ensure that the right amount of money is available at the right point in time in the future to achieve an individual's goals.

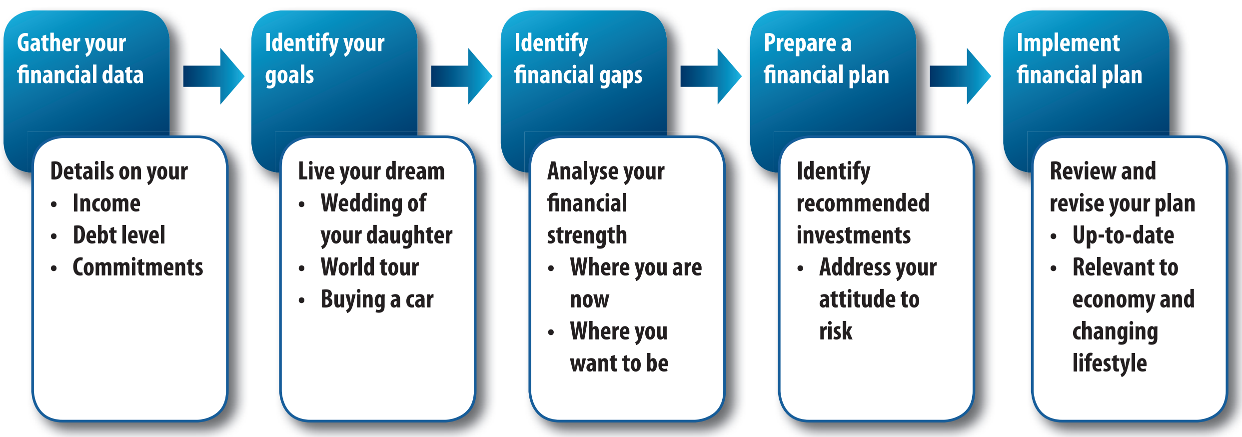
Investment Planning

Financial and investment planning are terms that are interchangeably used in personal finance parlance. To understand the difference between the two concepts, we first have to understand them well. Investment Planning (IP) has the "rate of interest" factor at its core. The Investment Planning process involves several steps, ranging from setting investment goals and understanding the risk appetite to designing an investment portfolio after evaluating the markets and the investment landscape. Investment Planning refers to a commitment of funds to one or more assets that will be held over a specific period. Anything not consumed today and saved for future use can be considered an investment.

Planning Process

The five steps of the financial planning process are:

- Gathering your financial data such as details on your income, debt level, commitments, etc.
- Identifying your goals
- Identifying any financial issues or gaps between where you are now financially and where you want to be
- Preparing your financial plan, which will identify recommended investments and will address your attitude to risk
- Implementing financial plan—review and revise your plan—to ensure it stays up-to-date and relevant to the economy and changing lifestyle



FINANCIAL PLANNING PROCESS

4. SMART GOALS

A financial *plan helps drive your financial decisions to a defined goal. It helps you determine how much to save today for the future you planned for, how much returns to expect on your savings and where to invest your savings to ensure that you get the returns you desire.*

Thus, planning your finances is a type of management that involves setting a mission and having a vision for your future. This is very crucial in the planning process as it allows you to design a path as to how you plan on achieving your objectives within a stipulated time frame.

A critical first step in managing your finances is to be able to set up SMART financial objectives. Your goals have to be S (specific), M (measurable, motivated), A (Achievable), R (realistic, resource-based), and T (time-bound, trackable). Many people make the mistake of stating general goals, which, more often than not, will not materialize.

SMART GOALS

		Incorrect Approach	Right Approach
Specific	You need to know exactly what you want to achieve and when you want it.	I need to set aside money for my grand daughter's birthday next year.	I need to set aside ₹ 10,000 for my grand daughter's birthday next year.
Measurable	A goal should be measurable so that you know when you will achieve it.	I will pay off most of my credit card debt soon.	In the next six months, I will pay three of my two credit card bills in full.
Achievable	Your goal should be within reasonable reach.	I will save money.	I will save ₹ 48,000 each year by putting aside ₹ 4,000 a month.
Realistic	Your goals need to be based on resources and tasks that you can reasonably accomplish.	By saving regularly, I will become a millionaire.	By saving regularly, I will be debt free by next year and will have a savings kitty equal to six months of my living expenses by next December.
Time-bound	Goals with timelines allow you to track your progress and encourage you to keep going until you reach your goal.	I will save money for my daughter's marriage.	I will save ₹ 50,000 a year for the next 10 years for my daughter's marriage.

Activity

(The activity below is designed to help you in setting a financial mission and a vision.)
Activity: read the questions carefully and answer them honestly.

Your present: What is your current financial position? Where do you stand today?

Your future: What is your financial plan for the future? Say 10 years from now.

Your reality: Do you have the skills to help you get there? How do you plan to get there?

Planning for the future involves setting goals and objectives.

For each goal, be sure to consider two very important aspects, your risk tolerance and the time frame within which you wish to achieve these objectives. Your personal level of risk tolerance will give you an idea in which securities you need to invest in and for how long in order to achieve the set objectives. The duration of a financial plan depends on the goals that it sets out to achieve. It can cover short-term, medium-term and long-term goals. Short-term goals are normally targeted in a one to three year framework; for example a vacation abroad, medium-term goals fit into a three to five year horizon; for example, buying a vehicle and long-term goals are achieved in a period of five years or more; for example, buying a house, retirement planning.

It is also important to consider your income per year and your level of savings. For example, you earn ₹ 180,000 a year and save 20% of it (₹ 36,000). You plan to send your child to Mumbai to complete his/her education and approximate a budget of ₹ 200,000. Your child is to complete his Higher Secondery Examination in four years. Thus, based on your risk tolerance you allocate money towards his education. If your risk tolerance is low, it may be difficult to fulfill your goal of sending your son to Mumbai to complete his education. But if you are someone who is not afraid to take risks, it is possible to make your dreams come true. Investing money in funds higher on the risk return scale is one possible solution. One should study the product well before investing to understand both risks and reward.

Suppose you invest ₹ 36,000 in the first year, ₹ 25,000 in the second year, Rs30,000 each in the third and fourth year respectively, your total investment at the end of the four year is ₹ 121,000.

This would mean investing in securities that yield an average of 22% rate of return, can only enable you to fulfill your goal of sending your child to Mumbai for his education.

How did we arrive at this answer?

Using the future value formula, we can estimate the required rate of return (RROR), you do this on a trial and error basis, where ideally Left Hand Side = Right Hand Side.

$$FV=\Sigma[PV(1+r)n] = PV(1+r)^4 + PV(1+r)^3 + PV(1+r)^2 + PV(1+r)^1$$

Where, FV= future value PV= present value R= rate of return N= number of years

$$200{,}000=36000(1.22)^4 + 25000(1.22)^3 + 30000(1.22)^2 + 30000(1.22)^1$$

$$200{,}000=79752.044 +45396.2+ 44652 + 36600$$

$$200{,}000= 206{,}400.244$$

Thus an investment of ₹ 121,000 in four years for an interest rate of approximately 22% will yield ₹ 206400.244. Being practical is the most crucial factor in financial planning; ask yourself whether you are able to tolerate such risk that will yield you return of 22%. Therefore, instead of putting your money at very risky product, it is advisable to select safer product or increase your saving amount or start saving early.

Table 1: Typical long-term goals for Mr Prasanna Age: 50 Years
Profession: Company Executive

Goals	Name	Target Date from today	Amount (₹ in lakh)
Education-doctor	Raja (son)	6 years	20.00
Marriage	Ramba (daughter)	10 years	35.00
House	Self	12 years	60.00

Table 2: Typical short-term goals for Mr Prasanna Age: 50 Years
Profession: Company Executive

Goals	Name	Target Date from today	Amount (₹)
Visit to Holy Place	Self	6 months	20,000
Purchase of a AC unit	Self	2 months	28,000

Activity

Goals	Your income P.Y.	Your savings P.Y.	Time frame	Estimated Budget for achievement of goal	Risk tolerance
Education					
Marriage					
Buy a house					
Buy a car					
Children's education					
World tour					
Retirement					
Children's marriage					

Based on these aspects please construct a financial plan as to which investments you need to invest in and at what amount and duration in order to achieve your said targets.

5. SAVINGS AND INVESTMENT

Finding the Right Balance between Saving and Investing

Saving and investing are two related, but independent, processes. Saving is the process of putting hard cash aside and parking it in extremely safe and liquid accounts such as Bank savings accounts. Investing is the process of using money (called capital) to buy an asset that you think will generate a safe and acceptable return over time, making you wealthier with each passing year. When you save, you're preserving your money for a later time. When you invest, you're taking some risk that you believe will make it possible for your investment to grow in value over time. While investing can help you achieve your long-term goals, saving is an effective way of managing your money to meet short-term needs and to provide a safety net for emergency expenses. When saving money, the primary emphasis is on the stability of the principal rather than return potential. On the other hand, investment means willing to take some risk and putting your money in instruments with potential of higher returns.

6. LOANS vs. INVESTMENT

There is a general confusion among people whether they should avail a loan or build investments to achieve their financial goal (for example, buying a house). There is no rule which says that either of the option is good, because it differs for each person's capacity and the nature of debt or investment. The following points are worth remembering:

- It purely depends on your financial strength and other factors.
- Credit card debts and personal loans are very costly.
- If you have a loan with a low interest rate and tax benefits as in the case of home loans, it is advantageous to go for a loan. If you have an investment plan where you can make good return, then you may opt for investment.
- You have to be sure that the investment is not risky and will not affect your family if you lose the money. For example, if you are investing huge sums in share market from borrowed money that is very risky.

7. PERSONAL BUDGET CALCULATOR

Have a budget. Determine what you actually spend each month. There are fixed expenses like rent, loan repayments, etc. every month about which we can do little. The variable items such as food, clothing and entertainment are often, what takes money away from us. Use your discretion to contain these variable expenses to start saving.

A Personal Budget is simple to prepare.
Income. Add up your monthly income: salary and investment income.

Expenses. Add up monthly expenses: rent, loan payments, average food bills, medical expenses, entertainment and so on. Determine an average for expenses that vary each month, such as clothing, or that don't occur every month, such as car insurance. You will need to track how you spend cash for a month or two. Most of us are surprised to find out where and how much cash "disappears" each month.

Subtract expenses from income. What if you have more expenses than you have income? Not an uncommon problem. You have three choices: cut expenses, increase income, or both.

Cut expenses. There are ways to reduce expenses, from reducing grocery consumption to shopping for low-cost items without compromising quality. Compare monthly variances between actual expenditure and budgeted expenditure

Increase income. Improve your job skills or education to get a better paying job, or make money from a hobby. It is hard to apply a rule of thumb toward savings, because it varies with age and income level. Ten percent is a good start. If you find that is too high for you, don't let that deter you. You can start by putting a little aside each month and then slowly increasing it.

Activity

Prepare a monthly budget by specifying your income in terms of all inflows of cash from whatever sources, after which you need to deduct all possible expenses you think will arise during the month. It is important to do this exercise before the start of the month so that you can anticipate what can be the likely level of investments. Rule of thumb ideally says that you need to save 20% of your income. Complete this exercise to see whether you really are!

Your monthly budget	
A: Income	
Salary	
Rent	
Interest per month	
Capital gains	
Business	
Other sources	
TOTAL INCOME	
B: Expenses	
Travel and transport	
Food and utilities	
Rent	
Leisure	
Insurance premium	
Children's education	
Holidays	
Other	
TOTAL EXPENSES	
C: Savings = income – expenditure	

To find out whether you are saving 20% of your income, you just need to multiply your savings by 100 and divide it by your total income. If the value is below 20, it means you are spending your money recklessly giving you an indication to start saving … it's never too late!

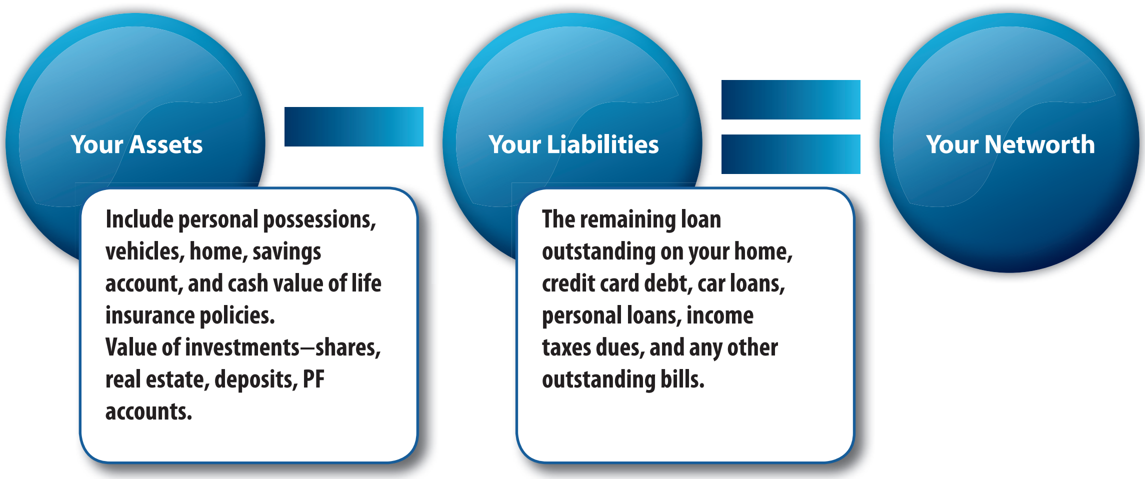
Typical Monthly Budget

January Name: Krishnan, Age 59 Company Executive

Income	Amount (₹)	Expenses	Amount (₹)
Salary	75,500	Committed (EMI)	32,500
Investment Income	6,000	Living Expenses	28,700
Pension		Other expenses	
Others		PF/LIC	10,500
Income	81,500	Total Expenses	71,700
Net Surplus	9,800		

8. PERSONAL NETWORTH CALCULATOR

Your networth is simply the total value of what you own (assets) minus what you owe (liabilities). It's a snapshot of your financial health. The first step in planning your finances is to know where you financially stand today, i.e., ascertaining your networth.



Calculate your networth periodically, say quarterly and keep track of changes. An increasing networth means you are financially doing well financially.

Keep in mind the following points while calculating your networth

1. Use current market value/realizable value.
2. Estimate if you can't be accurate.
3. Be conservative.
4. Avoid insignificant detail.

Model Networth Statement

Name: Raja   Age: 58

Professional in a company   Networth as on 31 January

Assets	Rs (in lakhs)	Liabilities	₹ (Lakhs)
House	56.00	Home loan	17.50
Savings a/s	00.32	Car loan	05.20
Equities	03.50	Credit card	02.40
Fixed Deposit	05.00	Personal loan	06.10
Car	06.20	Total	31.20
NSC	04.30		
Total	75.32	Networth	44.12

9. RISK vs. RETURN

Risk and investing go hand in hand. Risk can be defined as the chance one takes that all or part of the money put into an investment can be lost. The good news is that investing risk comes with the potential for investing reward – which is what makes the whole process worthwhile.

The basic thing to remember about risk is that it increases as the potential return increases. Essentially the bigger the risk is, the bigger the potential payoff. (Don't forget the two words - "potential payoff". **There are no guarantees**)

Even seemingly "no-risk" products such as savings accounts and government bonds carry the risk of earning less than the inflation rate. If the return is less than the rate of inflation, the investment has actually lost ground. This means your earnings aren't being maximised as they could have been with a different investment vehicle.

While you stay invested it is crucial that you take necessary measures to manage your risk. Once you invest in any asset class you should monitor your investments and keep yourself updated about various market happenings to avoid any pitfalls. Always check the potential risks when quoted returns are unusually high.

Here's an example of some of the asset allocation models for different stages in your investing life. What they show is a gradual movement from aggressive to conservative style of investment.

Asset Mix

Years to retirement	Stocks	Bonds	Cash
20	80%	10%	10%
15	60%	30%	10%
10	40%	50%	10%
5	30%	60%	10%

Remember that models such as these aren't designed to predict a particular level of return. While allocating assets can help you moderate risk, it doesn't eliminate the possibility of accumulating less than you'd like. Also, remember that an asset allocation isn't fixed—as time passes and you near retirement, you may want to consider shifting some of your stock holdings into more conservative choices to avoid the impact of short-term drops in the market. It is better to understand the product well before investing.

10. COMPOUNDING

Time exerts the greatest influence on your investment portfolio than any other force. Through the power of compounding, a small amount of money over time can grow into a substantial sum. Compounding is an investor's best friend. Investments can increase in value over time, and the longer the time frame, the greater the value. This is achieved through returns that are earned, but not spent. When the return is reinvested, you earn a return on the return and a return on that return and so on. Therefore, it is important to start saving early in order to benefit from the power of compounding returns.

The time value of money is the value of money that has earned an interest over a given amount of time. For example: ₹ 100 invested today for one year at 5% interest will be ₹ 105. Thus, to the investor ₹ 100 paid now is no different than ₹ 105 paid one year from now.

The valuation of a likely stream of income in the future, in such a way that the annual incomes are discounted and then added together, thus providing a lump-sum "present value" of the entire income stream that is likely in the future. Thus PV is the present value of future money. For example, a sum of FV to be received in one year is discounted at a rate of interest to give a sum of PV at present:

$$PV = FV/ (1+r)$$

Future cash flows are discounted at the discount rate, the higher the discount rate, the lower the present value of the future cash flows. The importance of time value of money in investment and conserving the value of your money is crucial. You need to invest in order to protect the value of your money

Activity: List down the various items you often use and write down their value today and their value 10 years back. Compare the two values and observe how the value of money has changed over time.

Table: The time value of money

	Assets	Price 10 years ago (-10)	Price now (0)	Price 10 years from now (+10)
1	Property/ house			
2	Gold (10 gms)			
3	Investments : • Sensex/ Nifty • Bonds • Fixed deposits interest rate			
4	Rice			
5	College Education			
6				
7				

Power of Compounding

Let's compare two friends Raman and Prasad. Raman starts saving ₹ 2,000 per year from the age of 19. After eight years, he stops investing money. On the other hand, Prasad starts investing ₹ 2,000 per year when he is 27 and continues investing this amount every year till he is 65. Raman invested ₹ 16,000 and Prasad ₹ 74,000.

If both earn 10% post-tax return per annum on their investments, who will have more wealth when they retire at age 65?

Raman. His ₹ 2,000 annual savings between age 19 and 27 will aggregate to ₹ 1,035,160 by age 65, whereas, Prasad's ₹ 2,000 annual savings between age 27 and 65 will aggregate ₹ 8,00,896 lakhs. There is a 64 - fold increase in Raman's investment whereas it is a 10 - fold increase for Prasad.

To summarize, the power of compounding is the single most important reason for you to start investing right now. Remember, every day that your money is invested, is a day that your money is working for you.

Here's how much your money would grow if you make a lump - sum (one - time) investment and leave it untouched. The interest rate has been assumed to be 10%.

	Amount lump-sum payment (₹)				
Years	100,000	200,000	300,000	400,000	500,000
5	161,051	322,102	483,153	644,204	805,255
10	259,374	518,748	778,123	1,037,497	1,296,871
15	417,725	835,450	1,253,174	1,670,899	2,088,624
20	672,750	1,345,500	2,018,250	2,691,000	3,363,750
25	1,083,471	2,166,941	3,250,412	4,333,882	5,417,353
30	1,744,940	3,489,880	5,234,821	6,979,761	8,724,701

Reading the table: if you plan on investing money for a period of say 30 years and have a corpus of ₹ 1 lacs compounded, you would get a return of ₹ 17,44,940.

Activity

If Ram, aged 60 years, would like to gift ₹ 20 lacs to his son after 20 years, how much he has to invest now? Use the table given above

11. Inflation effects on investments

If your investment portfolio includes a big portion of fixed income securities, you should pay attention to inflation rates.

Most susceptible to rising inflation rates are retirees that have fixed income. This is because inflation decreases the purchasing power of money and retirees will be able to purchase less with their money than before.

Inflation eats away your purchasing power. For instance, if the average rate of inflation is 8%, you need to make sure that your investments are earning a minimum of 8% or more, post-tax. Let us assume an investment portfolio of ₹ 1,00,000, earning returns at 10% and inflation at 8%. The returns in this case would be Rs 10,000 gross annually, with the net after income tax ₹ 7,000 (Assuming you are in the highest tax bracket of 30%). Now, if you account for the 8% inflation specified (8000, or 8% of ₹ 1,00,000), you are left with ₹ (- ve) 1000 (Return of 7000 minus inflation of 8000). It means you are not earning any money in real terms.

12. Retirement Planning

The conversion into retirement is a very unique and dramatic step in life. Yet, the transition into retirement is rarely given the planning or thought it deserves. Everyone wants to lead a comfortable retirement. Without adequate planning it probably won't happen. People are living longer than ever before, which is obviously good news, but that means retirement is becoming more expensive. So it is important to plan ahead and be financially prepared once you reach retirement age.

Retirement planning means setting aside of money or assets for the purpose of deriving some income during old age. This is to be done before reaching retirement age.

Remember, your aim is to make decisions that will be most effective in helping you realize your future financial goals, based on your current personal financial situation

1) Start Early and Retire Peacefully:- For example, if you start saving for retirement at the age of 25, so that you wish to retire by 60, you have an investment horizon of 35 years. If at the age of 25, you start investing ₹ 1,000 per month at the rate of 6% compounding then the maturity amount will be ₹ 13,80,290. Alternatively if you commence the same investment at the age of 35, then the maturity value at the age of 60 will be ₹ 6,79,580.
With a 10 year lag, the retirement savings at 60 years is more than halved.

2) Plan Wisely:- Set aside some money for medical expenditure and emergency needs after retirement. Allocate your resources towards necessary ends like children's education and marriage that you will incur in the future course of time.

3) Track and Review your Plan:- The financial plan has to be reviewed at regular intervals to make sure whether the plan meets the objectives. Also, understand and get comfortable with the risks, costs and liquidity of your investments.

4) Don't Dip into your Retirement Savings:- Don't touch this pool of savings pre- retirement. If you spend money from your retirement kitty to fulfil your present needs, you will lose out big in the long run. The corpus for your retirement will be much lower.

List down the five ways in which retirement planning was being done 30 years back

1.
2.
3.
4.
5.

What are the 5 things that you need to do for your retirement planning?

1.
2.
3.
4.
5.

How much you should invest to create your retirement fund?

Let suppose Ram at the age of 30 with monthly expenses of ₹ 10,000 wants to retire at the age of 60 (Life expectancy of 75). What is the corpus he requires for his retirement assuming that he will require 80% of his present expenses? And how much amount should he save every month to build his retirement corpus?

To find the corpus and monthly investment , first of all we have to find that how much he will be spending every month at the age of his retirement , because his current expenses in money value are going to increase in future because of Inflation.

Step 1: Value of his expenses at the time of retirement with 5% Inflation?

No. of year after which you will retire	5	10	15	20	25	30
Amount for expenses you need every month at the time of Retirement	(12,762.82)	(16,288.95)	(20,789.28)	(26,532.98)	(33,863.55)	(43,219.42)
Amount for expenses you need every month at the time of Retirement (80% of the requirement)	(10,210.82)	(13,031.16)	(16,631.43)	(21,226.38)	(27,090.84)	(34,575.54)

Note: Growth in current expenses after 30 years due to inflation

Why expenses are less at retirement? (80% in above scenario)

1.
2.
3.

Answer: Ram is retiring after 30 years from now, so his monthly expenses would be ₹ 43,219 and with 80% it will be ₹ 34,575.

Step 2: How much corpus he requires at his retirement to get continuous flow of cash for his monthly expense requirement?

Assumption: Return on Corpus or investment is 7%.

No. of years of retirement	For expenses of ₹ 10,210.25	For expenses of ₹ 13,031.16	For expenses of ₹ 16,631.43	For expenses of ₹ 21,226.38	For expenses of ₹ 27,090.84	For expenses of ₹ 34,575.54
5	585,130.95	746,791.84	953,116.66	1,216,445.22	1,552,526.61	1,981,461.08
10	1,117,707.64	1,426,509.65	1,820,627.96	2,323,633.90	2,965,611.10	3,784,954.77
15	1,602,450.28	2,045,177.75	2,610,222.66	3,331,379.05	4,251,777.66	5,426,465.43
20	2,043,655.17	2,608,279.41	3,328,898.92	4,428,612.31	5,422,425.66	6,920,541.77
25	2,445,232.68	3,120,805.39	3,983,026.38	5,083,463.13	6,487,930.27	8,280,425.78
30	2,810,742.02	3,587,298.21	4,578,402.57	5,843,330.78	7,457,735.34	9,518,170.11

Ram will retire at the age of 60 years and his life expectancy is 75 years. That makes his expenses requirement for 15 years (75 years – 60 years).
From the above table we can figure out that for 15 years, his required corpus is ₹ 54,26,465.

Step 3: Ram would like to open an Systematic Investment Plan (SIP) where he will invest money every month which grows at 10% annualised over 30 years to build his retirement corpus. How much Ram should invest every month for the corpus?

Calculations:
For the calculation purpose we are finding out the corpus for ₹ 10 lakhs and after getting the corpus we will multiply it by the required amount:

Interest/ No. Of years	**Monthly Investment require to build corpus of ₹ 10 Lac**					
	5	10	15	20	25	30
6%	(14,321.72)	(6,125.04)	(3,468.51)	(2,194.69)	(1,471.50)	(1,021.18)
8%	(13,621.38)	(5,516.23)	(2,943.09)	(1,746.24)	(1,093.09)	(705.41)
10%	(12,958.11)	(4,963.82)	(2,489.91)	(1,381.24)	(804.40)	(480.93)
12%	(12,329.91)	(4,463.57)	(2,101.14)	(1,087.13)	(587.47)	(324.57)
15%	(11,449.24)	(3,802.02)	(1,622.41)	(753.54)	(362.77)	(177.56)

With the above table we can make out that he has to invest ₹ 480/month of ₹ 10 lakhs. Therefore for ₹ 54 lakhs, he has to invest ₹ 2,592 every month = (54/10) x 480 = ₹ 2,592

Assignment:
Calculate the retirement corpus required by you and the monthly investment required to build that corpus based on the tables given below:

1. Your monthly expenses ( )
(For the calculation purpose monthly expenses are given as ₹ 10,000. If your expenses are ₹ 20,000 then multiply the corpus by 2)

2. Your monthly expenses requirement at the time of retirement with inflation rate of 5% __________

No. of year after which you will retire	5	10	15	20	25	30
Amount for expenses you need every month at the time of Retirement	(12,762.82)	(16,288.95)	(20,789.28)	(26,532.98)	(33,863.55)	(43,219.42)
Amount for expenses you need every month at the time of Retirement (80% of the requirement)	(10,210.82)	(13,031.16)	(16,631.43)	(21,226.38)	(27,090.84)	(34,575.54)

3. Retirement corpus you would require getting regular cash flow ___________

No. of years of retirement	For expenses of ₹ 10,210.25	For expenses of ₹ 13,031.16	For expenses of ₹ 16,631.43	For expenses of ₹ 21,226.38	For expenses of ₹ 27,090.84	For expenses of ₹ 34,575.54
5	585,130.95	746,791.84	953,116.66	1,216,445.22	1,552,526.61	1,981,461.08
10	1,117,707.64	1,426,509.65	1,820,627.96	2,323,633.90	2,965,611.10	3,784,954.77
15	1,602,450.28	2,045,177.75	2,610,222.66	3,331,379.05	4,251,777.66	5,426,465.43
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25	2,445,232.68	3,120,805.39	3,983,026.38	5,083,463.13	6,487,930.27	8,280,425.78
30	2,810,742.02	3,587,298.21	4,578,402.57	5,843,330.78	7,457,735.34	9,518,170.11

4. Monthly investment you require to build your corpus__________
Assumption: You can take interest rate as per your risk profile.

Assumption: You can take interest rate as per your risk profile.

For calculation purpose, you have to invest regularly to build the corpus of ₹ 10 lacs. If your requirement is ₹ 20 lacs, then multiply the monthly investment amount by 2.

Interest/ No. Of years	Monthly Investment require to build corpus of ₹ 10 Lac					
	5	10	15	20	25	30
6%	(14,321.72)	(6,125.04)	(3,468.51)	(2,194.69)	(1,471.50)	(1,021.18)
8%	(13,621.38)	(5,516.23)	(2,943.09)	(1,746.24)	(1,093.09)	(705.41)
10%	(12,958.11)	(4,963.82)	(2,489.91)	(1,381.24)	(804.40)	(480.93)
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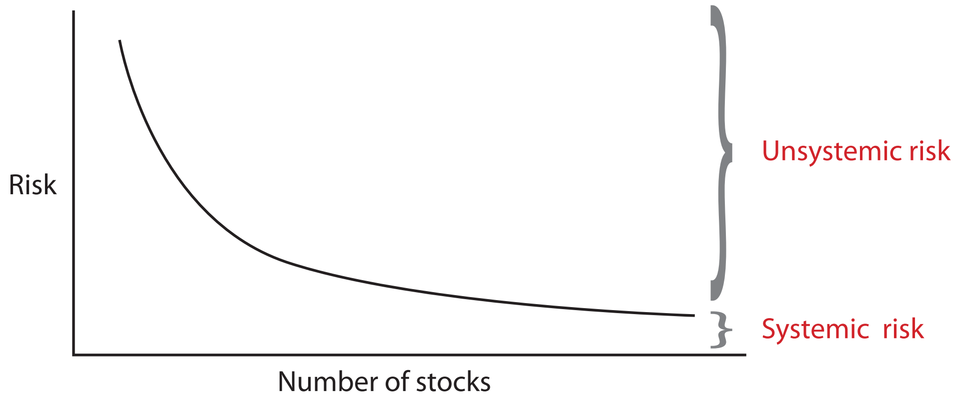
15%	(11,449.24)	(3,802.02)	(1,622.41)	(753.54)	(362.77)	(177.56)

13. Investment Commandments

Here are some Guidelines for you to follow.

- Do establish clear and reasonable investment goals before you invest.
- Do remember that there are risks in any investment. As potential profit increases, so does risk.
- Do diversify your investment portfolio to decrease your overall risk.
- Do select the appropriate asset mix of debt, equity, and cash equivalents.
- Do recognize the limits of your knowledge. Avoid investments you don't understand.
- Do your homework. Be sure you know what you are investing in and what impact it will have on the risk, potential returns, and marketability of your portfolio.
- Do keep in mind that income-tax is payable on your investment while making investment decisions.
- Don't invest on the basis of hot tips and rumours. They are seldom right.
- Don't blindly follow investment advice that you don't understand.
- Don't be afraid to say NO to the suggestions of your financial adviser if you are not convinced that the investments are right for you.
- Don't take risks you can't afford or aren't comfortable with. Understand your tolerance for risk.



Investment Strategies

Diversification aims to reduce the risks by investing money in a range of companies or products and by ensuring it is available at a different time; that is, not putting all your eggs in one basket. You may want to spread your money with several different institutions, with various investment types and across different markets, such as cash, fixed income securities, shares of companies or mutual funds.

If you are investing in **fixed interest** investments, it may be wise to spread your money so that you have different **maturity dates**. This reduces some of the risk if interest rates change. It can also provide you with income on a more regular basis. While you should always spread your risk over several investments, having many small investments may involve a lot of supervision, The diagram above depicts how simple diversification in stocks can considerably reduce the unsystemic risk (risk that is specific to individual investment) to a more manageable level. Diversification beyond a point will not have an impact and there by will not reduce the risk further. Any risks faced after diversification is borne due to market risk or systemic risk.

Asset allocation

Asset allocation is the process of deciding what proportion of an investment a portfolio should have in terms of different types of investment (shares, bonds, real estate, etc.) and markets (debt,equity or commodity). Asset allocation can improve both diversification and performance — although these aims do conflict, to an extent. It helps ensure that investments are spread out across a wide range of markets and securities, and the allocations should be chosen to avoid investing too much in markets and securities whose movements are strongly correlated with each other. Asset allocation can boost performance by identifying markets or sectors that are undervalued as a whole. Correctly identifying these will clearly improve performance.

14. INVESTMENT VEHICLES

After retirement, people save for two main reasons. The first is to protect their desired standard of living against unforeseen reductions in their income or increases in their expenses. Every retired person wants to maintain the same lifestyle as he/she had during pre-retirement days. So he must ensure that his post-retirement income is adequate and in the vicinity of his pre-retirement income. When one grows old, the fear of medical problems rises. Expenses on medical cover are also to be met. A regular medical cover taken during pre-retirement days should be continued to protect oneself from medical problems. The need of the hour is ensuring a regular income as substitute for salary to meet day-to-day expenses. This can be achieved through careful deployment of retirement benefits like provident fund benefits, gratuity, etc. in instruments that yield interest income at regular intervals.

Pension Plan

Regular income could be obtained with the help of pension products chosen during earlier stages of life. Such plans ensure regular pension during retirement period. In case a person has not taken these plans earlier, he can go for an immediate pension plan like the ones offered by insurers. In a typical pension plan you have the flexibility to make a lump-sum payment or a regular contribution every year during your earning years. Your money is then invested in funds of your choice. You can opt to receive the annuity at any time after vesting age (age at which you become eligible for pension chosen by you at the inception of the plan). Most of the Unit linked pension plans also come with a wide range of annuity options, which gives you choice in structuring the post-retirement benefit pay-outs. Also, at the time of vesting you can make a lump-sum tax-exempted withdrawal of up to 33 percent of the accumulated corpus.

Kindly see latest relevant tax provisions before investing.

CASE STUDY

Raman 59, is planning to retire in six months' time when he reaches 60. Currently, his retirement nest is worth around ₹ 7,50,000. He intends to use it to buy an annuity, and wants one that will provide income for him. As a non-smoker, with no serious health problems, he would receive an income of ₹ 45,000 per year or ₹ 3,750 a month (assuming an annuity rate of 6%) for the rest of his life.

Monthly Income Plan

One can also get into the Monthly Income Scheme of post office or banks. This plan ensures regular interest income. This ensures safety and liquidity of funds. Present rate of returns in monthly income plan of post office is 8% p.a.

Activity

George, a factory worker is about to retire at the age of 60. His terminal benefits (PF, Gratuity etc)is worth ₹ 300,000, and he also has savings and investments that are worth around ₹ 90,000. George has decided that he will take 25% of his terminal benefits as a tax-free lump sum for his daughter's marriage. This will leave him with ₹ 225,000, which he plans to invest and withdraw income from.

Suggest a monthly income plan that would ensure safety, liquidity and decent return?

Mutual Funds

- A mutual fund is generally a professionally managed pool of money from a group of Investors.
- A mutual fund manager invests your funds in securities, including stocks and bonds, money market instruments or some combination of these, based upon the fund's investment objectives.
- By investing in a mutual fund you can diversify, thereby sharply reducing your risk. Mutual funds can be classified on the basis of structure.

Open-Ended Scheme sells and repurchases units at all times. When fund sells, investor buys and when the investor redeems, the fund repurchases the units. Buying or redeeming is at a price based on the NAV (Net Asset Value).

Under Close-Ended Scheme, after the offer closes, investors are not allowed to buy or redeem units from the fund. Close-ended funds are listed on stock exchanges to enable investors to buy or sell units.

Systematic Investment plan

This is a simple, disciplined strategy of investing your money in a mutual fund. This is a long-term strategy for accumulation of wealth. SIP investors are likely to gets better rate of returns compared to a one time investor. In an SIP a specific amount should be invested in regular intervals in a mutual fund for a specific period, which is very similar to a recurring deposit. It allows you to buy units of the fund each month, ignoring the volatility in the market. While your investment remains the same, more number of units can be bought in a declining market and less number of units in a rising market. Thus you automatically participate in the market swings once the option for SIP is made. SIP works on the principle of rupee cost averaging. It ensures averaging of rupee cost as consistent investment ensures that average cost per unit fits in the lower range of average market price. SIP generally starts at minimum amounts of ₹ 500 per month and upper limit for using an electronic clearing service (ECS) is ₹ 25,000 per instruction.

Working of SIP

An added advantage of a SIP is that it allows you to invest in the market without trying to second guess its movements. Since you commit to investing a fixed amount every month, say ₹ 500, when the market is high, the corresponding NAV of the fund is also high, thus you get fewer units on your investment of ₹ 500, than you would when the markets and the corresponding NAV are low.

Month	NAV	Number of Units (500/NAV)
1st January	10	50
1st February	10.25	48.780
1st March	11	45.454
1st April	12	41.667
1st May	9.95	50.251
1st June	12	41.667
		277.820

Thus, within six months you would have ₹ 277.82 units by investing just ₹ 500 each month. Thus selling the units at an NAV above the average NAV (10.85) during the 6 month period will give you profits.

The table below shows the profits you can make with an investment of ₹ 3,000, if you sell the units at an NAV above the average you bought for.

NAV (A)	UNITS (assume you sell all units) (B)	[(NAV X 277.81)] (C)	PROFIT= [(C)-3000]
10.86 (AVERAGE)	277.81	3017.017	17.02
11	277.81	3055.91	55.91
12	277.81	3333.72	333.72
13	277.81	3611.53	611.53
14	277.81	3889.34	889.34

Annuities

Annuities are contracts sold by an insurance company designed to provide payments to the holder at specified intervals, usually after retirement.

Earnings cannot be withdrawn without penalty until a specified age and are taxed only at the time of withdrawal.

Annuities are relatively safe, low-yielding investments. An annuity has a death benefit equivalent to the higher of the current value of the annuity or the amount the buyer has paid into it.

Insurance Policy

Most risks to your life and property can be covered under insurance plans. Some of the common insurance plans are:

- Unit Linked Insurance Plans
- Term / Term with Return of Premium Plans
- Health Insurance
- Personal Accident Insurance
- Insurance cover for your Home / Car
- Insurance cover to protect your family from liabilities
- Travel insurance

The value of the cover that you opt for should depend on your need for protection. If you are applying for asset insurance, the value should ideally cover the cost of replacing your asset. Similarly, the final payout of a term plan should compensate your family for the financial loss that they will face in case of your demise. If you go in for ULIPs, endowment or money back policies, these should fall in with your overall financial plan and enable you to receive funds when you expect to use them.

Activity

Mr Mahesh Kaushik, aged 58, likes to invest a part of his terminal benefits of ₹ 10 lakh in an investment product that assures him steady annual return with insurance cover for his life. Which investment product is ideal for him?

Health Insurance

Health Insurance Policies in India: There are several health insurance or medical insurance plans in India. These can be divided into the following categories based on the coverage offered.

Comprehensive health insurance coverage: This plan provides you complete health coverage through a hospitalization cover while at the same time creating a health fund to cover any other healthcare expenses.

Hospitalisation Plans: These health insurance plans cover your expenses in case you need to be hospitalized. Within this category, products may have different payout structures and limits for various heads of expenditure. The hospitalisation coverage may be reimbursement based plans or fixed benefit plans.

Critical Illness Plans: These health insurance plans provide you coverage against critical illnesses such as heart attack, organ transplants, stroke, and kidney failure among others. These plans aim to cover infrequent and higher ticket size medical expenses.

Specific Conditions Coverage: This plan is designed specifically to offer health insurance against certain complications due to diabetes or cancer. This may also include features such as disease management program that are specific to the condition covered.

Reverse Mortgage

Reverse mortgage can be used to supplement the cash flow stream of senior citizens in order to address their financial needs. It is a loan given to senior citizens by converting the equity in a house property into an income stream. The scheme involves the borrowers (senior citizens) pledging their house property to the bank in return for a lump-sum payment or periodic payments spread over the borrower's lifetime. The home owner is not obliged to repay the loan during his lifetime. On his death or leaving the house permanently, the loan is repaid along with accumulated interest, through sale of the house property. Any excess amount will be remitted to the borrower or his heirs. The lump-sum payment or periodic payments can be utilized by the borrower as per his needs. Reverse mortgage is definitely a financial helpline for senior citizens enabling them to lead their lifestyle and meet their consumption needs without being dependent on anyone. The tenure of the loan is 15 years. The loan becomes due and payable when the last surviving borrower dies or would like to sell the home / permanently moves out of the home for aged care to an institution or relatives. Settlement of loan, along with accumulated interest is to be met by the proceeds received out of sale of residential property. The borrower(s) or his/her/their estate is provided with the first right to settle the loan along with accumulated interest, without sale of property. A reasonable period of two months is provided when repayment is triggered, for house to be sold.

Activity

Mrs Diandra is about to retire in another five years. She would like to invest a sum of ₹ 15,000 every month in a product which should give her

a) tax benefits

b) interest income

c) facility for withdrawal of principal at any time for emergencies

Which investment product is suitable for her ? Why?

Comparative analysis of investment avenues

	Rate of return	Rate of return	Risk	Liquidity	Tax Benefit	Convenience
	Annual Income	Capital Appreciation				
Financial Securities						
Equity	Low	High	High	High	Yes	High
Non-convertible Debentures	Medium	Low	Medium	Average	Nil	High
Financial Securities (Non-securitized)						
Bank deposits	Low	Nil	Low	High	Yes	High
Provident fund	Nil	Medium	Nil	Low	Yes	High
Life insurance	Nil	Average	Nil	Low	Yes	High
Mutual funds						
Growth/equity	Low	High	High	High	Yes	High
Income/debt	Medium	Average	Low	High	Yes	High
Real assets						
Real estate	Low	Medium	Low	Low	Nil	Average
Gold/silver	Nil	Low	Average	Average	Nil	Average

The table contains indicative figures from the past experience, they are of no guarantee. Investors are requested to make their own decision and bear in mind that market investment are subject to risk.

15. Avoid Investment Scams

There are a number of investment scams that allure and trap you. Avoid them. A few of them are listed below.

Pump and dump

In a typical "pump and dump", you receive an e-mail or sms promoting an incredible deal on a stock described as an once-in-a-lifetime investment. What you don't know is that the person or company touting the stock owns a large amount of it. As more and more investors buy shares, the value skyrockets. Once the price hits a peak, the scam artist sells his/her shares and the value of the stock plummets. You're left holding worthless shares.

Boiler Rooms

This type of scam begins with an unsolicited phone call or sms to buy shares in a private company that is about to be listed on a major stock exchange. They will say that once the company goes public, the value of its shares will skyrocket. The company is usually in a sector that's in the news.

Ponzi or Pyramid Schemes

Typically, investors are allured through ads and emails or sms promising them that they can"make big money working from home" or "turn ₹ 1,000 into ₹ 20,000 in just six weeks."

Investors are asked to provide money upfront. Early investors may receive high returns fairly quickly from "interest cheques". They're often so pleased that they invest more money, or recruit friends and family as new investors. Here's the catch: The investment doesn't exist. The "interest cheques" are paid from investors' own money and the contributions of new investors. The scheme eventually collapses when the number of new investors drops. Ultimately, the promoters vanish, taking your money with them.

Activity

Mr Anand Sharma, 58 years, receives a letter from a newly started company inviting him to invest in the IPO of the newly formed company, promising him a return of 56% (Guaranteed) in the first year with an assurance of steady increase in share prices for the next three years, as the company is setting up a plant in the fast growing bio-technology sector. The company is managed by qualified professionals. Please advise what precautions Mr Anand Sharma should take before deciding to invest in the company? Would you be investing in such companies, if you were in his place?

16. Estate Planning

Estate planning is the process of managing and maximizing your assets and the means by which these assets will be bequeathed to your survivors after you die. Making a "will" is an essential part of retirement planning. "Will" is a legal declaration of the intention of the testator (person making the will) with respect to his property which he desires to be carried into effect after his death. When you establish a Will you will also set out who is to be appointed as your executor or executors. This is the person or persons that you are entrusting with the job of looking after your affairs until your estate is distributed to your nominated beneficiaries. The person can be a member of your family, a friend or, for example, your advocate or accountant.

Power of Attorney

A power of attorney is a legal document that allows another person to act on your behalf. It ensures that important matters are dealt with by someone you trust if you are unable to deal with them yourself.

Nomination

It is important to nominate beneficiaries for your LIC policies, bank deposits, shares, mutual funds units and other securities to facilitate quick disbursal of proceeds in the event of death.

Activity

Mr Rajesh retired recently from a private company and wanted to place a sum of ₹ 5 lakh in a term deposit account with a bank from out of his terminal benefits. He has one son and two daughters .The bank requests him to nominate one of his legal heirs as the nominee for the above deposit, as more than one nominee is not accepted. Mr Rajesh wants to include all the three children to receive the proceeds in the event of his death. What is the legal recourse available to him?

Enrich Your Retired Life

Here are a few suggestions to liven up your golden years and enjoy the fruits of your years of labour.

Pursue interests: You must have surely yearned to do what you really love, but couldn't. Exploit your talents now learn new languages, do gardening, take up a sport, set an exercise regimen for yourself or pursue whatever interests you have.

Keep in touch: You know the people you've been trying to contact and meet but somehow couldn't due to time constraints! No excuses now!

Travel: This is the best part about retiring. You can travel leisurely and enjoy the experiences without worrying about what's going on in the workplace in your absence. There are travel itineraries designed for retired people because they are the ones that have the time and inclination to really enjoy trips.

Volunteer: There are countless opportunities to donate your time. Volunteering at hospitals, nature camps, schools, libraries, community centres, welfare projects, etc. can enrich your life and give you a sense of being useful to others. Use your rich life experiences meaningfully in improving and aiding the lives of others.

Do a part-time job: If you've been a professional player in the corporate world, become an advisor or consultant; if you're a sportsman, become a coach; a medical person, can do part-time consultancy, teach or become a visiting specialist; a teacher never really retires!

Start a business: If you've always wanted to be your own boss, now is the time to start your own business. There's a lot you can do according to your specialty and talents. Start on a small to moderate scale. Use all the contacts you've built over the years and see your venture grow.

17. Summary

- Start now, set financial goals.
- Find out about your terminal benefits (Provident Fund, Gratuity, Proceeds of Insurance policy (if any), ex-gratia payment, etc.)
- Prepare an investment plan and monitor your progress.
- Invest for income and try to allow for your income to rise with inflation.
- Provide enough annual income to pay your bills, while preserving a rainy-day fund adequate to handle unusual or unexpected items.
- Adjust your living standards if your after-tax income will not be able to meet your expenses.
- Plan how to manage all your financial resources together.
- Consider your home and other fixed assets as possible sources of income to meet your living needs.
- Stay informed about tax issues affecting retirees.
- Consider how to cope with risks such as longevity, inflation, and lifestyle changes using available insurance and investment products.
- Keep track of how your investments are doing, your changing needs for income, how financial markets and products are changing, and how income might help you achieve your goals.

18. Important Websites

1. www.sebi.gov.in
2. www.rbi.org.in
3. www.amfiindia.com
4. www.investor.sebi.gov.in
5. www.nseindia.com
6. www.bseindia.com

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For future financial education programs on any of the following modules:
1. School Children
2. College Students
3. Middle Income groups
4. Executives
5. Retirement Planning
6. Home Makers
7. Self Help groups

OR

Any of the following topics on securities markets namely:
1. How to read an offer document ?
2. How to invest in the primary market through stock exchanges ?
3. How to trade in securities/guide to investors ?
4. De-mat account and depositories
5. Mutual funds-Dos and Don'ts
6. Collective investment schemes- Dos and Don'ts
7. Buy back of securities, delisting of shares
8. Takeover regulations
9. Investor grievances-how to resolve it?

Please write to SEBI at: feprogram@sebi.gov.in

Or

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Investor Awareness Division
Securities and Exchange Board of India
SEBI BHAVAN
Plot No. C4-A, G-Block
Bandra Kurla Complex, Bandra (East)
Mumbai - 400 051
Tel: +91-22-26449880

* Investor can lodge their complaints with SEBI at: http://scores.gov.in
* Investor can approach SEBI for any assistance at: asksebi@sebi.gov.in

Contact details of SEBI offices in India

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INSIDE

Oregon Division of Finance and Corporate Securities and the Investor Information Program

Investors today need to be saavy when seeking the best advice, services, and products to meet their investment goals. However, each year millions of dollars are lost by Oregon investors through securities fraud.

To counter these losses and to help investors make sound choices, the Investor Information Program within the Division of Finance and Corporate Securities (DFCS) provides information and guidance.

The division, part of the Department of Consumer and Business Services, regulates financial institutions, registers securities offerings, licenses brokerage and investment advisory firms and their salespeople, and investigates possible violations of the Oregon securities laws. The Investor Information Program, within DFCS, shares information about investments and securities with those seeking to make informed investment decisions.

The Investor Information Program also provides publications on a variety of investment-related topics, including small-business investments, stocks, bonds, and mutual funds. Visit our Web site, **www.dfcs.oregon.gov/securities.html**, and its links to learn more about investing and other financial topics.

In addition, the program provides speakers to groups of 10 or more at no cost. If you're interested in having an expert present a program from among a variety of investment-related topics, call 503-378-4140 to find out more.

Table of Contents

Part 1: Investing basics

Identifying your investment goals

First, ask yourself, "What do I want to accomplish through my investments?" Although you may think the answer is simply "to make money," this guide will show you why it is critical to build your investment plan on a carefully considered foundation. For most investors, the following investment goals, or some combination of these, will help guide investment decisions:

Safety — through conservative investments, with minimal risk of losing the original investment (the principal).

Income — achieved by purchasing investments that provide regular payments.

Growth — realized over the long term through increases in market value. Growth investments carry a higher risk than investments based on the first two objectives and generally provide little or no dividend income.

Speculation — although it has the potential to produce higher-than-average returns, speculation involves higher-than-average risk. Speculation strategy may include short-term trading of new or unproven companies' stocks.

Setting your personal investment goals

Properly planning your investment goals will go a long way toward achieving them. One of the first things you should determine is how much you can afford to invest. If you're just beginning, first make sure you have emergency funds for those "just in case" items such as car or major appliance repair or the loss of a job. Set aside money for this first before you invest. Also, if you owe any debt, consider whether you should pay off that debt before you invest. Take into account any credit card, auto loan, student loan, medical bill, or similar debt that you have not paid in full.

The following questions, and your answers, will help you — whether you're a beginner or seasoned investor — identify the goals around which your investment plan will be built. Write the answers to these questions before you talk with a financial adviser or embark on an investment plan on your own:

- → Why do I need or want to invest?
- → How much can I afford to invest?
- → What am I trying to accomplish?
- → How much do I want to invest?
- → How much return do I need?
- → How much risk am I willing to take to achieve my goals?
- → How will I know when I've accomplished what I set out to do?

If you can't answer these questions fully, please read this guide carefully and then come back to them — *before* you invest.

Tips for beginners

- → Set aside money for emergencies before you invest.
- → Find a trained and licensed professional financial adviser.
- → Check the credentials of those who offer to sell you securities. Verify answers with an independent source.
- → Be selective. You have the right to say NO.
- → Ask about all fees and charges related to your investment choices prior to purchase. Fees reduce your rate of return; it may take a year or more to recover such fees.
- → Don't invest in a company just because it's in a fast-growing or successful industry.
- → Don't invest just because you received a "hot tip."
- → Never invest on the basis of an unsolicited phone call, e-mail, spam, or via an Internet chat room.

After you develop a sensible investment plan, stick with it.

Most of the discussion in this booklet concerns topics related to brokers, who *sell* securities, as opposed to investment advisers, who sell *advice* about securities.

Risk

All investors accept risk. Risk means that you may lose all or part of your principal. **No matter how you choose to invest your money, there will always be some degree of risk.** If an investment is touted as "risk-free," report it to us at 503-378-4140 or toll-free at 1-866-814-9710. These numbers also are listed in "Where to go for help" at the back of this book.

Investors who seek higher returns may face more risk than investors who seek modest returns from safer investments. The more you want to make from your investments or the more money the broker says you can make from your investments, the more risk you must accept. This is an indisputable reality of investing. If a high level of risk makes you uncomfortable, select your investments accordingly. As an investor, you have the right to know of the risks involved with any investment. The Investor Bill of Rights, below, by the North American Securities Administrators Association, will help you with your investment choices.

The Investor Bill of Rights

When You Invest, You Have the Right to

- **Ask** for and receive information from a firm about the work history and background of the person handling your account, as well as information about the firm itself.
- **Receive** complete information about the risks, obligations, and costs of any investment before investing.
- **Receive** recommendations consistent with your financial needs and investment objectives.
- **Receive** a copy of all completed account forms and agreements.
- **Receive** account statements that are accurate and understandable.
- **Understand** the terms and conditions of transactions you undertake.
- **Access** your funds in a timely manner and receive information about any restrictions or limitations on access.
- **Discuss** account problems with the branch manager or compliance department of the firm and receive prompt attention to and fair consideration of your concerns.
- **Receive** complete information about commissions, sales charges, maintenance or service charges, transaction or redemption fees, and penalties.
- **Contact** your state or provincial securities agency in order to verify the employment and disciplinary history of a securities salesperson and the salesperson's firm; find out if the investment is permitted to be sold; or to file a complaint.

If an investment doesn't fit the plan you've crafted, don't make that investment. Financial tragedies happen when people ignore the reasoning upon which they built their plan and "go for the gold" on a whim. **And, as always, don't invest in anything you don't fully understand.**

Achieving your goals

You may need professional assistance to achieve your investment goals. If you choose to work with a financial adviser, communicate your investment goals and financial objectives clearly. Present them in writing, and keep a copy for your records.

DFCS offers a helpful tool for keeping track of phone conversations with your financial adviser:
“When Your Broker Calls, Take Notes,” publication no. 440-3222, available in English or Spanish.
Call DFCS, 503-378-4140 or 1-866-814-9710 (toll-free) for a free copy or find it online at **www.oregondfcs.org/investor/publications/3222.pdf**.

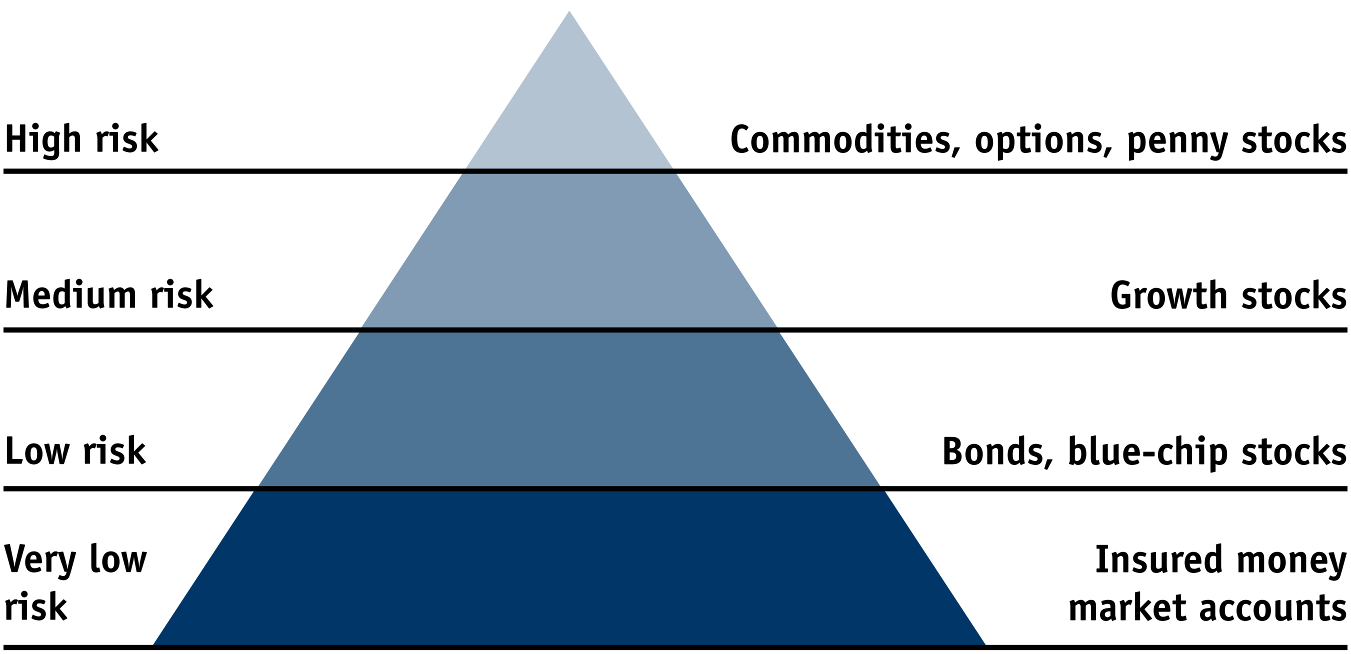
A sample investment goal

Income with hedge against inflation, plus small speculative position

Total investment capital: **$10,000**

Portfolio proportions:

Income securities	70%	7,000
Growth securities	20%	2,000
Speculative	10%	1,000
Totals	**100%**	**$10,000**



Part 2: Choosing a broker or adviser

The industry that sells securities, the *brokerage industry*, is large and varied. There are Oregon-based firms and national firms with Oregon offices; others conduct business from outside the state by mail, over the phone, or on the Internet. No matter where the companies offering to sell securities are located, Oregon law requires them and their salespeople to be licensed by the Oregon Division of Finance & Corporate Securities.

Licensing, however, doesn't guarantee that a firm or salesperson will perform according to your wishes; it only tells you that they have complied with the state's minimum standards.

A salesperson can be a broker, sales agent, account executive, financial consultant, or registered representative.

The industry that sells advice about investing in securities, *investment advising*, is also large and varied. *Investment advisers* must be registered with the Securities Exchange Commission (SEC) and abide by the rules of the *Investment Advisors Act* or be registered under Oregon securities laws. Which registration they must have depends on the dollar amount under management.

There are no licensing requirements for *financial planners*. *Certified financial planners* (CFPs) have completed the certificate program of a training establishment. Depending on financial planners' activities, they may have to be licensed as investment adviser representatives.

Designations

Watch out for designations, or "alphabet soup" lettering, behind someone's name. If someone is touting a designation, ask what it means and how he or she obtained it. Some designations indicate that the person has taken extensive training at a legitimate entity and also may have to complete a specified number of hours on an annual basis to maintain the designation. Be especially wary of "senior" designations as many are merely a marketing or selling technique toward targeting seniors. Call us — 503-378-4140 or 1-866-914-9710 — if you have a question about designations.

Types of brokerage firms

Brokerage firms may be classified into three basic types: limited products, full service, and discount, depending on what kind of services and products are provided to customers.

Shop for a brokerage just as you would for any other professional service. Brokerage firms may be one-person firms, international corporations, or anything in between. Similarly, the services, commissions, and fees of firms vary significantly.

Brokerages may have their own mutual funds. If that is the case, their securities salespeople may have incentive to sell the brokerage's own funds, a practice that is known as *proprietary sales*.

Some dealers are "market makers." Rather than profiting from commissions on each sale of securities to investors, market makers buy blocks of securities called "round lots" on the stock exchanges. If the securities increase in value, the dealer makes a profit because the dealer owns the securities. Market makers also profit by maintaining "spread" — that is, the difference between the bid price of their inventoried stock, which is the highest price a buyer will pay, and the asked price, which is the lowest price the seller is willing to accept.

Limited-products firms

These firms specialize in limited securities products such as mutual funds, limited partnerships, or specific types of bonds or insurance products like variable annuities.

Full-service brokerages

A full-service brokerage firm can provide complete investment services, including recommending securities, researching a particular issue, and providing individualized service through a salesperson. The firm receives its payment in the form of a commission that is calculated according to the type of security and the amount invested. A full-service firm is best for investors new to the market or those who don't have the time or desire to do their own investment research.

Discount brokerages

A discount brokerage also provides a range of services, but its salespeople are not usually allowed to give investment advice, make recommendations, or provide research. For these reasons, a discount firm charges lower commissions than full-service brokers and is best suited to experienced investors who do their own research and direct their own buy-and-sell transactions.

Eight steps to take before you select a broker

1. **Make a plan**. Thoroughly consider your financial objectives and evaluate your personal finances before discussing your financial goals with a broker.
2. **State your net worth honestly**. Don't exaggerate your net worth to impress brokers; they will be making investment recommendations based on what you tell them. Make sure you, and your broker, exclude the value of your home when you calculate your net worth for investment purposes.
3. **Decide whether you'll use a full-service or discount brokerage.**
4. **Get references**. Ask friends, relatives, and co-workers for the names of brokers who served them well for a year or more.
5. With your plan in hand, **meet with each broker** who sounds as if he or she might be right for you. Talk with prospective brokers about what you want and assess their responsiveness to your needs. Ask about their experience and education. Ask for customer references by name and phone number.

   Be wary of brokers who attempt to sell you a product during this interview. The interview should be free if the person is paid on commission. If the broker provides a fee-only service, the meeting might be free or the broker should tell you the fee before you meet.
6. **Contact each reference** and ask about the broker's performance.
7. **Ask brokers about fees and commissions**, which should be clearly stated. Take notes. Most brokers or investment salespeople receive a commission based on the size of your investment. Broker/dealer salespeople earn commissions based on a percentage of the dollar amount invested. Investment adviser representatives receive a fee based on a percentage of the money under management.
8. **Do your homework**. If you like one of the brokers you've met, call the Financial Industry Regulatory Authority (FINRA), 1-800-289-9999, to get his or her Central Registry Deposit number, which is the broker's license number. This number is linked to the broker's employment and disciplinary history.

   Next, make sure the salesperson is licensed to sell securities in Oregon. Contact DFCS 503-378-4140 or 1-866-814-9710 (toll-free). If an individual is not registered with us, ask the salesperson about his or her status and, of course, verify the information.

   FINRA is the largest non-government regulator for all securities firms doing business in the U.S.

Part 3: Online investing

There are hundreds of online investment firms, with millions of accounts. You can buy almost any kind of stock, bond, or mutual fund online. People from all walks of life are trading online.

The biggest difference between trading online and dealing with a broker is that online, you are responsible for finding the answers to any questions you may have about the investments you're considering or have made. One of the most common complaints from online investors is that the firms with which they've dealt do not respond adequately to customer inquiries or complaints. This may change for the better as the online investment industry matures, but as an inexperienced investor, you may want to start with a full-service broker.

If you decide to proceed with online investing, please call us at 503-378-4140 or 1-866-814-9710 (toll-free), to request the free publication *"Risky Investments and Online Investing."* Read it before you invest online.

Some tips:

- As with any investment decision, do your homework before you invest online.
- Read national financial publications.
- Visit Internet sites that evaluate online brokers.
- Don't make hasty decisions or decisions based on hunches, tips, or online chat-room gossip.
- For help finding a securities lawyer: **www.osbar.org** (Oregon State Bar); **www.piaba.org** (Public Investors Arbitration Bar Association) or **www.martindale.com**

Web sites

- For extensive information about online investing:
  www.investorprotection.org
- For help finding a securities lawyer:
  www.osbar.org (Oregon State Bar); **www.piaba.org** (Public Investors Arbitration Bar Association) or **www.martindale.com**
- To file an online complaint or find a mediator:
  www.finra.com
  (Financial Industry Regulatory Authority)
- To contact Oregon Division of Finance and Corporate Securities:
  www.dfcs.oregon.gov
- To access lists of state regulators and investor information:
  www.nasaa.org
  (North American Securities Administrators Association)
- To find out about online investment scams:
  www.sec.gov/consumer/cyberfr.htm
  (Securities and Exchange Commission)
- To do online investing groundwork:
  www.investingonline.org/

Part 4: Opening a new account

Types of accounts

There are several types of accounts you may open with brokers:

Cash accounts — Most investors open cash accounts. A cash account is an arrangement that requires you to pay in full for each security purchase.

Combination money market and cash account — This type of account typically requires you to keep a minimum balance in your account, but it offers flexibility in that you may buy securities with continuous transfers or “sweeps” of unused cash into a money market account. Check for additional fees with this type of account.

Margin accounts — Opening a margin account allows you to borrow money from the brokerage — typically, up to 50 percent of the value of the securities you hold — against your securities or cash balance so that you can buy additional securities. A margin account requires you to pay interest on what you borrow. If you buy securities on margin, remember that you’re liable for the balance of the loan even if the value of your securities drops. A margin account involves a high degree of risk and is best used by a seasoned investor. When you sign a margin agreement, the broker **is authorized to sell securities in your account without notice** to cover shortfalls resulting from a decline in the value of your securities. This is called a “margin call.” Be prepared to pay cash from other sources to cover these “calls.”

Stock certificates

You usually have several choices on how your stock certificates will be handled:

- Receive a certificate made out in your name that shows the number of shares purchased. This certificate must be endorsed and returned to the broker should you sell the stock. Keep stock certificates in a safe deposit box or other secure place, not in your home. Stock certificates are difficult to replace if stolen or destroyed.
- Have the stock certificate held in your name at the brokerage firm. Although the certificate still must be endorsed by you if the stock is sold, this option eliminates storage concerns.
- Have your broker hold the stock certificate in “street” name, which means that the brokerage firm is listed as the shareholder of record, even though you, the customer, are the stock owner. Your broker must forward annual reports and proxy materials to you, which may delay them; however, when you sell the stock, the transfer is much simpler. Loss of stock due to broker negligence will be covered by the Securities Investor Protection Corporation if it’s held in street name; this is not true of certificates held by investors.

Discuss these options with your broker and decide which is right for you. Ask about additional fees charged by the broker for holding stock in street name and any related custodial fees.

New-account forms

When you fill out your new-account form, you provide the broker with information about your financial situation, your investment objectives, and the level of risk you're willing to take. You have a right to expect your broker to follow your instructions. Brokers have a responsibility to know their clients and recommend suitable investments.

The new-account form requires you to specify the level of risk you're willing to accept to achieve your financial objectives. If you don't understand some of the terms on the form, ask your broker to explain. Make sure you understand how much risk is involved.

Don't sign the form until it's completed, the information is accurate, you understand everything, and you're willing to accept the terms and conditions it imposes on you. Take your time and ask questions. And be sure to read both the front and back of the information you receive.

Take a copy (both front and back) of your new-account form with you when you leave, or make a photocopy of the documents your online brokerage has sent you to sign. Note the information, usually on the back, regarding dispute resolution and arbitration terms. Such documents could easily be falsified, changing your permanent file. Don't accept a promise that you'll get your copy in the mail.

Your responsibilities don't end once you've made an investment plan and selected a broker or online investment firm. Once you purchase securities, you must do the following:

- Keep them in a safe place.
- Maintain records.
- Monitor your investment account.

If something goes wrong, it's important to quickly recognize the problem and take action.

Part 5: Keeping track of your account

Discretionary authority

Ordinarily, you'll be making your own investment decisions. However, should you choose to give your broker permission to make these decisions for you, you'll need to sign a discretionary authority form.

Discretionary authority allows your broker to make investment decisions based on his or her determination of what will best meet your investment objectives. Your broker will then do so without consulting you about the price or type of security, or when to buy or sell. If you decide to give the broker discretionary authority for your account, you must do so in writing.

If you give discretionary authority, it's even more important that you review and understand your monthly statements so that you know what was purchased and how frequently trades are being made. Discretionary authority may be withdrawn at any time, also in writing.

Monitoring your account

After you've invested, you'll receive account statements. Don't throw them away or delay reading them. Read each statement and make sure each trade was completed as you instructed. Check to see how much commission you were charged. You should be informed in advance about increases in charges, such as commissions and custodial fees. If you elected to have your securities held in street name (see Page 11), you can request to have dividends or interest payments forwarded to you or reinvested. Pay attention to inserts included with your statement, including fee disclosure documents.

Keeping files

Keep all investment-related information together. As soon as you review the confirmation slips and monthly statements, file them. If you have a dispute with your broker regarding your investment, this file could prove invaluable.

Always take notes when you talk with your broker and always keep these notes with your investment files. If you've used DFCS' "When Your Broker Calls, Take Notes" forms, keep them with these materials, as well. (Check our Web page at **www.dfcs.oregon.gov/investor/publication/3222.pdf**. Or contact DFCS at the address on Page 37 to order this free form.)

Part 6: Your legal rights

As an investor, you aren't protected from a decline in the value of securities purchased on your broker's recommendation; however, you may have recourse if you lose money because of a broker's recommendations that were clearly unsuitable. Unsuitable investment recommendations are prohibited by Oregon securities law and by the Financial Industry Regulatory Authority (FINRA). In Part 1 of this guide, we urged you to explore your reasons for investing and to write down your goals. This is another reason for doing that. Should you ever seek recourse for securities losses that you believe were unsuitable, your written goals may be the evidence that makes your case.

Some tips:

- → Never make your investment check payable to the sales representative.
- → Never make an investment decision based on a phone solicitation or sales promotion from someone with whom you have never done business.
- → Don't invest on the basis of "inside information" or new products or developments without investigating for yourself.
- → Don't abandon your common sense or your plan. If you're promised spectacular returns — "your money will double in a year or less" — or promised "guaranteed returns," *be wary*.
- → Don't wait if you think there's a problem with your account or brokerage firm. Call and express your complaint to your broker, the broker's manager, and the compliance officer for the brokerage firm. And call us and FINRA to report the problem immediately. You'll find more information about reporting and resolving problems on Page 34.

Regulation of brokers

The Financial Industry Regulatory Authority (FINRA) is a self-regulatory organization that licenses all registered representatives. Before a sales representative can sell securities to the public or supervise those who do, FINRA reviews the applicant's employment and disciplinary history.

If you're working with an attorney, accountant, or financial planner as an investment adviser, understand that these people don't have to be registered with FINRA; however, if they sell securities as broker/dealer salespeople in Oregon, they do.

Information on the Securities Investor Protection Corporation: The Securities Investor Protection Corporation (SIPC) covers certain securities losses only if an SIPC member fails financially and is unable to meet securities customers' obligations. It does not cover loss to an investor resulting from a decline in the market value of securities, bad advice, or unsuitable recommendations by a broker. SIPC is a nonprofit membership corporation funded by securities brokers. All brokers and dealers registered with the Securities and Exchange Commission and with national stock exchanges are required to be members of SIPC. SIPC is neither a government agency nor a regulatory authority. Don't confuse the SIPC with the Federal Deposit Insurance Corporation: The FDIC guarantees funds on deposit in member banks and thrift institutions.

Part 7: Understanding stocks and bonds

Stocks and bonds are the staples of many investment portfolios. Stock represents a share of ownership in a corporation. A bond is a security that represents a debt owed by the corporation to the bondholder.

A share of stock is issued in a number of different ways — following are descriptions of the most common forms:

Common stock

Common stock — also called common shares, capital shares, or capital stock — represents units of ownership in a corporation. Purchasers of common stock are granted specific rights that may include the following:

- Voting at stockholder meetings.
- Selling or otherwise disposing of stock.
- Having the first opportunity to purchase additional shares of common stock issued by the corporation.
- Sharing dividends with other common stockholders.
- Receiving annual reports and inspecting the corporation's books and records.
- Sharing in assets (after creditors are paid) if the corporation is liquidated.

A corporation may be authorized to issue more than one class of stock. For example, a class of common stock might have enhanced voting rights. This stock may be more expensive than regular shares.

Preferred stock

Preferred stock gets its name from the preferences granted its owners, which may include dividends or sharing assets should company liquidation occur. Preferred stock generally doesn't carry voting rights. It is issued by a company to raise capital without jeopardizing the controlling interests of the common stockholders. Preferred stock is sometimes convertible to common stock.

Preferred stock is similar to bonds in that most preferred stock dividends offer a fixed rate of income. Most offer future financial options. Be sure to get a full description from your broker of preferred stock you're interested in. Preferred stocks offer relative safety of income, but usually have more modest growth potential than common stock.

Dividends and yields

Unlike the interest paid on bonds or certificates of deposit, which remain constant, dividends on stock may be reduced or eliminated in lean periods; however, in good years, they may earn higher dividends, have increased market value, and yield higher returns to the stockholder.

If you see a stock marked with an "x" in a newspaper, that stock has gone ex-dividend, which means it will pay a dividend to investors. But it will not pay a dividend to investors who buy shares during the ex-dividend period (the period between the announcement and the payment of the next dividend) — only to those who held shares when the dividend was announced.

Preferred stock dividends are usually paid at a fixed rate and before dividends are paid on common stock. In addition, most preferred stock dividends are cumulative, which means that if the company fails to pay a dividend when due, the unpaid dividend obligation accumulates. These obligations must be paid in full before common stockholders receive any dividend payments.

Stock is often referred to as having par value, book value, and market value.

- **Par value** is an arbitrary value set by the company at the time of issuance and is of little concern to most investors.
- **Book value** is calculated by dividing the total net assets of the company by the number of shares outstanding.
- The price at which shares of stock can be bought and sold is called the **market value**. Shares that are not publicly traded, however, will have no market value.

Warrants

A warrant is a type of security, usually issued together with a bond or preferred stock. The warrant entitles the holder to buy a proportionate amount of common stock at a specified price that is usually higher than the market price at the time the warrant is issued. A warrant is usually offered as a "sweetener" to enhance the marketability of accompanying fixed-income securities. Warrants for shares of publicly traded stocks are usually tradeable on exchanges and usually have a life of several years. Similarly, subscription rights to new issues often are sold to existing shareholders. These rights, also known as options, are usually exercisable at a price below current market value of the stock in question. They usually expire within a short time.

Bonds

While a share of stock represents partial ownership or equity in a company, bonds represent debt payable by a company to the bondholders. Interest on bonds must be paid in good times or bad, which makes bonds attractive to investors seeking greater capital security and assured income.

A company issuing a bond repays with interest the amount borrowed upon the bond's maturity. On the face of a bond certificate is the name of the company issuing the bond, the serial number, the principal amount of the bond, the rate of interest, and the maturity date.

The quality of a bond usually can be determined by its rating. There are three publications that rate bonds: Fitch, Moody's, and Standard & Poor's (S&P). They all rate the credit-worthiness of registered bonds on a grading scale of AAA to BBB-. Any bond rating below that (BB+ to C) is considered to be a low-grade bond or a "junk" bond. The default potential of the debtor corresponds inversely to these bond ratings — the higher the grade, the lower the risk, the lower the grade, the higher the risk. D ratings indicate payments are in default.

Fitch, Moody's, and the S&P ratings are considered industry norms for bonds. Ask your broker for the Fitch, Moody's, or S&P ratings of bonds you're interested in. In a bankruptcy or other liquidation, bondholders' claims must be satisfied before payments are made to preferred or common stockholders.

Bonds are issued by business corporations and by foreign, federal, state, and local governments. U.S. government bonds are considered the safest because the U.S. government has the highest credit rating of any borrower. State and local governments offer what are commonly referred to as "municipal bonds," which may offer the advantage of a federal tax exemption on interest paid.

While municipal bonds usually are considered quite safe, not all municipal bonds are the same. The issuing body can be any entity from the U.S. government to a small irrigation district. Different bond issues have different levels of safety. In the past, bonds issued by municipalities have been rated as junk bonds. It is important to check the bond rating for municipal bonds.

Note: Bond prices generally move conversely to interest rates. That means an increase in interest rates generally leads to a decline in bond prices. When interest rates are higher than current bond yields, demand tends to shift away from the bond market.

Corporate bonds

Corporate bond issues vary widely, but a few of the more common corporate bonds include the following:

- **Sinking-fund bonds:** Some bonds are backed by a "sinking fund" for which the issuer is required each year to set aside a certain amount of money to retire the bonds when they mature. A sinking fund may be allowed to accumulate or may be used each year to redeem outstanding bonds.
- **Mortgage bonds:** Bonds for which a corporation pledges certain assets (real estate) as collateral to secure the bond payment.
- **Debentures:** These bonds aren't secured with collateral or specific property, but are backed by a corporation's general credit. Debentures aren't necessarily less creditworthy than mortgage bonds. Some have top credit ratings.
- **Junk bonds:** These are high-yield, high-risk bonds of two types: those that were investment-grade when originally issued but have subsequently been downgraded, and those originally issued as low-grade bonds. The latter group includes bonds issued by low-rated companies to finance operations, as well as those issued in connection with corporate takeovers.
- **Convertible bonds:** Convertible bonds give you the privilege of exchanging them for other securities issued by the company at a future date and under specific conditions.
- **Zero-coupon bonds:** Zero-coupon bonds make no periodic interest payments, but instead are sold at less than face value. Gradual appreciation allows buyers of such bonds to redeem them at face value on a specified maturity date.
- **Penny stock:** The term "penny stock" generally refers to low-priced (below $5), speculative securities of very small companies. While penny stocks generally trade over-the-counter, such as on the OTC Bulletin Board or in the Pink Sheets, they also may trade on securities exchanges, including foreign securities exchanges. In addition, penny stocks include the securities of certain private companies with no active trading market. Penny stocks may trade infrequently, which means that it may be difficult to sell penny stock shares once you own them. Because it may be difficult to find quotations for certain penny stocks, they may be impossible to accurately price. *Investors in penny stocks should be prepared for the possibility that they may lose their whole investment.*

Part 8: Public companies

When you invest in securities listed on the New York Stock Exchange (NYSE), you're participating in the growth or trading of equities of some of the largest U.S. and foreign corporations. The NYSE lists approximately 1,700 stocks and 2,300 corporate bonds. But many more stocks and bonds are offered on other markets, including NASDAQ, the American Stock Exchange, the Pacific Stock Exchange, Boston Stock Exchange, Cincinnati Stock Exchange, Chicago Stock Exchange, and Philadelphia Stock Exchange.

Public and reporting companies

A public company is a company that has gone through the initial public offering (IPO) process and is obligated to provide certain information and documents to the Securities and Exchange Commission (SEC) and to one or more stock exchanges on a regular basis.

Reporting companies, unlike public companies, may not have gone through the initial public offering (IPO), but voluntarily provide information similar to what public companies provide to the SEC.

Both public and reporting companies must meet reporting requirements based on shareholders and assets.

Vital information about public companies

Information about public companies whose stocks or bonds are traded — on the New York Stock Exchange, American Stock Exchange, NASDAQ, or as over-the-counter (OTC) stock — is contained in the documents these public companies file with the Securities and Exchange Commission (SEC). Among the items reported:

- Financial statements
- Description of business
- Vital information about executive officers and the board of directors
- Location and character of principal properties
- Legal proceedings
- Stock options and the compensation of top executives
- Proposed offerings of securities
- Number of shareholders
- Number of employees

You can find filing for companies and mutual funds by searching the EDGAR database on the SEC's **Web site: www.sec.gov**.

Part 9: Understanding mutual funds

A mutual-fund company makes investments for people who share common financial goals; it allows a group of investors to pool their assets in a diversified portfolio of stocks, bonds, options, commodities, or money-market securities.

Diversification means that your investment risk is spread out. Because your fund buys and sells large blocks of securities, its investment costs are lower than those typically paid by an individual.

Most mutual funds are sold through brokers, banks, financial planners, or insurance agents and are known as full-service funds. Because of loads, charges, fees, and relatively slow growth, mutual funds are not good tools for short-term investing or for rapid buying or selling.

How mutual funds work

An investment company pools the money of many people and invests it in stocks, bonds, or other securities that are selected by the fund manager to achieve the fund's objectives. These holdings are called a "portfolio."

You buy shares that represent an undivided interest in the whole portfolio. The investment company attempts to earn money on the portfolio of securities and distributes the earnings to you and other investors as dividends. The dividends paid out are in proportion to the number of fund shares that you own.

You can determine the value of your shares by looking in the financial pages of larger newspapers. Find your fund's name and then look under the column marked "NAV," which shows the net asset value per share. A fund's NAV fluctuates daily as its holdings change in value.

Terms to understand before you invest

→ **Diverse portfolio**

→ **Specialized portfolio**

→ **Open-end and closed-end mutual funds**

If you purchase an open-end mutual fund, you'll be able to cash in all or part of your shares at any time and receive the current market value of your shares (this feature is called liquidity), which may be more or less than you originally invested. The open-end mutual fund provides this liquidity if you need access to your money quickly. Mutual fund companies issue shares on demand. Open-ended funds usually have diverse portfolios — that is, funds are invested in stocks, bonds, or money-market instruments, depending on the type of mutual-fund company.

Most closed-end funds have fixed numbers of shares and are on major stock exchanges. They tend to have specialized portfolios of stocks, bonds, convertibles, or combinations of these and are oriented toward income, capital gains, or a combination of these objectives. Because they have a limited number of shares, they do not issue and redeem like open-end funds. These funds have less active trading than open-end funds. Purchasers of closed-end funds can cash in their shares prior to maturity only by finding another buyer through such sources as a stock exchange, which may be difficult and time-consuming.

→ **No-load mutual funds**

"Load" refers to the sales charge paid by an investor who purchases a mutual fund. No-load funds, which are sold directly to the public, do not charge a sales load, because you make your selection of funds without the assistance or advice of a broker. Be sure to check the prospectus for hidden fees and restrictions, such as management fees and overhead expenses like 12b-1 fees for promotional expenses.

→ Front-end load vs. back-end load

When you purchase shares in a mutual fund and pay a sales charge at that time, you're paying a front-end load. This type of charge reduces the amount of money you're investing in the fund.

For example, if you're investing $5,000 in a mutual fund with a seven percent front-end load, $350 will go to pay the sales charge and $4,650 will be invested in the fund. A back-end (or deferred) load is a sales charge that is deferred until you sell your shares. It usually is highest in the first year of your investment and gradually diminishes the longer you own your shares. Again, check the prospectus for hidden management fees that can range up to 1.5 percent.

Back-end-loaded funds typically have lower stated fees than front-end-loaded funds, but generally have higher fees over all. Most mutual funds sold by full-service brokerage firms are the front-end- or back-end-loaded funds, while no-load funds are available through discount firms and directly from the fund.

→ Management fees

Management fees are paid to the portfolio manager for operating the fund. Fees vary widely between funds. In fact, some no-load funds end up charging more in total fees than load funds, after management fees are added.

→ Trading within fund families

Certain families of mutual funds will allow you to move in and out of different funds within that family of funds at little or no additional cost.

How to select a mutual fund

There are thousands of mutual funds from which to choose, with a variety of investment objectives and levels of risk. If you don't know where to start, get professional guidance from a broker.

It's a good idea to talk with family members and friends who have invested in mutual funds. Find out what they did and didn't like about the fund they selected. The reference desk at your local library will refer you to directories of funds and reference books. You can also check the Internet for information but make sure you know who is offering the advice and that it is not biased toward one mutual fund from another.

Remember, when you do research, past performance doesn't necessarily represent what the future may bring. Look at trends rather than one year or two.

Understanding the three mutual-fund share classes

Mutual funds sold through a stockbroker or an insurance salesperson typically have share classes. Each class has different features that you need to understand before purchasing. Make sure you understand how the share class you choose affects your investment over your expected investment time frame.

Class A shares have a front-end load. The money you invest will be reduced by the sales charge amount. Typically, management fees are less than other share classes. These shares are usually best for longer term investing.

Class B shares have back-end load. The average B share back-end load decreases the longer you hold the shares. For example, in Year 1, there may be a 7 percent back-end load diminishing gradually — usually by a percent per year. Management fees are typically higher in B shares funds.

Other types of mutual-fund share classes, such as Class C, D, or E are not recommended for the average investor. Ask your broker to explain each class' benefits and costs.

Check with your broker and the prospectus to see if you will get a sales charge break if you invest a certain amount over a specified period of time. Sometimes funds have "price breaks" at certain purchase levels.

Part 10: Main types of mutual funds

You may get a return on your investment as your fund earns dividends and interest on the securities in its portfolio; when the market value of the securities in the fund increases, the securities are sold, and the fund distributes capital gain; or as the fund retains securities whose value has increased. Any of these can increase the value of the shares of a mutual fund.

If you sell your shares for a higher price than you bought them for, you'll experience capital gain. Many funds will reinvest dividends and distributions.

Mutual funds are not short-term investments. Frequent trading in mutual funds will result in sales commissions eating up much of your principal. If your broker recommends such action, be wary.

Stock funds

Stock funds typically offer the highest returns at higher risk than money-market or bond funds. Stock funds vary in purpose, as well. Some stock funds focus their portfolio purchases in a particular industry, such as technology or health care. Some are designed to accomplish growth or income.

Bond funds

Bond funds may have higher risks than money-market funds, but also seek to pay higher yields. There are many different types of bonds, so bond funds vary in both risks and rewards. Typically, bond funds are suitable for those seeking income and preservation of capital.

Money-market funds

Compared to other mutual funds, money-market funds have relatively low risks. Money-market funds are limited by law to high-quality, short-term investments. The money-market fund pays a fluctuating interest rate on your funds. They often are sold with check-cashing privileges.

Annuities

An annuity is a contract between you and an insurance company under which you make a lump-sum payment or series of payments. In return, the insurer agrees to make periodic payments to you beginning immediately or at a future date. Typically, annuities offer tax-deferred growth of earnings and may include a death benefit that will pay your beneficiary a guaranteed minimum amount, at least the amount of your purchase payments.

There are generally three types of annuities — **fixed, variable, and immediate.** In a fixed annuity, the insurance company guarantees that you will earn a minimum rate of interest during the time that your account is growing. The insurance company also guarantees that the periodic payments will be a guaranteed amount per dollar in your account. These periodic payments may last for a definite period, such as 20 years, or an indefinite period, such as your lifetime or the lifetime of you and your spouse.

In a variable annuity, by contrast, you can choose to invest your purchase payments from among a range of different investment options, typically mutual funds. The rate of return on your investment and the amount of the periodic payments you will eventually receive will vary depending on the performance of the investment options you have selected. Like other investments you will receive a prospectus.

With an immediate annuity you give the insurance company a specific amount of money, $100,000, and they guarantee to pay you a specified payment for a definite period of time, such as 20 years or for your life. The amount you will receive is based on the amount on deposit with the insurance company and the length of time you will expect to receive payments. Some contracts allow for your beneficiaries to receive the remaining value of the annuity after you die.

Who can sell annuities? As mentioned previously, insurance companies, through agents, can sell annuities. Additionally, brokers, financial planners, or other financial professionals can sell annuities as long as they, and the insurance agents, are licensed to sell them.

Annuity contracts usually have a "free look" period of 10 days or more where you can terminate the contract without paying any surrender charges, and get back your purchase payments. During this time you have the right to ask questions to make sure you understand your contract annuity before the "free look" period ends.

Remember an annuity is a long-term investment with substantial surrender charges, therefore you should never invest 100 percent of your liquid assets in an annuity.

Annuity Advice

- All annuities are designed to be long-term investments to meet retirement or other long-range goals, except for immediate annuities. Annuities are not suitable for meeting short-term goals as there are substantial taxes, and insurance company charges called "surrender charges" that may apply if you withdraw the money early. And, just like other investments, variable annuities involve risks. Annuities are not usually suitable for anyone close to retirement or in retirement.
- Anyone who sells annuities is required to conduct a reasonable inquiry of your needs, goals, financial status, age, and other relevant information to determine the suitability of the annuity before recommending a purchase. Make sure you clearly understand all policy provisions, administrative fees, sub-account fees, and surrender schedules that apply to the product recommended to you. If you are purchasing a variable annuity it's important that you read and understand the prospectus — even the fine print — before you make the purchase.
- Consult a tax adviser and consider all the tax consequences in purchasing an annuity, including the effect of annuity payments on your tax status in retirement.
- If you own an annuity and want to exchange it for a different one, be careful. Regardless of whether or not your surrender period has expired on your current annuity, a new surrender period will generally begin when you exchange the old contract for the new contract. This mean you could forfeit your ability to withdraw money from your account without substantial surrender charges. Make sure you understand how your insurance agent or financial adviser is paid. You will want to know all the fees and commissions before you commit.
- Other investment options, such as IRAs and employer-sponsored 401(k) plans, also may provide tax-deferred growth and other tax advantages. For most investors, it will be advantageous to make the maximum allowable contributions to IRAs and 401(k) plans before investing in an annuity.
- Above all else, never purchase any investment on the day it is offered. Give yourself time to consult with your tax adviser and attorney. Remember if it has to be purchased today, it is not worth purchasing.

Part 11: Registration of securities

Securities must be registered with the securities section in each state where they're sold, unless they're exempt or subject to a notice filing. Be aware that neither the SEC nor any state makes recommendations or offers opinions about the quality of securities being offered through the registration procedure. The primary purpose of the registration review is for regulators to analyze the offering documents or prospectus, ensuring that it contains information necessary for investors to understand the offering and evaluate its risks.

Regulators also ensure that promoters, sellers of securities, and their agents do not receive excessive commissions or related fees. You should ask your brokerage firm or investment adviser to help you gather information about a company in which you're interested in investing.

Companies with securities trading on an exchange must file "full disclosure" reports on a regular basis with the Securities and Exchange Commission. Full-disclosure reports will give you all of the fine print concerning many issues with the company and the related investment, including potential risks. These comprehensive reports are generally available online from the Securities and Exchange Commission (www.sec.gov).

Get more information

There are many sources of information about companies. You can start with the Internet, but remember to verify with other sources. If you don't know where to look, start by contacting us at 503-378-4140 or 1-866-814-9710.

Local information

Pay close attention to business and financial newspapers in your area. Often, these periodicals provide in-depth coverage about a company or a segment of an industry. Check with your local reference librarian for assistance in identifying appropriate investment-related materials.

Part 12: What you should know about the prospectus

Do you *have to* read the prospectus?

Whether you go it alone as an investor or work with a professional, the answer is YES.

It's important that you read and understand the prospectus — even the fine print. A prospectus sets forth the plan for a proposed business enterprise or the facts concerning an existing one that an investor needs to make an informed decision.

A **prospectus issued by a mutual fund** describes the history, background of managers, fund objectives, a financial statement, and other essential data. Every fund must provide a prospectus to the purchaser no later than the date of confirmation of your initial purchase. You also can call or write the fund directly, or ask your broker for a prospectus, or get it online. If you are particularly interested in one fund, go online and take a look at it; the same is true for specific stocks.

A **prospectus for a public offering** must be filed with the Securities and Exchange Commission and given to prospective buyers of the initial offering. It contains financial information and a description of a company's business history, officers, operations, pending litigation (if any), risks, and plans.

In a mutual-fund prospectus, pay close attention to the following:

- → The minimum dollar amount required to open an account.
- → The investment objective — make certain that the fund's objective matches your own.
- → The fund's performance. Although past performance is not an indicator of future performance, if the numbers in the prospectus don't please you, find another fund.
- → The fund's level of risk.
- → Particular services or features of the fund, such as check writing or automatic reinvesting of dividends. Certain funds allow you to switch shares into different funds at no cost.
- → The fees you'll be paying.

A close examination of a prospectus

The prospectus discussed here is for an initial public offering (IPO), although the information is relevant to reading most other prospectuses.

→ Step one:

Start with the title page. At the top of the front page, in large type, you'll find the name of the issuing company and the security being issued. You'll find important information such as the existence of a secondary market where these securities are bought and sold and information about "stock dilution."

To be certain the securities are registered with state and federal agencies as required by law, call us and the Securities Exchange Commission (SEC) or check online at www.sec.gov. If the securities are not registered, that fact should be clearly stated in the first section of the prospectus, with an explanation of the exemption the issuer is claiming. However, "covered securities," those that meet specific federal regulation requirements, do not have to register with the state. We will have no information on them.

→ Step two:

Read the summary section. This section summarizes the information most likely to affect an investor's decision. Read this section with great care and write down questions. If these questions aren't answered to your satisfaction by the time you finish reviewing the prospectus, ask your broker for clarification.

The summary reviews the main features of the issue, then reviews company operations, including the most significant financial data taken from complete financial statements, which you'll find at the end of the prospectus. This data typically includes sales, gross income, net income, and earnings per share.

The summary isn't intended to replace the full text of the prospectus. Rather, it'll help you understand what the securities offering represents and enable you to ask important questions as you read through the full document.

→ Step three:

Look at the information in groups. The following information is included in virtually all prospectuses, though not necessarily in the order presented. Pay close attention to the following:

→ **Competition.** Heavy competition by established companies will make your investment more risky.

→ **Human resources.** This will tell you about the number and types of employees in the company. Watch for a collective bargaining agreement coming to an end or a history of strikes or poor labor relations.

→ **Management.** Study the section describing the management staff and their qualifications. The success or failure of the company depends heavily on management, so the prospectus devotes a considerable amount of space to information about directors and officers: experience, education, ages, histories with this or previous companies, pay, and other compensation.

→ **Activities.** Find out what the company does or makes, and its operations, including how it was incorporated, subsidiaries, real estate that it owns, and legal proceedings in which it is involved.

→ **Customer base.** Use this information to assess the size and availability of the marketplace for the company's products or services. If a key customer finds a new supplier or goes out of business, the effects on the company may be disastrous.

→ Step four:

Establish what securities are offered to you. Don't confuse the success of the company with the value of the securities being offered to you as an investor. Carefully examine the characteristics of the securities being offered.

→ Read through the section describing investor rights. This section takes on added importance when the securities involve complex units, employee purchase plans, or warrants. If you don't understand how this section affects you, ask your broker.

→ Read through the section explaining how the company intends to use the proceeds from the offering.

→ Review the section covering "dilution." When a company issues additional shares of a security, it reduces — or dilutes — the value of shares. This can mean a reduction of your voting power if shares are not issued proportionately to the holdings of existing shareholders. It may be a financial reduction if shares are issued disproportionately and the price at which the new shares are issued is less than the market or book value of outstanding shares.

→ Step five:

Study risk factors. All IPOs are required to have a section about the offering's risk factors. These are the risks that you, the investor, will take, so read such sections carefully. Risk factors include the price or availability of raw materials, a high debt ratio, competition, lack of experience in the business, etc.

→ Step six:

Establish the company's financial situation. These sections describe the company's financial picture. If you're not familiar with reading and analyzing this type of data and the accompanying comments by the accountants, you should consider talking to your own accountant.

→ The **financial statements** you'll find in the prospectus include the income statement, the cash flow statement, the statement of changes in financial position for the company's recent years of operations, and the balance sheet. The prospectus also will include an explanation and analysis by management of previous years' financial results.

→ The **statement of dividends** paid during the previous five years may help you assess the company's growth rate and potential. If you're investing for the dividend return, pay close attention to the dividend history of the company. Nonpayment of dividends, however, doesn't indicate a poor financial status, because management may have reinvested the money in the company.

→ **Price-earnings ratio** (P/E) is a popular way to compare stocks selling at various price levels. The P/E ratio is the current price of a share of stock divided by the earnings per share of the issuing firm for a 12-month period. For example, a stock selling for $50 a share and earning $5 a share is said to be selling at a price-earnings ratio of 10.

Part 13: Small-business investments

States have relaxed laws to make small-business start-ups easier. Many investors view start-ups as an opportunity to "get in on the ground floor" of an emerging business and to "hit it big" as these small businesses grow into large ones. Statistically, however, most small businesses fail within the first few years. Small-business investments are among the most risky for investors.

A basic principle of investing in a small business: **Never make a small-business investment that you can't afford to lose.** Never use funds needed for other purposes, such as college education, retirement, loan repayment, or medical expenses. Instead, use funds that would otherwise be used for a consumer purchase, such as a vacation or a down payment on a boat or RV.

Above all, **never let a commissioned securities salesperson or officer or director of a company convince you that the investment isn't risky**. Small-business investments are generally illiquid, that is, hard to convert to cash — even though freely transferable, because there's no secondary market on which they're traded, and trading may be restricted. You usually won't be able to sell your securities if the company takes a turn for the worse.

Read the prospectus or offering circular or ask to see the business plan and financial information. Also, just because the state has registered the offering doesn't mean that the particular investment will be successful. The state doesn't evaluate or endorse investments. If anyone suggests otherwise, it's untrue and is a violation of Oregon securities law.

If you plan to invest a large amount of money in a small business, you should consider investing smaller amounts in several small businesses. A few highly successful investments can offset the unsuccessful ones. However, even when using this strategy, only invest money you can afford to lose.

Analyzing the investment

Although there's no magic formula for making successful investment decisions, certain factors are considered important by professional venture capitalists. Some questions to consider:

1. How long has the company been in business? If it's a start-up with a brief operating history, are you being asked to pay more than the shares are worth?
2. Consider whether management is dealing unfairly with investors by taking salaries or benefits too large for the company's stage of development, or by retaining an inordinate percentage of the equity stock of the company compared with the amount investors will receive. For example, is the public putting up 80 percent of the money, but receiving only 10 percent of the company shares?
3. How much experience does management have in the industry and in a small business? How successful were the managers in previous businesses?
4. Do you know enough about the industry to evaluate the company and make a wise investment?
5. Does the company have a realistic marketing plan and does it have the resources to market the product or service successfully?
6. How or when will you get a return on your investment?
7. Is the stock restricted ("144") stock — which means it is subject to resale restrictions or is it freely tradable?

Making money on your investment

The two classic methods of making money on an investment in a small business are resale of stock in the public securities markets following a public offering and receiving cash or marketable securities in a merger or other acquisition of the company.

Many start-up companies offer the potential of going public or merging with a public company as an inducement to investors. The opportunity of going public depends on many factors outside the control of the small business and should not be given a great deal of weight in your investment decisions.

If the company is not likely to go public or be sold within a reasonable time (i.e., a family-owned or closely held corporation), it may not be a good investment for you — despite its prospects for success — because of the lack of opportunity to cash in on the investment. Management of a successful private company may receive a good return indefinitely through salaries and bonuses, but it's unlikely that there will be profits sufficient to pay dividends proportionate to the risk of the investment.

Other suggestions

Even the best small-business-venture offerings are highly risky. If you have a nagging sense of doubt, there's probably a good reason for it. Good investments are based on sound business criteria. If you aren't entirely comfortable, the best approach is not to invest. Don't let a securities salesperson pressure you into making a bad decision.

It's a good idea to meet management of the company face to face to size them up. Focus on experience and track record rather than a smooth sales presentation. If possible, take along a sophisticated business person to help you analyze the offering.

Beware of information from company representatives that differs from or isn't included in the disclosure document.

Part 14: Liquidity

Pay attention to the liquidity of the securities you purchase. Liquidity refers to the ease of converting your securities into cash.

Some securities, such as stock for which a market exists, can be quickly converted to cash. Other securities, such as limited partnerships or long-term certificates of deposit, involve commitments of five to 10 years. Because there may be no secondary market on which the interests can be sold, conversion into cash may be difficult — or impossible — before the partnership expires.

Part 15: Protecting yourself against fraud

In today's complex financial world, there are many investment opportunities awaiting you. As an investor, your task is to identify those investments with the greatest potential while meeting your personal investment goals. You may be solicited by phone calls, e-mail, postal mailings, or even door-to-door salespeople. Most investment scams begin on the phone or by e-mail. Be prepared to deal with investment scam artists.

Before you send money to anyone, investigate the company making the recommendation, the salesperson, and the investment opportunity by asking questions and checking references. Begin by contacting the appropriate regulatory agencies.

Know which kinds of securities are most often fraudulent. Know that you're susceptible to scams and be ready. Have a set of questions to ask callers. (See Page 13 to get our free publication, "When Your Broker Calls, Take Notes.") Being prepared allows you to assert yourself and helps you detect offerings that sound too good to be true and callers who are suspiciously resistant to your questions.

The best way to avoid becoming a victim of fraud is to carefully select your broker and salesperson. (See "Choosing a broker," Page 8.)

In addition, make sure you thoroughly understand the investment and its risks before you invest. Be informed and certain of what you're buying and who you're buying from before you invest.

Techniques typically used by crooks

- The promise of spectacular profits. An offer that sounds too good to be true probably is too good to be true.
- High-pressure sales tactics such as advising you to "act now."
- Insistence on immediate decisions.
- A guaranteed investment or an investment without risk.
- Offering a "free lunch" or "free dessert" seminar.
- Recommendations based on rumors, tips, inside information, or an unannounced breakthrough.
- Recommendations based on the caller's ability to predict future events.
- Suggestion that you liquidate all your current investments and reinvest your money in products they are selling with a promise of better returns.
- A request for your credit card number for any purpose other than to make a purchase. Requests are typically made for "identification" or "verification" purposes, or as an "expression of good faith."
- Unwillingness to provide written information, state securities registrations, or verifiable references.
- A suggestion that you invest on the basis of trust.
- Using "bait and switch" tactics by initially offering one investment product and then switching it to a riskier investment.
- Getting approached by someone who may be a member of a community, hobby, or faith group or pretend to be a member in order to gain trust.
- Investment opportunities in another country or that are dependent on the participation of a bank in another country.
- Unwillingness to let you discuss the investment with a third person.
- Sending a courier or overnight package service to pick up your check.

Commissions and churning

Most securities salespeople are paid on commission, which is not a fraudulent practice. However, the potential for fraud exists when a broker's livelihood is based on selling investments to clients. If a broker's earnings are based on sales commissions or mark-ups, the more buying and selling a broker does for each customer, the higher his or her income.

Salespeople's pay isn't based on their ability to earn profit for clients; it's based on their ability to sell. Watch out for end-of-the-month selling, which may indicate the broker is trying to pad his or her own monthly income at the expense of your goals.

Unnecessary buying and selling to earn commissions is called "churning."

For example, if your broker suggested a mutual fund in April and in July suggested another fund to replace the original one, this would be considered churning unless some drastic change in the market required the transfer. Mutual funds are considered long-term investments and shouldn't need to be "replaced" within a matter of months. Churning is prohibited by Oregon securities law, the Securities and Exchange Commission rules, and FINRA rules.

If you suspect that certain recommendations have been unsuitable or that your account is being churned, immediately contact us or the FINRA.

How to deal with phone sales calls

Much fraud is committed by phone, so it's a good practice to hang up as soon as you realize you're being solicited to buy something by somebody other than your broker. Don't worry about being rude; these callers are interrupting your life for their own profit.

When you're contacted by phone or in person to make an investment and you are interested in what the person is saying, use DFCS' publication, "When Your Broker Calls, Take Notes," or ask the following questions and write down the responses:

- → What is your name and phone number and what firm do you work for?
- → How did you get my name?
- → Where is your office located?
- → How long has your firm been in business?
- → Are you and your firm licensed with DFCS to sell this investment?
- → Is the investment registered with DFCS?
- → What are the risks of this investment?
- → Can you send me an offering document or prospectus that explains the details of this investment?
- → How do I liquidate this investment, and how long will it take?
- → Would you explain this investment to a third party, such as my attorney, accountant, investment adviser, or banker?
- → Can you tell me the names of your firm's principals and officers?

- ➔ Can you provide references?
- ➔ Are these investments traded on a regulated exchange, such as securities or futures exchanges?
- ➔ What governmental or industry regulatory supervision is your firm subject to?
- ➔ How much of my money would go to commissions, management fees, and the like?
- ➔ If disputes should arise, how will they be resolved?

Remember: A skillful presenter will have answers to all of your questions. It's your responsibility to verify the answers you get.

Types of investment scams

Con artists work hard to take money from their victims. They're smooth, so be smart. Trust your initial reaction. It's always better to ask questions than to remain silent and regret it later.

One of the best ways to become educated on investment scams is to "follow the headlines." News stories on new technology or rising prices for commodities such as oil and gas usually bring out the fraudsters. The following are some of the best-known fraudulent investment types:

- ➔ **Agriculture and livestock** — For a fee, you can invest in pairs of animals for breeding, with the goal of profiting from the selling of the eggs or offspring to zoos, other ranchers, etc. Typically, the fee you pay is said to be for boarding and care of the animals. However, the profits may never materialize, and the investment may not exist. These schemes often include "buy-back" or repurchase agreements, giving the impression that you can't lose. You can.
- ➔ "**Boiler rooms"** — Those calls you get at dinnertime that offer immediate investments in "get-rich-quick" schemes are from boiler rooms. The name comes from the heat and high pressure generated by callers as they try to convince you to part with your money. Boiler rooms may be apartments or offices with multiple phone lines and impressive-sounding addresses, sometimes in another state. In many cases, neither the company nor the product exists or operates as represented. Phone pitches are read from prepared scripts that contain answers to the most common objections. Boiler-room callers get phone numbers from directories, lists, or newspaper articles. Boiler-room operators have been known to prey on the bereaved and those who have lost large sums of money. They offer to help recover losses quickly and effortlessly. They usually can't or won't.
- ➔ **"Pump-and-dump" stock schemes** — Scam artists continue to take advantage of technology to lure investors into "pump-and-dump" schemes. In these schemes, scam artists tout company stocks through unsolicited e-mails, phone calls, or faxes, and phony Web sites. Unwitting investors purchase the stock in droves, creating high price demand and pumping up the price. But when the fraudsters behind the scheme sell their shares at the peak and stop aggressively selling the stock, the price plummets, and investors lose their money.
- ➔ **Affinity Fraud** — Con artists target religious, ethnic, cultural, and professional groups. Some may be members of the group or pretend to be members in order to gain trust. Con artists often recruit a respected member of a community or religious congregation to promote their schemes by convincing them that a fraudulent investment is legitimate.

- **Prime bank schemes** — Often promising high-yield, tax-free returns, promoters of these schemes offer to let the "little guy" in on what they claim are financial instruments from elite overseas banks usually offered only to the world's wealthiest investors. Prime banks do not exist and the scam artists have no intention of creating a profit for anyone but themselves.

- **Investment seminars** — Promoters of investments that are unsuitable due to age or financial situation seek potential investors, particularly seniors, by offering seminars, many of them promising a free meal along with "higher returns and little or no risk." These seminars commonly pitch real estate investments or annuities. Unfortunately, in many cases that securities regulators see, the investment delivers just the opposite of what the seminars promise: high risk, no returns, and disastrous losses. Remember, those in the 65+ age group probably need individual attention when it comes to investments rather than a seminar.

- **Coins and precious metal schemes** — Promoters offer "investment-grade" gold and silver coins, claiming that their value can be verified and promising tremendous profits, usually based on some current event or political occurrence. For the cost of your investment and a storage fee, the promoter will purchase the metals for you and have them delivered to and stored in a large, "well-known" — usually distant — bank. Promoters may offer to "leverage" your purchase. (Leveraging is like buying on margin, in that you make only a down payment on the total. The rest of the money is advanced or loaned to you, with the precious metal serving as collateral.) Some such schemes charge extremely high commissions, which are seldom apparent on your invoice; your investment would have to achieve great increases before you'd see any profit. Others never purchase the coins or metals; the promoters just take your money and move on to the next town.

- **Gold and silver mines** — These speculative investments typically offer new or secret methods for extracting minerals from untested or abandoned mines or from soil in your geographic area "where no one else would think to look!" These are classic frauds. Often, the promoter bases a mining forecast on an "expert's" geological report or prediction or uses part of a valid report. Promoters exaggerate the quality and quantity of the minerals to be extracted while downplaying the expense or likelihood of recovering them.

- **Prime bank notes** — Promoters offer the "little guy" a chance to pool money with other investors to buy international bank notes, often touting a large foreign bank as instrumental in the deal. Investments range from a few thousand dollars to $100,000 or more. Returns of fantastic wealth are promised, often in the $100 million range. Details about how the program works are either unavailable or, when examined closely, nonsensical. Many such programs require investors not to discuss the deal with third parties.

- **Oil and gas wells —** Investors are promised "can't-miss opportunities" for great wealth through interests in a "proven" oil field or an oil field in the vicinity of proven oil fields. These investments are frequently sold to people who live far from the oil company's headquarters, which may be nothing more than a rented trailer. Promoters frequently offer new and secret methods for extracting oil from previously drilled oil fields. These schemes become more common during times of high fuel costs.

- **Ponzi schemes —** Promoters offer high rates of return on various impressive-sounding investments; however, promoters use the money of new investors to pay “interest” or “return” to earlier investors. These earlier investors then serve as word-of-mouth advertisers for the promoters, reporting the high returns to their friends, who also invest. But in a Ponzi scheme, there really is no business. Such schemes continue only as long as new investors provide additional funds. When the scheme collapses (as it always does), current investors lose their money and the promoters walk away rich.

- **Pyramid promotions —** Pyramid promotions focus on the quick profits to be earned from recruiting other investors, who recruit others, and so on. Little emphasis is placed on the product or service to be sold. A pyramid scheme is a classic example of a Ponzi. Pyramid schemes are illegal in Oregon, but are difficult to prosecute. Victims’ money is often filtered up through the pyramid and lost.

  Common elements of a pyramid scheme:

  - An invitation from a friend, neighbor, or co-worker to attend an “opportunity meeting” to learn how to earn lots of money.

  - A well-rehearsed presentation that offers an exciting shortcut to wealth and adventure.

  - Hefty fees for products, courses, etc., or for the right to recruit others and profit from their participation.

  - An emphasis on recruiting others.

Mortgages and trust deeds — This type of transaction involves loaning money to someone who wishes to purchase or refinance real estate. The investor counts on receiving interest payments as the return on the investment, and expects to receive the title to the property if the borrower defaults. More often than not, the borrower is unable to repay the loan. The investor may discover that the property’s value does not cover the investment or that the deed wasn’t recorded in the investor’s name.

Real estate investment contracts — Despite the recent decline in property values, investments in real estate long have been viewed as a “sure thing” with little downside risk and the potential for substantial returns. Some real estate investments are securities that are subject to full regulation under state and federal securities laws, including registration requirements and antifraud rules. Just because an investment involves real estate it still may involve a security — check with us to make sure it is registered.

Foreign exchange trading — Foreign exchange (forex) trading can be legitimate for governments and businesses concerned about fluctuations in international currencies, and it even can be appropriate for some individual investors. But the average investor should be wary when it comes to these complex markets. Forex scams attract customers with sophisticated-sounding offers placed in newspaper advertisements, radio promotions, or on Internet sites.

Part 16: Resolving problems or filing complaints

Regardless of how careful you are in selecting a broker, problems may still occur. Contact your broker at the first sign of trouble and tell him or her your concerns orally and in writing. Ask your broker for a written reply that explains how your problem has been — or will be — handled. You also should file a copy of your written document with the manager of the broker's firm. Each firm should have a compliance officer to whom you may voice your concerns. **The speed with which you act may be crucial.**

Record-keeping

It's wise to keep copies of complaint letters you send and the responses you receive. These documents can be of great benefit to you later. Keep these in your investment file with monthly account statements, your copies of offering materials, and trade confirmations.

Legal counsel

Consider consulting a lawyer for help resolving a securities dispute. While we and FINRA many investigate for violations of securities laws and rules, neither of these organizations will function as a collection agency. In other words, when a broker is sanctioned for a violation, the broker isn't necessarily forced to repay money you've lost. Sometimes, the only way for you to recover your investment is through a lawsuit or arbitration. See Page 38 for Web sites for the Oregon Bar Association and the Public Investors Arbitration Bar Association.

Customer-complaint investigations

Investors who think they've been unfairly treated or been the subject of abusive sales practices by securities professionals should take immediate action. **Contact your broker at the first sign of trouble. Ask your broker for a written reply that explains the handling of your problem. If the salesperson isn't responsive to your concerns, report your concerns to the compliance officer at the firm.**

If you aren't satisfied with the result, or if this process takes more than two weeks, you should also contact FINRA and us.

Although your initial contact may be over the phone, you'll be asked to document your complaint, and you should be prepared with facts about your investment, including dates, amounts, and types of securities. Often, your account statements or other documentation will need to be attached to your written complaint.

Consult with legal counsel first if your losses are substantial.

Please see Part 17 - Where to go for help - on Page 37 for organization names and contact information for attorney referral and arbitration information.

FINRA's customer-complaint programs

FINRA regulates the business conduct of its member broker-dealers. Virtually all brokerage firms registered in the U.S. to do business with the public are members of FINRA and are regulated by it. FINRA has regulatory responsibilities in the following areas:

- Formulation of rules governing business and sales practices of its members and their sales representatives.
- Review for fair dealing by members with customers.
- Investigation of violations and enforcement of securities laws and self-regulatory rules by member firms and sales representatives.
- Testing, registration, and licensing of security-industry professionals.
- Review of advertising and sales literature used by members.
- Examination of firms' office practices and financial records.
- The imposition of disciplinary sanctions.

Investigation processes by DFCS and FINRA

Both DFCS and FINRA have authority to conduct investigations involving brokers doing business in Oregon or with Oregon investors. Staff investigators usually begin by requesting information and documents from member firms and their employees. They contact the investor for additional information and to verify facts. Oregon securities law requires brokers and their employees to cooperate in investigations.

Similarly, the FINRA *Rules of Fair Practice*, which govern member firms, require brokers and their employees to cooperate with FINRA investigations.

While it's impossible to predict the outcome of an investigation or the time it may take, it's important that you communicate your concerns. In many instances, no violation of rules or regulations is found. In other cases, your complaint may be one in a series of similar complaints that indicates the need for immediate regulatory action. You also may be referred to another agency or regulatory body for more assistance.

Finally, you should be aware that DFCS and FINRA are regulatory agencies and can't represent you in legal disputes. If you're seeking to recover lost investment funds or want to file a private civil action, you should consult a lawyer.

Arbitration and mediation of disputes

Most customer agreements with a securities broker/dealer include an "arbitration clause" that requires arbitration if you have a dispute over your rights or liabilities under the agreement. Even if securities laws have been violated, this provision will almost always prevent you from filing a lawsuit in a state or federal court. Instead, you will be required to take your complaint to binding arbitration.

There is no requirement that an investor must sign an agreement that requires arbitration of disputes; if you don't, however, you will find it almost impossible to find a broker/dealer who will do business with you. You may ask that the arbitration requirement be removed from the agreement. In the event of a dispute, however, arbitration may be faster and less expensive than the courts.

What is arbitration?

Arbitration is a dispute-resolution process in which a neutral third person — the arbitrator — makes a decision after a hearing at which both parties have an opportunity to present their case. Arbitration begins when you file a claim and pay a filing fee with an arbitration service.

Arbitration is not part of the court system. Although it is controversial, it may be a faster and less-expensive alternative to filing a lawsuit. Because arbitration is binding and is subject to court review on a very limited basis, an investor should seek legal advice before agreeing to arbitration.

There are few formal rules governing either procedure or evidence at an arbitration hearing. Hearings, at which both sides present evidence, seldom last more than a day or two; however, the entire arbitration process may take months or years. And don't be misled into thinking arbitration is informal, like small-claims court. Brokerage firms are always represented by their attorneys at arbitration hearings. If you pursue arbitration, you will want to be represented by an experienced securities attorney.

Cases may be heard by a single arbitrator or a panel of three arbitrators. The size of the panel depends upon the amount of the claim. During the proceeding, the arbitrator will hold a hearing, listen to oral testimony, review the evidence, and render a decision.

Arbitration hearings can be held at almost any location convenient to the parties. Arbitrators are usually required to make a decision in 30 business days. For small claims (less than $10,000), you may request that the case be decided based solely on the submission of evidence presented.

Arbitrators are not required to provide reasons for their decisions. As a result, an investor can lose a decision with little or no explanation and cannot appeal to the court system for relief.

Remember: The arbitration procedure is final and binding, subject to review by a court only on a very limited basis.

Usually, the organization having jurisdiction over your dispute is named in the arbitration clause in your brokerage agreement.

What is mediation?

Mediation is an informal alternative to arbitration. In the mediation process, a neutral third person — the mediator — helps disputing parties reach an agreement. Unlike an arbitrator, the mediator has no power to impose a decision on the parties, i.e., it is not binding. If a settlement cannot be reached in mediation, the parties move on to binding arbitration or to the courts.

FINRA offers investors the option of voluntary mediation to settle disputes with firms or brokers. Mediation may result in settlements within weeks.

Part 17: Where to go for help

Oregon Division of Finance and Corporate Securities

For any of the following:

- → Find out the licensing status of a broker, adviser, or the investment firm.
- → See if securities are registered.
- → Find out the disciplinary history and employment history of the salesperson or firm.
- → See if complaints similar to yours have been filed against the salesperson or firm.
- → To file a complaint.
- → To get free publications about investing or to find a speaker knowledgeable about investing.

Telephone:	503-378-4140 or 1-866-814-9710 (toll-free)
E-mail:	**dcbs.dfcsmail@state.or.us**
Web address:	**www.dfcs.oregon.gov**
Address:	Division of Finance and Corporate Securities 350 Winter Street NE, Room 410 P.O. Box 14480 Salem OR 97309

Securities and Exchange Commission

- → To find out about civil enforcement actions against companies or individuals.
- → To view the EDGAR database of disclosure documents that companies are required to file.
- → To find out about online investing.
- → To file a complaint.

Telephone:	800-SEC-0330 (toll-free investor information) Hours: Monday-Friday, 9:00 a.m. - 5:30 p.m. Eastern Standard Time
Fax:	202-772-9295
Web address:	**www.sec.gov**
Address:	Securities and Exchange Commission 450 Fifth St. NW Washington, DC 20549-0213

SEC San Francisco Regional Office

Telephone:	415-705-2500
Address:	44 Montgomery Street, Suite 2600 San Francisco, CA 94104

Oregon Department of Justice — Financial Fraud Unit

→ To find out if a company has complaints filed against it or to file a complaint.

Consumer Protection Hotline:

Hours:	8:30 a.m. to 4:30 p.m.
Telephone:	1-877-877-9392 (toll-free in Oregon) 503-378-4320 503-378-4732
Web address:	**www.doj.state.or.us/**
Mailing Address:	1162 Court St. Salem, OR 97301
Physical Address:	340 Vista Ave SE Salem, OR 97302

Oregon State Bar Lawyer Referral Service

→ To find a lawyer.

Oregon State Bar Center

Web address:	**www.osbar.org/**
Telephone:	503-864-3763 (Portland area); 1-800-452-7636
Address:	P.O. Box 231935 Tigard, OR 97281-1935

Financial Industry Regulatory Authority (FINRA)

For information on the following:

- → Final disciplinary actions and criminal convictions involving firms, brokers, and individuals registered with FINRA.
- → Civil judgments involving securities matters.
- → Pending formal disciplinary proceedings initiated by the Securities and Exchange Commission, FINRA, other self-regulatory organizations, and individual states.
- → Criminal indictments and related information reported by the securities industry and the U.S. Department of Justice.
- → FINRA arbitration decisions involving public customer claims dealing with securities matters.

Telephone:	1-800-289-9999 206-624-0790
Web address:	**www.finra.org/**
Address:	2 Union Square 601 Union St., Suite 1616 Seattle, WA 98101-2327

FINRA Dispute Resolution

→ For securities arbitration hearings and information.

Telephone:	212-858-4200
Web address:	**www.finra.org/**
Address:	One Liberty Plaza 165 Broadway, 27th Floor New York, NY 10006

American Arbitration Association

→ For securities arbitration hearings and information.

Telephone:	1-800-778-7879
Web Address:	**www.adr.org/**
Address:	Corporate Headquarters 1633 Broadway, 10th Floor New York, NY 10019

Seattle District Office

Telephone:	206-622-6435
Address:	701 Pike Street, Suite 950 Seattle WA 98101

Municipal Securities Rulemaking Board

→ For municipal securities arbitration hearings.

Telephone:	703-797-6600
Address:	1900 Duke Street, Suite 600 Alexandria, VA 22314

Public Investors Arbitration Bar Association (PIABA)

→ For attorneys who represent investors in arbitration.

Telephone:	1-888-621-7484
Web Address:	**www.piaba.org/**
Address:	2415 A Wilcox Drive Norman OK 73069

Notes:

This publication is brought to you by the
Oregon Department of Consumer and Business Services

Division of Finance and Corporate Securities
Investor Information Program

350 Winter St. NE, Room 410
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Salem, OR 97309
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1-866-814-9710 (toll-free)

www.oregondfcs.org

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Saving *and* Investing

A Roadmap To Your Financial Security Through Saving and Investing

U.S. SECURITIES AND EXCHANGE COMMISSION
MCMXXXIV

OFFICE *of* INVESTOR EDUCATION *and* ADVOCACY

Dear Reader

While money doesn't grow on trees, it can grow when you save and invest wisely.

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. In this brochure, we'll cover the basics on saving and investing.

At the SEC, we enforce the laws that determine how investments are offered and sold to you. These laws protect investors, but you need to do your part, too. Part of this brochure tells you how to check out investments and the people that sell them so you do not fall victim to fraud or costly mistakes.

No one can 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.

Please feel free to contact us with any of your questions or concerns about investing. It always pays to learn before you invest. And congratulations on taking your first step on the road to financial security!

U.S. Securities and Exchange Commission
Office of Investor Education and Advocacy
100 F Street, N.E.
Washington, D.C. 20549-0213
Toll-free: (800) SEC-0330
Website: Investor.gov

Don't Wait to Get Started

YOU CAN DO IT!
IT'S EASIER THAN YOU THINK.

No one is born knowing how to save or to invest. Every successful investor starts with the basics—the information in this brochure.

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. If they can do it, so can you!

KEYS TO FINANCIAL SUCCESS

1. Make a financial plan.
2. Pay off any high interest debts.
3. Start saving and investing as soon as you've paid off your debts.

Your First Step—Making a Financial Plan

What are the things you want to save and invest for?

- 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.

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

YOUR FINANCIAL GOALS

If you don't know where you are going, you may end up somewhere you don't want to be. To end up where you want to be, you'll need a roadmap, a financial plan.

What do you want to save or invest for?	By when?
1. ____________________________	_______
2. ____________________________	_______
3. ____________________________	_______
4. ____________________________	_______
5. ____________________________	_______

investment option that fits your time frame for meeting each goal. Many tools exist to help you put your financial plan together.

You'll find a wealth of information, including calculators and links to non-commercial resources at **Investor.gov**.

KNOW YOUR CURRENT FINANCIAL SITUATION

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" or debts.

YOUR NET WORTH STATEMENT

Assets	**Current Value**	**Liabilities**	**Amount**
Cash	__________	Mortgage balance	__________
Checking accounts	__________	Credit cards	__________
Savings	__________	Bank loans	__________
Cash value of life insurance	__________	Car loans	__________
Retirement accounts	__________	Student loans	__________
Real estate	__________	Other	__________
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 INCOME AND EXPENSES

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.

PAY YOURSELF OR YOUR FAMILY FIRST

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.

FINDING MONEY TO SAVE OR INVEST

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.

KNOW YOUR INCOME AND WHAT YOU SPEND	
Monthly Income	________________
Monthly Expenses	
Savings	________________
Investments	________________
Housing	________________
Rent or mortgage	________________
Electricity	________________
Gas/oil	________________
Telephone	________________
Water/sewer	________________
Property tax	________________
Furniture	________________
Food	________________
Transportation	________________
Loans	________________
Insurance	________________
Education	________________
Recreation	________________
Child care	________________
Health care	________________
Gifts	________________
Other	________________
TOTAL	________________

Small Savings Add Up to Big Money

How much does a cup of coffee cost you?

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, few investment strategies pay 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.

Now, once you have paid off those credit cards and begun to set aside some money to save and invest, what are your choices?

Making Money Grow

THE TWO WAYS TO MAKE MONEY

There are basically two ways to make money.

1. **You work for money.**
   Someone pays you to work for them or you have your own business.

2. **Your money works for you.**
   You take your money and you save or invest it.

YOUR MONEY CAN WORK FOR YOU IN TWO WAYS

Your money earns money. When your money goes to work, it may earn a steady paycheck. Someone pays you to use your money for a period of time. When you get your money back, you get it back plus "interest." Or, if you buy stock in a company that pays "dividends" to shareholders, the company may pay you a portion of its earnings on a regular basis. Your money can make an "income," just like you. You can make more money when you and your money work.

You buy something with your money that could increase in value. You become an owner of something that you hope increases in value over time. When you need your money back, you sell it, hoping someone else will pay you more for it. For instance, you buy a piece of land thinking it will increase in value as more businesses or people move into your town. You expect to sell the land in five, ten, or twenty years when someone will buy it from you for a lot more money than you paid.

And sometimes, your money can do both at the same time—earn a steady paycheck and increase in value.

THE DIFFERENCES BETWEEN SAVING AND INVESTING

Saving

Your "savings" are usually put into the safest places, or products, that allow you access to your money at any time. Savings products include savings accounts, checking accounts, and certificates of deposit. Some deposits in these products may be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration. But there's a tradeoff for security and ready availability. Your money is paid a low wage as it works for you.

After paying off credit cards or other high interest debt, most smart investors put enough money in a savings product to cover an emergency, like sudden unemployment. Some make sure they have up to six 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 of your money there for a long time, and the interest it earns doesn't keep up with inflation? What if 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 on it, it can only buy half a loaf? This 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." The money you invest in securities, mutual funds, and other similar investments typically is not federally insured. You could lose your "principal"—the amount you've invested. But you also have the opportunity to earn more money.

THE BASIC TYPES OF PRODUCTS	
Savings	**Investments**
Savings accounts	Bonds
Certificates of deposit	Stocks
Checking accounts	Mutual funds
	Real estate
	Commodities (gold, silver, etc.)

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.

It is often said that the greater the risk, the greater the potential reward 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.

What are the best investments for me?

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 and 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.

What are investments all about?

When you make an investment, you are giving your money to a company or enterprise, hoping that it will be successful and pay you back with even more money.

Stocks and Bonds

Many companies offer investors the opportunity to buy either stocks or bonds. The example below 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.

THE MAIN DIFFERENCES BETWEEN STOCKS AND BONDS	
Stocks	**Bonds**
If the company profits or is perceived as having strong potential, its stock may go up in value and pay dividends. You may make more money than from the bonds.	The company promises to return money plus interest.
Risk: The company may do poorly, and you'll lose a portion or all of your investment.	**Risk:** If the company goes bankrupt, your money may be lost. But if there is any money left, you will be paid before stockholders.

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.

WHY SOME INVESTMENTS MAKE MONEY AND OTHERS 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.

MUTUAL FUNDS AND EXCHANGE-TRADED FUNDS (ETFs)

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 and ETFs.

What are mutual funds and ETFs?

A mutual fund or ETF is a pool of money run by a professional or group of professionals called the "investment adviser." In a managed fund, after investigating the prospects of many companies, the fund's investment adviser will pick the stocks or bonds of companies and put them into a fund.

Investors can buy shares of the fund, and their shares rise or fall in value as the values of the stocks and bonds in the fund rise and fall. Investors may typically pay a fee when they buy or sell their shares in the fund, and those fees in part pay the salaries and expenses of the professionals who manage the fund.

Even small fees can and do add up and eat into a significant chunk of the returns a fund is likely to produce, so you need to look carefully at how much a fund costs and think about how much it will cost you over the amount of time you plan to own its shares. If two funds are similar in every way except that one charges a higher fee than the other, you'll make more money by choosing the fund with the lower annual costs.

For more information about mutual fund and ETF fees and expenses, be sure to read our brochure entitled "Mutual Funds and ETFs—A Guide for Investors"—which you can read online at **Investor.gov**.

MUTUAL FUNDS AND ETFs WITHOUT ACTIVE MANAGEMENT

One way that investors can obtain for themselves nearly the full returns of the market is to invest in an "index fund." This is a fund that does not attempt to pick and choose stocks of individual companies based upon the research of the fund managers or to try to time the market's movements. An index fund seeks to equal the returns of a major stock index, such as the Standard & Poor's 500, the Wilshire 5000, or the Russell 3000. Through computer programmed buying and selling, an index fund tracks the holdings of a chosen index, and so shows the same returns as an index minus, of course, the annual fees involved in running the fund. The fees for index mutual funds and ETFs generally are much lower than the fees for managed funds.

Historical data shows that index funds have, primarily because of their lower fees, enjoyed higher returns than the average managed fund. But, like any investment, index funds involve risk.

WATCH "TURNOVER" TO AVOID PAYING EXCESS TAXES

To maximize your fund returns, or any investment returns, know the effect that taxes can have on what actually ends up in your pocket. Funds that trade quickly in and out of stocks will have what is known as "high turnover." While selling a stock that has moved up in price does lock in a profit for the fund, this is a profit for which taxes have to be paid. Turnover in a fund creates taxable capital gains, which are paid by the fund shareholders. All funds are now mandated by the SEC to show both their before- and after-tax returns. The differences between what a fund is reportedly earning, and what a fund is earning after taxes are paid on the dividends and capital gains, can be quite striking. If you plan to hold funds in a taxable account, be sure to check out these historical returns in the fund prospectus to see what kind of taxes you might be likely to incur.

Do I Need an Investment Professional?

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.

WARNING!
Before You Invest Always Check with the SEC and Your State's Securities Regulator:
Is the investment registered?
Have investors complained about the investment in the past?
Have the people who own or manage the investment been in trouble in the past?
Is the person selling me this investment licensed in my state?
Has that person been in trouble with the SEC, my state, or other investors in the past?

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.

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.

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.

In contrast to investment advisers, 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.

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:

1. 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.

2. 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.

3. 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.

How Can I Protect Myself?

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.

Here are some questions you should ask when choosing an investment professional or someone to help you:

- What training and experience do you have? How long have you been in business?
- What is your investment philosophy? Do you take a lot of risks or are you more concerned about the safety of my money?
- Describe your typical client. Can you provide me with references, the names of people who have invested with you for a long time?
- How do you get paid? By commission? Based on a percentage of assets you manage? Another method? Do you get paid more for selling your own firm's products?
- How much will it cost me in total to do business with you?

Your investment professional should understand your investment goals, whether you're saving to buy a home, paying for your children's education, or enjoying a comfortable retirement.

Your investment professional should ***also*** understand your tolerance for risk. That is, how much money can you afford to lose if the value of one of your investments declines? An investment professional has a duty to make sure that he or she only recommends investments that are suitable for you. That is, that the investment makes sense for you based on your other securities holdings, your financial situation, your means, and any other information that your investment professional thinks is important. The best investment professional is one who fully understands your objectives and matches investment recommendations to your goals. You'll want someone you can understand, because your investment professional should teach you about investing and the investment products.

How Should I Monitor My Investments?

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

IMPORTANT CONTACTS	
SEC	**NASAA**
100 F Street, N.E.	750 First Street, N.E., Suite 1140
Washington, D.C. 20549-0213	Washington, D.C. 20002
Toll-free: (800) SEC-0330	Phone: (202) 737-0900
Website: Investor.gov	Website: www.nasaa.org

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 Can I 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) at www.nasaa.org 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?

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 us and let us 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. Complaints can be filed online with us by going to **www.sec.gov/complaint.shtml**.

Keep in Touch With Us

We hope that you've found this brochure helpful. Please let us know how it can be improved.

We've only covered the basics, and there's a lot more to learn about saving and investing. But you'll be learning as you go and over your lifetime.

As we said at the beginning, the most important thing is to get started. And remember to ask questions as you make your investment decisions.

Be sure to find out if the person is licensed to sell investments, and if the investment is registered with us. So, we look forward to hearing from you. And in the years ahead, let us know how well your money is growing.

SEC
Office *of* Investor Education *and* Advocacy

U.S. Securities and Exchange Commission
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100 F Street, N.E.
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Investor.gov

SEC Pub. 009 (06/11)

Do What Do You Love!

Everyone has some kind of interest in life and no matter what it is, you can probably figure out a way to make money.

Do you…

Build model trains? Could you host kid birthday parties or workshops?

Play tennis? What about offering lessons? Start a tournament?

Watch TV? How about starting a blog reviewing favorite shows?

Love baseball? Have you considered organizing tours to games or ballparks?

Reading and cooking? Maybe you could cater a pop up restaurant in your home based on a different book each month

How to Get Started: Start small by offering services to friends for a small fee. See where it takes you!

Be a Financial Advisor

Have you ever met a "financial advisor" that was 22 years old and was supposedly going to teach you – a 50 year old that has actually lived life and experienced the swings in the market – how to retire comfortably?

You know who can properly sell themselves as a financial advisor?

You – the well-seasoned veteran of life and money.

If you've done well for yourself financially, if you've already earned your bachelor's degree, and if you love to help people, then this small business idea for the over 50s is probably a slam-dunk for you.

Business Ideas for the Over 50s: Consulting

There are some benefits to being older — with age comes wisdom. One of the best business ideas for the over 50s is consulting!

Are you an expert in your field? Could other companies benefit from your wisdom? There are plenty of consulting opportunities for more unique fields. Areas like home office design, organization, and even color consulting!

Starting a Business After Retirement: Marketing, Bookkeeping & Administration

If you come from a business background with skills in administration, marketing, accounting or finance and know how to organize a business, properly categorize expenses and make payments, you could probably handle this work in your sleep – and have a blast doing it for exciting new startup companies.

Better yet, many of these activities can be done almost anytime anywhere. This kind of flexibility makes it a best business idea for the over 50s. And, according to Robert Half, the most in-demand consultant areas are: finance/accounting, business systems, tax, risk mitigation and optimization.

And there is a huge need for administration, marketing and bookkeeping services. This is the day and age of small business – mainly, online business but many entrepreneurs don't necessarily have experience with running a business.

Landlord/Bed and Breakfast Owner

If you find yourself talking to a millionaire in the near-future, chances are that they own (and rent out) some property. Real estate is an excellent investment, plain and simple. It always has been and it probably always will be.

Don't consider yourself hard-nosed enough to deal with those inevitable tenants from hell? Then maybe a B&B is more up your alley. Buy a home in a touristy area, serve a decent breakfast, and enjoy interacting with couples from all around the world!

Bed and breakfasts obviously aren't as passive as rentals, but if you like interacting with and serving others, then this might just be the fun business idea you've been looking for.

Buy a Business

Building a business from nothing is no easy task. I'm sure you've heard the well-known statistic that 4 out of 5 businesses fail within the first five years. If you're not willing to struggle for years while getting your business off the ground, then perhaps you'd do better just buying one that already has some clientele!

Of course, "buying a business" is about as broad a statement as one can make, but while you're reading through this list and thinking about what you might like to do for your encore career, consider what might already be available for the taking.

And, if you have the financial means to do it, it might actually be the more profitable move when you consider the potential for immediate earnings!

Become a Franchisee

Of all the small retirement business ideas to start after 50, this one regularly captures the most attention. It's attainable, understandable, and someone out there is willing to walk you through the process (because of course, it's in their best interest to do so as the franchisor).

No, McDonald's is not the only wicked-awesome franchise out there (in fact, strike if off your list if you don't already own one – they're not looking for newbie franchisees). There are dozens of other franchises with fantastic track records (and they're not all restaurants either)!

Become an Angel Investor

You've worked hard at your career and you've done well for yourself. Congratulations!

Money isn't an issue for you, and in fact, you've got more of it than you know what to do with. None of the above or below options really appeal to you, but you love the idea of helping someone take their passion main-stream, and they'll even pay you handsome royalties as it succeeds!

Sound like fun to you? I can't see why it wouldn't!

Buy and Sell

Have you always had a knack for finding products for well-below market price?

Maybe you find them on the clearance rack,

perhaps you nab them off the web, or

it might be that you just love perusing garage/estate sales and find your deals under layers of junk!

Whatever the case may be, if you're used to buying low, then it's probably time to try your hand at buying and selling for a profit.

The concept is really simple (in fact, we basically already covered it in the generic intro…) – find ways to buy super cheap products, and then sell them through a medium where you can earn more (typically Amazon, Facebook, Craigslist or eBay).

That's it.

Are you doubting that this small business idea can actually earn some money? Check out the link below. This option is for real.

House Painting, Home Repairs and Gardening

There's just something serene and fulfilling about painting the interiors of houses. Maybe it's the calming strokes of the brush, or perhaps it's the sense of accomplishment and pride that you get once the job's done. Whatever it is, it's oddly fun to do…**AND you can make some pretty good money at it too!**

Maybe you like the idea of working with your hands…but you'd really rather be outside soaking up the sun — consider landscaping and gardening and a retirement business idea.

Entry into this market is pretty much as easy as it gets. All you need is a mower and a means to get it from place to place. Call up some neighbors, leave a few flyers on people's front doors with your steal-of-a-deal introductory price, and wait for a few gigs to come in.

Do a good job and you'll not only keep those lawns, but you'll probably start getting referrals as your clients talk to their friends about your great work (offer referral discounts and they'll be even MORE likely to spread the word).

I've known plenty of people that took up handy man type careers. They loved talking about the work they did (and for who – sometimes local celebrities) and it allowed them to pseudo-retire without ever touching their retirement nest-egg.

Life Coach/Mentor

If, in the beginning paragraphs of this article, your eyes lit up at the thought of impacting someone's life and making a true difference in this world, then this is likely the small business option for you.

Today's world is an interesting one – especially for those that are early in their careers.

CAREER/LIFE COACH

If you like counseling people and helping them help themselves, being a life or career coach may be your calling. Get training and certification through organizations accredited by the International Coach Foundation. Rather than being vague about your expertise, refine your area of coaching to attract a certain group of clients – whether that's leadership coaching or career transitions coaching. Startup needs: Coach training and certification

PHOTOGRAPHER

Enthusiastic shutterbugs can turn their pastime into a paycheck. While some college courses on photography and photo editing can help, they aren't required. The important thing is to build a portfolio full of amazing shots, even if you have to practically give away your services initially to do it. Interning or apprenticing with an established professional photographer can help you learn the business. Avoid a common trap while starting a photography business: buying a ton of expensive equipment and photo-editing software. Instead, buy used and slowly build your equipment inventory based on your needs. You should know your camera, lenses and other tools so well that they seem like an extra part of your body. As with other businesses, finding a niche can help, too. Are you interested in shooting sports events, weddings, family portraits, or something else? Startup needs: An impressive portfolio; photography equipment; editing software that you understand; a computer

TRAVEL AGENCY

Dreaming of a job where “research” involves traveling to exotic destinations? A travel agency could be the business for you. You’ll need to take some travel planning courses, such as those offered by the International Air Transport Association, or even get a degree in travel and tourism. A handful of states, including California and Florida, also require travel agents to register. It doesn’t hurt to use a specific niche – perhaps a geographical one, like becoming the go-to person for Disney trips, Costa Rica trips or Central America trips. Or maybe you channel your inner Rick Steves and become a European vacation expert. Startup needs: Travel and business courses; registration (in a few states); a computer

NUTRITION COACH

You may need a license to start a nutrition business, depending on the state. Whether or not you must be licensed, you still need deep knowledge in nutrition to provide safe, effective advice. In terms of gaining clients, word of mouth can be key. Also, it’s important that you’re willing to work odd hours, and that you have the patience to allow others to grow your business and generate new clients. Startup needs: College courses or training on nutrition; licensing, depending on the state; strong marketing knowledge

PROFESSIONAL ORGANIZER

Being a “neat freak” could make you a natural fit for this type of startup. But you’ll want to stay abreast of trends in home and office organization and be savvy about how you market your services. Industry groups such as the National Association of Professional Organizers offer training and certification and provide pointers on how to launch a business and network with prospective clients.

Many professional organizers use social media to share organizational tips and meet potential clients. Startup needs: Certification and professional website

TUTOR

Do you have strong expertise in a field that children are studying in school? Setting yourself up as a tutor could be a great business idea. Make sure to check with a lawyer about the local legal requirements associated with teaching children in their homes. Tutoring inside school settings will require actual tutoring classes and certification. Keep in mind that it could take time to build a roster of clients, but if you have success with the first children you teach, wordof-mouth among parents could soon bring more opportunities your way. Startup needs: An area of expertise; ability to instruct based on a set syllabus; good skills communicating with children; meeting local legal requirements; training and certification if you're teaching in school settings

JEWELRY REPAIR BUSINESS

This trade can be truly rewarding because it often involves fixing some of the most sentimental items a person can own, such as a wedding ring, a class graduation ring or a cherished anniversary present. On-the-job training is a must, and some vocational classes could help. As you establish your own business, you might consider seeking one of the four certification levels offered by Jewelers of America. Startup needs: On-the-job experience, and perhaps Jewelers of America certification

TAX RETURN PREPARER

This is a business someone with math skills can build without necessarily needing a college degree. All you need to take are necessary training courses. Obtain a Preparer Tax Identification Number with the IRS and complete the registration requirements in your state. You might even get some training for free by working at someone else's tax return preparation business first. To add credibility to your qualifications, participate in the IRS's voluntary Annual Filing Season Program, which is meant to encourage continuing education among non-credentialed tax return preparers. Success as a tax preparer could perhaps encourage you to make a major educational investment and become an actual CPA. Startup needs: Training courses; Preparer Tax Identification Number with IRS; registration with state

MEDICAL LAB

Medical lab testing in the U.S. is dominated by major corporations. So the big question for anyone looking to start a new medical lab testing company is whether there's something new to bring to the space. Perhaps network with health provider administrators, physicians and their staffs and find out what is lacking in the medical labs already out there. Is there something that could be done better? Startup needs: CLIA Certificate from the Centers for Medicare and Medicaid Services; lab testing industry knowledge and experience; large upfront capital infusion for location and equipment; equipment calibration and quality control program

INFORMATIONAL WEBSITE

An increasing number of businesses are turning to content marketing. Can you get in on the game yourself with an informational website that caters to their needs? The big question to ask is whether there is a particular area of expertise or industry that's not well represented online when it comes to obtaining useful information. Can you fill that gap, selling online advertising and targeted advertising along the way? Startup needs: Content creation expertise such as journalism; website creation expertise; experience in multiple mediums including photography and video; sales instincts

E-commerce

The COVID pandemic has accelerated a shift in consumer behaviour from buying offline to online. This, along with the increasing penetration of internet in the country, has led to an increase in the volume of purchases online.

Selling through online platforms can provide you additional income during retirement. You can choose to sell through established e-commerce platforms or build your own. You can choose to sell handmade products like soaps, candles, toys, paintings and more, or can purchase products from various brands and sell them online. You do not need an offline store to sell online. Selling online requires low investment and can be done easily.

Author/blogger

Writing can be an interesting business idea after retirement for creative minds. Writing can also help you to create an outlet for your thoughts and be more at peace. You can start writing blogs on any blogging platform of your choice and share your work on social media for people to read. As more and more people read and engage with your blogs, you can start earning money through advertisements on your blogs. You can also publish this into a book and sell it online and offline.

Life coach/mentor

You have decades of experience, both in your personal and professional life. You can become a life coach/mentor and help others achieve their personal and professional goals. For example, if you are an ex-athlete, you can set up a business after retirement in which you coach current or aspiring athletes and help them with the nuances of a particular sport. Moreover, this business requires minimal set-up costs.

Tutor for students

You can pick a subject of your interest and consider offering personalised tuition to students. You may need to brush up your knowledge in the subject that you choose. You can tutor students in your neighbourhood and gradually grow with time. You can also choose to tutor offline and online, both. With your experience, identifying the right approach to tutor any student can come easily. You will also be able to impart various skills amongst your students that will help them later in their career.

Investment advisor

After years of financial planning, you can share your valuable learnings with people that need your guidance with their investments. You can offer your insights in investing through various instruments, such as mutual funds, stocks, bonds, life insurance plans, real estate and more. With the right advice, you can help people meet their financial goals.

The average retirement age in the U.S. sits at around 63 for women and 65 for men, according to Boston College's Center for Retirement Research.

But a growing number of Americans continue to work well past the average retirement age. The U.S. Bureau of Labor Statistics estimates that the number of workers between the ages of 65 and 74 will grow 4.5% each year between 2014 and 2024, compared to an annual growth rate of less than 1% in all age groups younger than 65.

Many Americans who retire even choose to *unretire.* The nonprofit RAND Corporation found that roughly 40% of workers over 65 had previously retired but decided to return to the labor force.

If you want to continue working into your retirement years, but you've had enough of working for someone else, you might try starting a business. We've put together several unique retirement business ideas and outlined how much they might cost to start and what level of involvement you might need to sustain your business.Why start a business in retirement?

Emerging entrepreneur statistics show that the landscape is changing. A good chunk of Americans between the ages of 55 and 64 (13%) and between the ages of 65 and 74 (6%) started new businesses in 2019, according to the Global Entrepreneurship Monitor.

They did so for various reasons. Among those between the ages of 55 and 64, most (64%) formed businesses to make a difference in the world. Among those between the ages of 65 and 74, most (55%) did so to build wealth. Many Americans in each age bracket also formed businesses to make a living because jobs were scarce or to continue a family tradition.

Let's explore some of the best retirement business ideas, whether you want to work from home or get out into your community.

Home businesses for retirees

In many cases, all you need is a good website and a lot of passion to launch an online business from home. Whether you want to sell handmade goods or ship other people's goods, there are plenty of fulfilling and potentially lucrative business ideas for retirees.

Dropship goods

Dropshipping is an online business model—commonly run as a sole proprietorship—that involves selling products to customers online without actually holding onto the products. You're responsible for creating a website, selecting products to sell, marketing your products, and choosing your prices. Once a customer orders from your online store, you send the order to a dropshipping supplier that prepares the order and ships it to your customers.

You can find dropshipping suppliers through online platforms like Oberlo. The key in dropshipping is to find products that are in high demand or might be in the future and to choose sustainable profit margins. If you've always wanted to run an online store but don't want to handle the fulfillment logistics, you might want to explore dropshipping further.

Write a newsletter

Personal email newsletters have exploded in popularity in recent years. For example, Substack—a startup that allows you to build, distribute, and monetize newsletters—doubled its readership and its total number of newsletters since the COVID-19 pandemic began.

The concept is pretty simple: You choose a topic that you're interested in and think others might enjoy as well—maybe it's bird watching or knitting—and you write a newsletter about it. Generally, people distribute their newsletters for free for a couple of months, build up an audience, and switch to a subscription model with a monthly fee (typically anywhere from $5 to $25 or more). Platforms like Substack will claim a 10% slice of your revenue after you monetize.

Become a virtual assistant

Many small business owners and entrepreneurs rely on virtual assistants to keep their costs down. Virtual assistants might schedule meetings or projects, make phone calls, input data, create spreadsheets, or even help with writing or graphic design tasks—all from their homes.

You might connect with people who need virtual assistants through freelancing platforms like Upwork, or you might form your own virtual assistant business and market yourself based on your specific skills.

Offer freelance services from home

For those who worked in industries with services that can easily be freelanced, such as graphic designers, programmers, or writers, offering freelance services is an easy way to continue to work within the industry you built a career in. Join online communities of freelancers, such as Upwork, to offer services such as blog or website writing. Or, start a website for in-demand services you can do online, such as bookkeeping or graphic design.

Create online courses

If you have knowledge to share from your previous work experience but don't want to work closely with clients, creating and selling online books or courses is a good way to impart knowledge and earn an extra income. Build a website and map your knowledge to information products, such as ebooks and training videos.

Longevity economy business ideas

The so-called “Longevity Economy" includes all of the goods and services geared toward Americans over 50. And it's pretty massive. Oxford Economics and AARP estimate that it's responsible for more than $7 trillion in economic activity each year in the U.S. That number's expected to grow to $13.5 trillion by 2032—more than half of America's GDP—as the proportion of adults over 50 continues to increase year over year.

This presents many interesting ideas for retirees looking to form businesses and solve problems for their peers.

Specialize in aging-in-place consulting

As the population continues to age, many Americans have turned to experts to help them redesign their homes with safety and functionality in mind and make recommendations on how to live more independently.

There are various certifications you can receive to become an aging in place specialist, and you can focus on the design and remodeling aspects of the job or the life coaching and independent living aspects.

Become a senior concierge

Senior concierges might help with scheduling appointments, grocery shopping, planning an event, going to the post office, mowing the lawn, walking a dog, waiting at someone's home for a scheduled service appointment, or really any everyday task. Some senior concierges also complete home wellness checks.

Offer senior-specific nutrition consulting

For those retiring from the health field, such as nutritionists, nurses, or physical therapists, specializing in senior-specific nutrition consulting is an easy way to draw upon your knowledge and help your peers. Partner with gyms and fitness centers near your home to offer specialized services to those 60 and older, or set up a website and market your services to individual seniors looking for advice. You may need to go through a program to become a certified nutritionist.

Other retirement business ideas

Retirees as a whole are an enterprising bunch. According to the Bureau of Labor Statistics, the unincorporated self-employment rate for Americans who are 65 and older is 16%. That's significantly higher than the rate for all other age groups, which rests below 10%. Here are some additional retirement business ideas.

Lease plants

If you've always had a green thumb, you might try tapping into the robust network of businesses and homeowners that lease plants instead of owning them. Under this business model, you select appropriate plants for different spaces and collect a monthly fee for watering and pruning the plants and responding to any plant emergencies.

Become a life coach

As a senior, you have wisdom to share. Make money by drawing upon your experiences as a life coach. In this role, you can help guide members of the younger generation with advice you've gained throughout your life. Use knowledge from your previous job by becoming a business coach, or share insight in broad strokes as a more general life guide.

Start a tutoring business

If you're a retired teacher or educator, a tutoring business is a perfect way to use your skills to make a side income. Start a business from your home or work through online tutoring companies, such as Tutor.com and Care.com. Since you can create your own schedule, tutoring is perfect for retirees looking to make additional income while keeping the flexibility of retirement. Depending on your skill set, you can tutor a specific subject or help students prep for college entrance exams.

Be an independent consultant

Consulting is another way to use your previous experience to make extra income in retirement. As a consultant, you can share the knowledge you've gained within your specific industry with individuals looking for mentors, or businesses looking for help. The time commitment for this job varies depending on the scale of the consulting business you want to start; you can work on the weekends, or as a more full-time position.

Sell goods online

Monetize new hobbies you've picked up in retirement by selling goods online. Are you crafting or baking? Perhaps you've taken up woodworking in retirement, or you're making jewelry. You can earn money online by selling your pieces on sites like Etsy. This side hustle is perfect for retirees who want to earn extra cash without pivoting too far back into the working world.

Once you've left the workforce, there are a number of ways to continue making an income. From monetizing your new retirement hobbies as a side hustle to creating a full-time consulting business, there's no shortage of retirement business ideas that allow you to generate income and draw upon your skill sets.

If you want to start a business in retirement, we're here to help. No matter what business structure you're looking at—from a sole proprietorship to an LLC—our business formation resources are here to guide you through.

Start a dog walking business

Do you love dogs? If yes, you can turn your love for animals into a lucrative side hustle that can help you pay extra toward your mortgage, save for a vacation, or even clear that student loan.

If you offer dog walking services as a side hustle, you could earn an average income of between $10,000 and $30,000 per year. As a dog walker, sitter or boarder, you offer your services to dog owners looking for a caregiver for their puppy. Register on a legitimate dog-walking app and create a compelling profile to get started.

Become a financial advisor

Financial advisors advise individuals and businesses, helping them reach their financial goals sooner. To become a certified financial advisor, you must complete a degree course and an internship. Then, go beyond the education and work experience, and find a job where you can practice the skills and knowledge. Financial advisors can work in several places, including banks, brokerage firms, insurance companies, and wealth management firms.

Pursue finance-related certifications and licensure examinations to help you become certified specialists and differentiate yourself from the competition.

Start a podcast

Do you have knowledge and passion that you'd love to share with other people? Or perhaps you are a content creator and looking for ways to expand your revenue streams? If you match any of these criteria, then becoming a podcast host could be the perfect opportunity for you.

Podcasts are the new radio. Podcasting is one of the fastest-growing mediums for online audio, and it's not expected to slow down any time soon. But unlike traditional radio, podcasts are driven by content creators who have a passion for sharing stories with their listeners.

One of the main benefits that come with starting a podcast is the minimal investment needed to get started. All you need is a computer or phone with a microphone and a way to host it online. You can even create one on your own website if you want.

6. Start a tax service business

A tax service business helps individuals and businesses prepare and file their tax returns accurately and efficiently. This business typically offers tax preparation, tax planning, and consulting on tax-related matters.

To run a successful tax service business, it is essential to stay up-to-date on the latest tax laws and regulations and any changes that may affect your clients. You should also invest in reliable tax preparation software and thoroughly understand how to use it.

Another key to success in this business is building strong relationships with your clients. This may involve offering personalized services and being available to answer questions and provide guidance throughout the tax preparation process.

Marketing and networking are also crucial for attracting new clients. This may involve utilizing social media, creating a website, and attending local business events.

Overall, a tax service business can be a rewarding and lucrative opportunity for entrepreneurs with a strong understanding of tax laws and a dedication to providing excellent customer service.

Start a book club

A book club consists of several people who read and talk about the books based on the topic or an agreed reading list. Setting up your book club can be a great way to enjoy books and meet new people. More importantly, a book club is a well-paying side hustle idea. Therefore, figure out who you invite to your book club and define the purpose. Do you want to learn something new, or do you just want to bond with other book lovers? Having a defined purpose helps you reach like-minded people to keep the book club close-knit.

Start a freelance writing business

Freelance writing can be a good career choice for professional writers for offering writing services to different clients via online platforms. Working as a freelancer gives you the flexibility to define your work schedule. You can work from home at any time. Freelance writers work across various niches, writing about various topics assigned by the client,

To earn good money as a freelance writer, you need the following personal qualities:

Strong writing skills

Ability to meet deadlines

Stay on the cutting edge

Be a self-starter

Be up-to-date with the current writing tools & writing trends

12. Start a niche blog

Growing a niche blog can be an incredible way to build an income on the Internet. You can start blogging in any niche that you find interesting with a few easy steps. You simply need a domain, hosting, and WordPress to start blogging. The hard part comes when you try to monetize your website traffic. Making income from your blog, and making a blog that actually pays you the money takes time, work, and effort.

There are more than 500 million blogs out of 1.7 billion websites. Over 409 million people view more than 20 billion pages each month. Users produce around 70 million new posts and 77 million new comments each month. Content marketing is predicted to be an industry worth

14. Start a career coaching business

A career coach is an experienced professional who helps people adjust and improve their career paths through one-on-one guidance and advice. The career coach guides people on:

Goal-setting

Resume building

Interview practices

Overcoming career anxiety

Starting a business.

To become a career coach, decide the industry you want to serve, and earn relevant qualifications. It would help if you gain professional experience in that career line and develop the skills you need to run the business. Earning a professional certification will help you in attracting clients.

15. Start an etsy business

If you are an artist looking for ways to turn your skills into revenue, Etsy is your platform. Etsy is a marketplace for artists and can bring in extra income or even replace your current job. You can create art pieces and create a successful Etsy shop. Once your Etsy shop is online, consider joining a team to help you learn Etsy's basics and how to market stuff on Etsy.

16. Become a landlord

One of the most common ways to make money in the real estate industry is by becoming a landlord. You can purchase one or more rental properties and then lease them out to tenants. As a landlord, you'll be responsible for maintaining the property and collecting rent from your tenants.

Landlords are in the perfect position to build their own legacy. The cash flow that comes from being a landlord offers you both freedom and stability, while also providing an investment asset with potential for growth - all without sacrificing too much of your hard-earned money!

With mortgage payments to contend with and the tough competition, you may be able profit $200-$400 per month on your property.

The current popularity of renting rather than buying is making the landlord business model more popular than ever. More and more people are choosing to rent properties instead of buying them, which means that there is a high demand for rental properties. This trend is only expected to continue, so now is a great time to get involved in the landlord business!

This real estate business is a great way to build long-term wealth, while also enjoying the benefits of being your own boss. And, it's a perfect option for those who want to be involved in the real estate industry without having to deal with the day-to-day grind of property management.

17. Become a bookkeeper

If you're interested in starting a bookkeeping business, you're in luck! This type of business is in high demand and can be quite lucrative. Here's what you need to know to get started.

A bookkeeper is responsible for managing the financial records of a business or organization. This includes recording financial transactions, reconciling bank statements, and preparing financial reports. Bookkeepers work with various financial documents, including invoices, receipts, and bank statements, to ensure that all financial transactions are accurately recorded.

To start a bookkeeping business, you'll need a few key things. First and foremost, you'll need a strong understanding of accounting principles and bookkeeping practices. This can typically be obtained through a combination of education and experience. You'll also need to be organized and detail-oriented, as accuracy is critical in this field.

In terms of equipment, you'll need a computer, software (such as QuickBooks), and a way to securely store financial documents. You may also need to invest in additional tools and resources, such as office supplies, business cards, and marketing materials, to help you get your business off the ground.

To find clients, you'll need to network and market your services. This can be done through word of mouth, social media, or local business networking events. You may also want to consider joining professional organizations or associations, as these can be great resources for finding clients and staying up-to-date on industry trends.

Overall, starting a bookkeeping business can be a rewarding and lucrative venture. You can build a successful business by helping clients manage their financial records with the right skills, equipment, and marketing efforts.

18. Become a bed and breakfast owner

Bed and breakfast is a sort of hybrid between a luxury hotel and a private home. The host offers the guests affordable accommodation featuring a bed and breakfast at the room's price. B&Bs offer affordable accommodations and are becoming popular among travelers who prefer a private setting.

If you have realistic expectations, B&B can be a profitable and enjoyable business. To start, you can renovate and turn your home into an inn. Alternatively, you can build or buy a ready house and convert it into a modern B&B.

19. Start a gardening business

A gardening business makes money by planting trees, growing specific produce, maintaining landscapes, and more.

Gardening companies work with homeowners to install, maintain and repair their landscaping areas. For instance, a typical gardening business provides all-inclusive services to create and maintain a lawn, such as mowing, fertilizing, and edging.

Owning a gardening business can be a very flexible and profitable business venture.

20. Become an Airbnb host

Short-term rentals like Airbnb hosting can be a profitable side hustle if you have an extra room that is not in use. You can list your room on Airbnb for $40 per night and generate enough income to pay your recurring bills. To start an Airbnb host side hustle, decide the rental arrangement you want, set up the space, create your Airbnb listing, and market the space.

Make and Sell Crafts

Retirees often take up a hobby to fill the time and quickly find that it's a great way to make extra money. The craft business is a perfect example.

The rise of Etsy has shown that handmade crafts can be big business. Many types of crafts sell well, including:

Home decor
Jewelry
Art
Toys
Dolls
Embroidery and quilts
Usually, the cost of the materials is quite low, which makes for a nice profit margin on the products sold. The main investment is the time, creativity, and expertise in making them. If you're already a crafty person, this can be an ideal small business.

Items can be sold at a farmer's market, flea market, festival, or small shop. If you feel comfortable selling online, you can open an Etsy shop or sell on Facebook Marketplace or Craigslist.

You can advertise your business through word of mouth at events or through social media.

You don't need a website or a graphic designer to have an effective internet presence. This is because social networks like Instagram and Pinterest enable you to draw a lot of attention to visually appealing products like arts and crafts.

Tutor

Having navigated through half a century of life or more, you'll have collected quite a lot of knowledge, which you can put to good use by [guiding the next generation through their studies. As a tutor, you can work with students at a primary, secondary or tertiary level, although you should note that the further up the educational ladder you climb, the deeper and more specialised your tutoring skill set will need to be!

Life coach

In life, as in business, experience counts for a lot. If you're known for your ability to lend a kind ear and offer up sage advice, your post-retirement calling could be as a life coach. It's important to point out that a life coach isn't a professional calling, and that your advice shouldn't wander into territory reserved for therapists and psychologists, but you can nonetheless offer valuable guidance to those who need it.

Business mentor

Do you have a long and successful track record in business? As a business mentor you'll offer much the same support as a life coach does, only this time it will be business-specific. There's something truly rewarding in using your knowledge and experience to help someone else succeed, and you can even be paid for the pleasure!

Celebrant/MC

Have you always had a passion for performing? While making it big on Broadway or in Hollywood might be a long shot, there are other ways to put your talents to use - and make some money in the process! As a marriage celebrant or a professional master of ceremonies (MC), your job is to put smiles on faces, and perhaps an occasional happy tear in the eye. You also get to enjoy yourself at an endless succession of fun events!

Industry/project consultant

For those who spent their pre-retirement lives building up a deep and specialised skill set, working as a consultant can prove an incredibly lucrative opportunity. Consultants are in-demand in every industry imaginable, offering their services in general or project-specific capacities. If you choose this route it's wise to use a tool like Square Appointments to ensure you're never double-booked.

Franchisee

Business ideas for retired people needn't be limited to guiding others. As the mature founders mentioned at the top have proven, you can start a business at any age. Becoming a franchisee does offer a more comfortable journey into business ownership, however, as you get an almost IKEA-style set of instructions for establishing the foundation of your business.

Bookkeeper

Another option for those who are good with numbers is bookkeeping is the sort of work that will never go out of style. No matter how clever and automated accounting tools get, there will always be work to do in generating quotes and invoices, reconciling accounts and ensuring tax obligations are met. There is a fantastic freelance opportunity for those who know how to balance the books.

Blogger/podcaster

Who said business ideas for the retired couldn't be fun? If you're a more gregarious retiree who isn't shy in front of a microphone, and who can capture the attention of an audience, you might consider starting a podcast. If your talents lie more in the written than the spoken word, you may be able to carve out a niche in the blog space. If you build an audience, these opportunities can eventually be monetised through sponsorships.

Real estate investor/landlord

Shares and real estate are considered the two safest investments for a reason. Sure, the market can dip from time to time, but ultimately these are investments that have always outpaced inflation. If you've built a nice nest egg over your professional life, you might consider becoming a real estate investor and landlord who enjoys a steady stream of income from tenants.

Ecommerce retailer

Thanks to the emergence of a wealth of smart tools, it has never been easier to start an online store than it is right now. The average person can now build a website, set up payment systems and get selling. Exactly what you sell is up to you, but it's wise to find products that are in-demand and easy to source, in an area that has minimal competition but that you have a passion for. If you choose to become a dropshipper, you also won't find yourself burdened with inventory!

House painter

If you're someone who doesn't mind getting active, and who enjoys the sense of achievement and satisfaction that comes from making something old look new again, you might consider becoming a house painter. A profession forever in demand, but that doesn't require any licences or qualifications, painting can be a great way to earn a bit of extra dough.

Landscaper/gardener

Another opportunity for those who aren't afraid of hard work, lawn mowing, landscaping and gardening grant you the chance to spend your workdays outdoors making backyards look beautiful. One of the best parts of this job – apart from the hours spent in the sunshine – is the fact that the grass always grows (in Australia at least.) Once you build up a solid client base you'll enjoy a steady flow of work.

Home handyperson

Are you talented with the tools? Are you known for your ability to fix doors, mount pictures and grout tiles? As a home handyperson, you'll be tasked with all manner of odd jobs, meaning the work never gets old – there will always be a new challenge to tackle. You also get to meet new people and see new places!

Pet sitter

The opportunity to spend long days with furry friends and get paid for the pleasure. If you're excited by this thought, you might be a prospective pet sitter. Pet sitting can take many forms, from visiting a pet a couple of times a day to ensure they're fed and watered, to taking them home for weeks at a time while their owners are away.

Bed and breakfast owner

Calling all hosts with the most: if you enjoy making guests feel at home, you might consider becoming the proud owner of a B&B. Happily, this is easier than ever – you no longer need to purchase a purpose-built building as your bed and breakfast, but can instead use any old property thanks to websites like Airbnb and Stayz. What's more, the level of hosting you offer is entirely up to you!

Restaurateurs

As Ray Kroc and Harland Sanders so ably demonstrated, the food business doesn't discriminate by age. As long as you bring the requisite passion and skill, you've every chance of becoming a success no matter what age you start. As a restaurateur, you'll be tasked with commanding both the front and back of the house, while ensuring your guests are well treated and well-fed. It's a rewarding game but be warned that it can also be a rather exhausting one.

Tour guide

Another opportunity in the hospitality game, guiding tourists around your part of the world can be another of the more rewarding business ideas after retirement. It combines opportunities to perform, to share something you're passionate about, and meet friendly people. You could offer a tips-only walking tour of your city, or a multi-day trek through your state – the extent of your tour is entirely up to you!

Event planner

If you're the sort of person who gets a thrill from bringing an event together, and has a knack for ensuring that Is are dotted and Ts are crossed, event planning might be the business for you. Whether you offer your services for birthdays, weddings or commercial events, as a planner you'll need to be on the ball, constantly communicating with your clients, suppliers and other relevant parties.

Goods trader

Do you have a talent for negotiating and an eye for a bargain? Many retirees manage to turn a passion for collecting into a fully-fledged business, buying goods – antiques, clothing, paintings, collectibles – at cheap prices, then selling them for a profit. If you choose to go this route you might consider investing in a Square Reader, which plugs into your phone and allows your customers to pay for your products on a card.

It's often said that life begins at 50, and looking at the business opportunities a retiree has at their disposal, that adage seems to hold true. For those who have the necessary desire, business ideas after retirement are almost as plentiful as business ideas before retirement.

And for those who do choose to go into business at an older age than most, you can trust that Square will be there to help you on your journey, with a complete suite of payment and business tools.

Best investment options for senior citizens who want regular income after retirement:

Senior Citizens' Savings Scheme (SCSS): Senior citizens aged 60 and above can choose to invest in this scheme to earn regular income in the form of interest. The interest would be payable on a quarterly basis and the lock-in period for this scheme is just five years, which is less than other potential investment options. Moreover, premature withdrawal is allowed but it comes with a penalty. The minimum deposit is Rs. 1,000 and the deposit should be made in multiples of 1,000 while the upper limit is set at Rs. 30 lakhs.

Bank Fixed Deposits: Senior citizens are generally entitled to a 0.50% interest rate for Bank FDs, therefore, it can be a safe and reliable source of income for them. They can invest some of their savings and opt for monthly returns to ensure monthly earnings.

Guaranteed Income Plan: Under this insurance scheme, one is entitled to a fixed payout at set intervals after the maturity of the policy. The policy tenure ranges from 10 years to 30 years and can be a good source for monthly earnings after retirement. However, one has to ensure that all premiums are paid before maturity as they wouldn't be entitled to any returns if they fail to do so.

RBI Floating Rate Savings Bonds: The rate of interest for RBI's savings bonds is based on the National Savings Certificate (NSC), a small savings scheme. The RBI floating rate savings bonds witness a spread of 0.35% above the interest rate of NSC. Therefore, every change in the NSC interest rates would impact RBI floating savings bonds' rates.

These bonds have a fixed maturity tenure of seven years and allow premature withdrawal for people aged over 60 years, which can be an appealing feature for senior citizens. Moreover, the interest earned on them is paid on a half-yearly basis on January 1 and July 1 each year.

Mutual Funds: After retirement, equity-backed investments can prove to be a game-changer as they offer lucrative returns compared to other investment options. Since income from these sources, such as interests and dividends, would be affected by inflation even during the retirement years, you might get good returns with each passing year while other investment options would continue providing a fixed return irrespective of inflation. However, mutual funds are subject to market volatility and serve a risky avenue, therefore, a well-researched investment would be encouraged.

Recurring Deposits and Fixed Deposits

Fixed deposits (FD) and recurring deposits (RD) are one of the most common types of investments for retired individuals. Banks also offer a comparatively higher interest rate on FDs and RDs for pensioners.

Under Section 80TTB of the IT Act, an interest income up to Rs 50,000 for senior citizens during a financial year is completely tax-free.

You can also consider investing in the Post Office Monthly Income Scheme (POMIS), which offers a regular monthly income. Though you can avail of tax benefits on investments up to Rs.1.5 lakh on tax-saver FDs that have a five-year maturity period, the interest income from the same is liable for taxation.

Pradhan Mantri Vaya Vandana Yojana

The Pradhan Mantri Vaya Vandana Yojana (PMVVY) scheme operated by the Life Insurance Corporation (LIC) is a low-risk investment pension plan. It has a tenure of 10 years and it offered an interest rate of 7.4% in the previous year. However, only senior citizens above 60 years can invest in the plan on making a lump-sum investment.

The pension receivable under the scheme ranges from Rs 1,000 to Rs 10,000 per month depending on the amount you have invested. To avail of the scheme, you will have to make a minimum investment of Rs 1.56 lakh and not more than Rs 15 lakh on or before 31 March 2020. However, the scheme has been modified and extended up to 31 March 2023.

Keep in mind that investment made towards this scheme will not be eligible for tax deductions under Section 80C. However, the PMVVY scheme is exempted under Goods and Services Tax (GST). Moreover, it offers an interest rate comparable with the senior citizen savings scheme (SCSS).

Senior Citizen Savings Scheme (SCSS)

SCSS is an excellent investment option for senior citizens looking for long-term saving schemes which offer security with additional benefits. You can avail of the scheme from post offices and recognised banks around the country.

Not only is the rate of interest offered on this scheme comparatively higher than that of the regular savings and fixed deposit bank accounts, but you also get tax benefits up to Rs 1.5 lakh per year under Section 80C of the IT Act, 1961.

SCSS has a maturity period of five years with an extension of three years. It offers an interest rate of 7.4% for Q1 FY 2021-22. You have SCSS offering one of the highest interest rates among fixed-income investments. Moreover, you can invest a maximum amount of Rs 15 lakhs. You must provide your nominee when opening the SCSS account.

Investment Options for Growth

There are various types of investments through which senior citizens can orient their portfolios towards growth and wealth accumulation. Here are some of the best investments through which retirees and pensioners can enjoy inflation-beating returns:

Mutual Funds

Investing in mutual funds is by far the best decision you can make to build wealth over some time. Start investing in mutual funds and enjoy the twin benefits of – Inflation-beating returns and tax savings.

You can invest in ELSS, a tax-saving mutual fund that qualifies for Section 80C tax deduction, up to Rs 1.5 lakh per year. ClearTax offers a wide array of mutual fund plans catering to different needs. Invest in top-performing mutual funds handpicked by our experts and enjoy inflation-beating returns from the comfort of home.

National Pension System (NPS)

The National Pension Scheme can be availed by individuals between the ages of 18 and 65 years. Senior citizens can extend the tenure up to 70 years of age as well. Under Section 80C, taxpayers are eligible for deductions up to Rs 1.50 lakh per year on the investment made towards NPS.

Similarly, under Section 80CCD, individuals are also eligible for additional tax benefits up to Rs 50,000 a year. The investment made towards the NPS can be directed towards equity, corporate and government securities, depending on the individuals choice under the active option. However, you can opt for the auto choice where asset allocation happens depending on your age.

Though NPS does not offer a steady interest income, the scheme generates excellent returns and your investment can grow at a faster rate by orienting your NPS towards equity funds. However, the maximum NPS investment in equity is capped at 75%.