

## ConsumerSense

### Investing Fundamentals

#### Build a Solid Foundation

Even for the most informed investor, investing in the stock market can be risky. The idea of losing money may be frightening, but don't let those fears alone keep you from some potentially incredible investment opportunities. Successful investing begins with building a solid foundation of key fundamentals and creating a well-designed plan to help reach your short-term and long-term financial goals.

#### Strategic Investing

The process of investing on a systematic basis is called dollar-cost averaging, and it may help you overcome the uncertainties of the market by investing more consistently over a longer period of time. Investing on a regular basis this way may result in a better outcome than trying to figure out when the markets will go up or down. If you've been contributing to an employer-sponsored retirement plan, where earnings are automatically taken from your paycheck, then you've already been practicing dollar-cost averaging.

*Note: A systematic investment plan (dollar-cost averaging) does not assure a profit and does not protect against loss in declining markets. Such a plan involves continuous investment, so investors should consider their financial ability to continue purchases through periods of low price levels.*

#### Turbulent Times

With all the recent ups and downs of the economy, you've probably heard analysts refer to myriad economic indicators. We have outlined below a few of those indicators, and why they might be important to investors.

#### Gross Domestic Product (GDP)

GDP is the total market value of output produced in a nation in one year. It is the sum of consumer, investor, and government spending (plus the value of exports, minus the value of imports). Generally when the economy experiences two

consecutive quarters of a decline in GDP, analysts describe that as an economic recession.

#### S&P 500 Index

"Widely regarded as the best single gauge of the US equities market, this world-renowned index includes a representative sample of 500 leading companies in leading industries of the US economy," according to Standard & Poor's.

#### Federal Funds Rate

The short-term interest rate that banks charge other banks to borrow money overnight at the Federal Reserve. Changing the target rate is one form of open market operations that the Chairman of the Federal Reserve uses to regulate the supply of money in the US economy.

#### Who Can Help Me?

The investment professionals at your credit union can provide guidance, and answer questions regarding a wide range of financial topics. To learn more about working with a financial representative, contact your credit union!

Sources: [http://en.wikipedia.org/wiki/Main\\_Page](http://en.wikipedia.org/wiki/Main_Page), [www.standardandpoors.com](http://www.standardandpoors.com), [www.bankrate.com](http://www.bankrate.com)

### Have You Read...

#### **The Secrets of Economic Indicators: Hidden Clues to Future Economic Trends and Investment Opportunities** by Bernard Baumohl

Every day, stocks, bonds, and currencies bounce wildly in response to new economic indicators. Money managers obsess over those statistics, because they provide crucial clues about the future of the economy and markets.

# Prime Numbers

## HOURLY WAGE

The average per hour cost to employers for workers' compensation in March was \$28.46. Wages and salaries account for 69.7% and benefits 30.3%. (source: Dept of Labor, Bureau of Labor Statistics)

## QUANTITY DISCOUNT

The approximate value of Air China Ltd.'s recent order for 45 Boeing 777 and 737 commercial jets is \$6.3 billion. (source: The Boeing Co.)

## RETIREMENT INCOME

In a survey of 56 to 65 year olds, 43% believe they will be able to withdraw 10% or more of retirement savings each year without exhausting their capital. Most financial advisors recommend withdrawing no more than 4 to 5% each year. (source: MetLife Mature Market Institute)

## INTERNET EXPLOSION

There are currently 221,000,000 internet users in China, or about 16% of the population. This number is expected to reach 490,000,000 in 2012. (source: Associated Press)

## OIL FOR A RAINY DAY

As of the end of March 2008, there were 700,000,000 barrels of crude oil in the Strategic Petroleum Reserve. (source: Energy Information Administration)

# In Layman's Terms

## A Frequently Asked Question & Answer from Craig Layman

**Q:** I'm concerned about my retirement accounts since the market has declined this year. What should I do?

**A:** Declining markets can be scary and are emotional for most investors. There are a few things you can do to increase your chances of success.

First, realize that declining markets are normal. Although the long-term return for stocks is around 11% per year, the markets rarely return exactly 11% in a given year. The average of returns is 11% and any individual year can be much lower or much higher than that. Around every four or five years on average, the market will be down. That's why we encourage only long-term investors to use stock market vehicles. If your time horizon is under five years, you should consider avoiding these. Long-term investors have the time to recover from even steep declines.

Although many people would like to forget about their investments during market downturns, these are good times to review your accounts and make sure you are invested in the right things. Diversification in stocks and bonds,

US and international offerings, and large and small companies can help cushion the downside. All markets don't drop by the same amounts and some may actually show strength during a general market downturn. Rebalancing your allocation in a downturn is good but trying to time the market is usually a losing battle even for the pros.

Stocks or mutual funds that stress dividends can help cushion the impact of a falling market. While growth stocks or mutual funds may have more long-term potential, they usually don't pay dividends. In a declining market, the dividend is yours to keep even though the value of your investment may be declining. Receiving dividend income on your money while you wait for markets to recover helps your pocketbook and can be reassuring.

Market declines present an opportunity for investors who are able to commit more money to their investment plan. Regular monthly contributions or dollar-cost averaging is one way to take the emotion out of investing. Many savvy investors take advantage of market declines to buy stocks from good companies at discount prices.

## Complimentary Educational Seminars

Seating is limited. Please RSVP to 800.852.5886.

### Basic Investing

Monday, 9/15/08, 5:30pm  
Northampton Branch

Thursday, 9/25/08, 5:30pm  
Hadley Branch

### Women & Investing

Monday, 9/29/08, 5:30pm  
Northampton Branch

Tuesday, 9/30/08, 5:30pm  
Hadley Branch

## Interested in learning more?

Our financial advisors specialize in helping people maintain a healthy financial balance and discover smart money strategies. Call us to schedule an appointment to review your investment objectives and to discuss any questions you might have. We look forward to speaking with you!



### UMassFive Financial & Investment Services:

**Hadley Branch:** Craig Layman, 413.256.5580

**Northampton & Worcester Branches:** Ron Bradley, 413.256.5586

Do you have a topic you'd like to see in *Advisor* newsletters? Email your comments to: [investments@umassfive.org](mailto:investments@umassfive.org)



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\*\*For specific tax advice, consult a qualified tax professional.