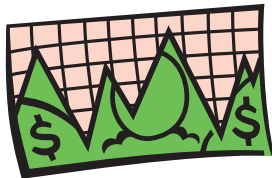


The Right Moves

To earn more with your investments, consider what they cost as well as what they pay.

You can use a number of basic investing techniques to help you build your long-term investment portfolio. Of course, they can't guarantee the results you'll achieve. But they can provide a framework for making decisions.



DOLLAR COST AVERAGING

The old adage that the smartest way to

make money is to buy at the lowest price and sell at the highest is easier to say than it is to accomplish. If you could do that regularly, funding your retirement—or anything else—would be no problem.

A less dramatic but more reliable strategy is to make monthly or quarterly investments in specific mutual funds. It's much easier to spread your investment over a year rather than to come up with the amount all at once. And over time you can build a substantial account.

Using this approach, called **dollar cost averaging**, you may be able to lower the overall cost of your investment. Since mutual fund prices fluctuate, sometimes you'll buy at a higher price, sometimes at a lower one. When the price is low, your \$100 buys more. When it's high, it buys less. You don't risk making a major investment just before a major drop in price. But you have to invest when prices drop as well as when they're up for this strategy to work. Of course, dollar cost averaging does not guarantee a profit or protect against loss in declining markets.

To use dollar cost averaging for stock purchases, you can enroll in a company-sponsored reinvestment plan that lets you make additional purchases. Many larger companies offer this option. Or you can put a regular amount each month in a special investment account.

INVESTING STYLES

When you **buy and hold**, you keep a stock or bond for the long term. Or you can **trade**, by turning over your portfolio regularly, buying when you think a stock is going to increase in value, and selling when its return meets your expectations.

You might stick to one approach, or use one method for part of your portfolio and the other method for rest. There is a greater risk for big losses, though, if you try to time the market by buying and selling frequently.



Tracking A Fund's Price



	May	June	July	August
Amount invested	\$100	\$100	\$100	\$100
Average share price per month	\$22	\$17	\$14	\$18
Number of shares purchased	4.55	5.88	7.14	5.56

AVERAGE SHARE PRICE

$$\frac{\text{Average price per month}}{\text{Number of months}} = \text{Average share price}$$

for example

$$\frac{(\$22 + 17 + 14 + 18)}{4} = \$17.75$$

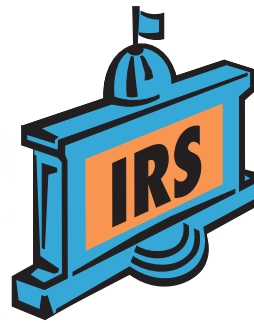
AVERAGE SHARE COST

$$\frac{\text{Total amount invested}}{\text{Total shares purchased}} = \text{Average share cost}$$

for example

$$\frac{\$400}{4.55 + 5.88 + 7.14 + 5.56} = \$17.29$$

If you have no trouble sticking to a buying schedule, you can write the checks yourself. The advantage is more flexibility, letting you change the amount or skip an occasional month. Or, if it's more convenient, you can arrange for automatic deposits into your account.



AVOIDING THE TAX MAN

Of the two great myths about retirement—that your living expenses will drop dramatically and that you'll owe less income tax—the second

is probably the bigger misconception. There's not much you can do to influence the tax rate. But some investing strategies may reduce the income tax you owe—though you may find yourself subject to the **alternative minimum tax (AMT)**. If you're in one of the higher federal tax brackets and live in a high-tax state, one solution is to do some of your investing in tax-exempt municipal bonds. None of the interest is taxed (though **capital gains**, or any profit you make when you sell, will be taxed).

Tax-exempt investments usually pay less interest than taxable investments. You can use the following steps to figure out what you need to earn on a taxable investment to equal the income on a tax-exempt one.

1 Subtract your current **federal tax bracket** from 100. For example, if you're in the 35% bracket, you get 65.

$$100 - 35 = 65$$

2 Divide the yield on the tax-exempt investment by the number you get in step 1. The answer is the taxable yield you need on a taxable investment to equal the tax-exempt yield.

$$\frac{\text{Tax-exempt yield}}{100 - \text{your tax rate}} = \text{Equivalent taxable yield}$$

If you are in the 35% tax bracket, you'd need a taxable yield of 9.2% to earn as much as a tax-exempt investment paying 6%.

for example

$$\frac{6}{65} = .09230$$

9.2%
THE
TAXABLE
EQUIVALENT
YOU NEED



BUILDING A LADDER

If you're buying bonds or CDs, you can use a technique known as **laddering**. When you ladder, you choose investments with different maturity dates, and split

your total investment more or less equally among the different bonds.

As each bond **matures**, or comes due, you have the principal to reinvest in a new one. If interest rates have dropped, say two percentage points on medium-term bonds, only that part of your total bond investment has to be reinvested at the lower rate. By the time the next bond matures, rates could be up again.

Laddering, in other words, is a way to keep your investments fluid and at the same time protect yourself against having to invest all your money at once if rates are low. Laddered investments can also be used as a regular source of income. As they come due, you can put the money into more liquid accounts to use for living expenses. By planning those cash infusions, you can avoid having to sell off other investments that would continue to produce income, like stocks, longer-term bonds, or mutual funds.

HOW LADDERING WORKS

Purchase three Treasury bonds with varying terms to split up your principal. When each bond matures, reinvest the principal in another bond.

• If interest rates rise, you're able to take advantage of high-yielding investments

• If interest rates drop, you'll have to reinvest only one-third of your total principal at lower rates

