The breathtaking, roller-coaster performance of the stock market that accompanied the bursting of the housing and credit bubbles was a stark reminder of a fundamental truth about investing: It involves risks. One way to learn about investing is with the booklet 5 Keys to Investing Success. Here’s a sample of the information in the booklet:

**Investing continues to offer the best means to achieve long-term financial goals. To be successful means learning to limit risks, not avoid them completely. Among investors who suffered the most from the market meltdown that began in 2007 are those who bailed out and then missed the remarkable rally that saw many of them recover enough to exceed the levels they had reached prior to the crash.**

**Your task is to create an investing plan that suits you and then stick with it. One thing you’ll learn is that there are keys to success, not secrets. In truth, there are no investment secrets.**

**Key #1: Make Investing a (Good!) Habit**

Make Investing a (Good!) Habit

The best chance to acquire measurable wealth lies in developing the habit of adding money where it can do the most for you. The rewards can be considerable.

Suppose your goal is to have a nest egg of $250,000. You’ve got 20 years to get there and $5,000 to start. What’s a reasonable return to plan on, and how much more will you have to contribute along the way?

Since 1926, the stocks of large companies have produced an average annual return of about 10%. (Remember, that includes such lows as the Great Depression, the stock slide that followed the September 11 terrorist attacks and the financial crisis of 2008.) If we assume a long-term annual return of 8%, you’ll need to add $382 a month to the initial $5,000 to reach your quarter-of-a-million-dollar goal in 20 years. If you can earn 10% annually, $279 a month will do the trick.

Key #2: Set Exciting Goals

Investment goal-setting is an intensely personal affair. But if you set generalized goals, such as “financial security” or “a comfortable retirement,” you’re going to have trouble measuring progress along the way. You may even struggle to maintain interest in the project. Better to set goals you can grab onto, goals with a price tag on each one as an incentive to keep you on track.

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**THE MAGIC OF COMPOUNDING**

<table>
<thead>
<tr>
<th>$5,000 at 8%/year</th>
<th>$171,542 after 20 years</th>
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<tr>
<td>$5,000 at 4%/year</td>
<td>$47,756 after 20 years</td>
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<tr>
<td>$5,000 at 2%/year</td>
<td>$7,430 after 20 years</td>
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You can see the power of compounding (also known as compound interest) at work in these calculations. A small difference in interest rates can make a big difference in the final outcome.

Key #3: Don’t Take Unnecessary Risks

Most people would say that risk is the chance you take that you’ll lose all or part of the money you put into an investment. That’s true as far as it goes, but it doesn’t go far enough. A more complete definition...
of risk acknowledges the availability of investments carrying virtually ironclad guarantees that you will get all your money back plus the interest promised you: Treasury securities or certificates of deposit in federally insured banks or credit unions, for instance. Also, with all investments, even government-guaranteed ones, you run the additional risk that your return will be less than the inflation rate. So, risk is the chance you take that you will lose money or that your money will lose value by earning less than the rate of inflation.

A key question for investors is: What is a prudent risk? The answer depends on your goals, your age, your income and other resources, and your current and future financial obligations. A young single person who expects his or her pay to rise steadily over the years and who has few family responsibilities can afford to take more chances than, say, a couple approaching retirement age. The young person has time to recover from market reversals; the older couple may not.

Key #4: Keep Time on Your Side

A penny saved is a penny earned—or so the adage goes. In fact, a penny saved may be worth two in the bush, but $10,000 today or $10,000 a year from today? Of course, you'd want to wait a year for $10,000 to be worth less due to the effects of a year's worth of inflation. And you will have lost a year's worth of earnings you could otherwise have captured. Understanding the time value of money is central to making solid investment decisions.

Key #5: Diversify

Simply put, diversifying means not putting all your investment eggs in one basket. No investment performs well all the time; when one thing is down, another thing tends to be up. By spreading your investments around, you're likely to increase your overall return and reduce your risk at the same time.

Some investors diversify by selecting a number of investment vehicles and dividing their money equally among them. For instance, they might split up a portfolio consisting of equal parts cash (money-market funds, CDs, Treasury bills), bonds, U.S. stocks, foreign stocks, and real estate. Once a year, they adjust the mix to maintain the dollar balance, taking the gains from the winners and spreading them out among the losers. Although it might sound crazy to sell some of the best performing investments to invest in the laggards, think of it as selling high and buying low.

More Information. To read the full-length 5 Keys to Investing Success booklet, visit www.investorprotection.org or contact your State Securities Regulator's office.