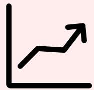
Vanguard®

# Puzzled about investing?

The pieces may come together more easily than you think.

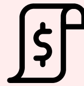
**An investment strategy doesn't have to be complicated—and you've got options. Feel confident about choosing investments that work for you.**

Most people start putting a jigsaw puzzle together by building the border. Investing is a little like that, too. When you understand the pieces that make up the framework, reaching the end goal is easier. Your investing framework typically starts with stocks and bonds. The mix of stocks and bonds you choose will define your portfolio and set your level of risk.



### What are stocks?

Stocks represent a share of ownership in a company. So when that company does well, its shares may rise in value. Compared with bonds, stocks historically have had higher investment returns, but can also have a higher risk of loss.



### What are bonds?

Bonds are IOUs from governments or companies. In the past, bonds have had more moderate gains and losses than stocks. Bonds receive interest payments that can help make up for market losses.

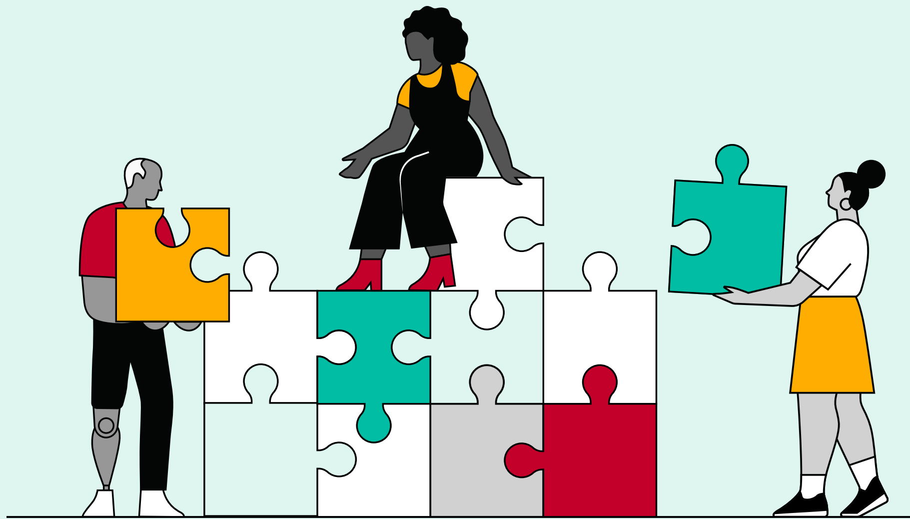
## Which types of funds can I choose?

You can generally choose from three types of funds:

**Broad-based index funds.** These may invest in a wide cross section of the market. By owning hundreds or even thousands of different investments, these funds may lower the chances of one bad investment greatly reducing the value of your retirement account.

**Specialized index funds.** These may focus on a specific industry, region, market segment, or bond type. Think real estate or precious metals, as examples. Specialized funds can add diversity to your portfolio.

**Actively managed funds.** Active managers rely on research, market forecasts, and their own judgment and experience to decide which securities to buy and sell.



Now that you've discovered the key pieces of the puzzle, here are two ways to solve it: assembling a portfolio yourself or choosing one that's ready-made for you.

## Putting the pieces together yourself

If you enjoy investing, you may want to create your own investment mix by combining several investments to create your own personal blend. Here's how to create and maintain a portfolio:

**Choose your asset mix:** You'll need to decide on the percentages of stocks, bonds, and other investments you want. To do this, you'll need to decide how much risk you should take, taking into account your risk tolerance and time horizon.

**Choose your funds:** Select stock and bond funds that match your asset mix. While keeping an eye on costs, you'll want to make sure you end up with a diversified portfolio, with stocks and bonds from all sectors of the market.

**Keep everything in balance:** After setting up your investment mix, review it at least once a year to ensure that you're on track. If you choose a 50/50 split, for example, you could find yourself with a 55/45 split after a year of especially good or bad stock market performance. While it's not a good idea to react to sudden market conditions, an annual checkup makes a lot of sense.

## Choosing an all-in-one investment

Looking for convenience? Simplicity? A target-date investment may be the right choice for you. They are already diversified—meaning they invest in a portfolio of funds that cover all the major market sectors—so one investment will probably be all you need.

Plus there's another key benefit of a target-date investment that you won't get in a portfolio you build yourself: As the date in the name nears—and as you get closer to retirement—the investment mix becomes more conservative. It's all automatic.

### How to choose a target-date investment

Decisions you'd need to make about investing if you were putting the puzzle together yourself—choosing an asset mix and investments—have been made for you when you choose a single target-date investment.

Most people choose the target-date investment with the target date closest to their expected retirement year. If you'd like to retire in 2033, for example, you might choose the 2035 investment.

While it may be easier to get a diversified portfolio by choosing one target-date investment, it's still important to know the risks.

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Target-date investments are subject to the risks of their underlying funds. The year in the investment's name refers to the approximate year (the target date) when an investor would retire and leave the workforce. The investment will gradually shift its emphasis from more aggressive investments to more conservative ones based on its target date. A target-date investment is not guaranteed at any time, including on or after the target date. Vanguard is responsible only for selecting the underlying funds and periodically rebalancing the holdings of target-date investments. Regularly check the asset mix of the option you choose to ensure it is appropriate for your current situation.

## A few more pieces to keep in mind

**Cost matters.** As you think about which funds to buy, pay close attention to fund management costs (expense ratios). Quite simply, the more you pay for a fund, the less of its returns you get to keep.

**Note:** If you want to keep your costs low, consider index funds. In general, they cost less to own than actively managed funds.

**When you'll need the money.** As you start to choose your investments, having a clear idea of how much time you have will help you decide how much risk you can afford to take. For example, if you won't need the money for 20 or 30 years, you might choose a riskier fund (one with a larger percentage of stocks). The longer your investing horizon, the more time you have to weather the ups and downs of an investment's performance, so you can assume more risk.

**How you feel about risk.** Even if time is on your side, investing heavily in stocks may not be for you. If you're not a big risk-taker, you might feel too much stress during market downturns. Make sure the mix of stocks and bonds you choose is one you can keep for the long run.

**Diversifying is crucial.** If you have your money invested in just one part of the market (company stock funds and information technology funds are good examples) or one investment type (stocks, bonds, U.S. or foreign investments), you risk losing more money if that area of the market doesn't perform well. On the other hand, spreading your money across many different parts of the market and investment types helps to manage risk.

Why? Because the funds that are performing well can make up for the ones that may be underperforming. This can make it much less likely that you'll lose a large chunk of your savings in a short period of time. This is why diversification is such a powerful tool for managing risk. But keep in mind that diversifying means having different types of investments. It doesn't guarantee you'll make a profit or that you won't lose money.

# Let’s get started!

Put your choices into action today by logging in to your account or contacting your benefits office. You can:

Review your current strategy.

Choose new investments, if needed.

*Whenever you invest, there's a chance you could lose the money.*

**Before you invest, get the details. Consider the fund's objective, risks, charges, and expenses. The fund's prospectus (or summary prospectus, if available) will tell you these important facts and more. So read it carefully. Call Vanguard at 800-523-1188 to get one. Or you can find one at vanguard.com.**

Bond funds, made up of IOUs primarily from companies or governments, risk losing value if the debt isn't repaid on time. Also, bond prices can drop when interest rates rise or the issuer's reputation suffers. The fact that any type of investment has done well in the past doesn't mean it will do well in the future. Non-U.S. stocks or bonds have risks tied to the political and economic stability of their country or region. And if the value of the foreign currency falls, the value of the stocks or bonds would also fall. In emerging markets (less developed countries), these risks may be even greater. Funds that focus on a narrow part of the economy—for example, real estate or health care—can fluctuate sharply in price. This makes them riskier than broadly based stock funds.

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