Retirement on the Brain

Basics of The Financial Markets

> What are "the markets"?
>
> Why does everyone follow the Dow Jones Industrial Average (Dow)?
>
> How do mutual funds work?

When you're putting away some of your hard-earned cash for retirement, it's helpful to know the answers to these questions, along with other information on how the financial world functions.

Basics of the Financial Markets, part of The Standard's Retirement on the Brain financial education series, helps you understand that people invest their retirement plan contributions in a range of financial investment options.

From trading spices in the ancient world to trading stocks on the Internet, the pursuit of profit spans the course of human history. At one time, salt was considered so valuable that Roman legionnaires were paid with it. Today salt can be purchased for pennies a pound, while products unimagined more than 2,000 years ago are considered valuable in our modern world.

You have an opportunity to share in the profit that today's markets produce by investing in your employer's retirement savings plan. This type of plan typically offers investments that range from low-risk cash equivalents to higher-risk mutual funds that invest in U.S. and foreign stocks.[1]

The financial markets are the foundation of the global economy, and millions of people participate. If that includes you, or if you're about to begin investing through your plan, read this primer on the markets.

1 International investing involves certain risks, such as currency fluctuations, economic instability and political developments. These risks may be accentuated in emerging markets.

What are "The Markets" Anyway?

The U.S. is home to three major stock markets, as well as a collection of other specialty exchanges.

Worldwide, there are numerous markets, from the London Stock Exchange to the emerging markets of Southeast Asia and Africa. Markets can be facilities with physical trading floors or networks of computers allowing real-time trading from all points of the globe.

New York Stock Exchange (NYSE): The largest stock market in the world traces its history to 1792, when 24 stock brokers signed a trade agreement underneath a buttonwood tree on Wall Street. Today shares in more than 3,000 companies, such as Coca-Cola Co. and General Motors Corp., are traded on a number of physical trading floors in various buildings.

NASDAQ (National Association of Securities Dealers Automated Quotations): The largest electronic stock exchange in the United States exists solely on a network of computers, where traders can compete against each other to purchase shares in more than 3,200 companies, such as Microsoft and Intel. Although it's known for technology stocks, the NASDAQ lists all types of companies.

NYSE American: NYSE American evolved from a group of brokers who gathered on the curb outside the NYSE to trade companies not qualified for the exchange. In 1921, the brokers opened shop as the New York Curb Exchange. In 2008, the NYSE bought NYSE American, but continues to operate it independently. It has a central trading floor like the NYSE, where stock in companies such as Alcoa and Intellicheck Mobilisa trade hands.

London Stock Exchange: Formed in 1760 by 150 traders who met at a local coffeehouse, the London Stock Exchange is now an international market with more than 2,800 companies.

Tokyo Stock Exchange: The Tokyo Stock Exchange opened in 1878. More than 140 years later, approximately 2,000 companies are traded through the exchange.

Why Is the Dow Such a Media Darling?

You've no doubt heard the news reports over the years: the Dow breaks the 40,000-point barrier. The Dow drops. The Dow bounces around."

The Dow, which is short for "The Dow Jones Industrial Average", is one of the oldest continuing U.S. market indexes. A market index tracks the performance of a group of investments, such as stocks or bonds, to represent a particular market or economic sector. Stock market indexes are used as benchmarks or indicators to gauge the overall health and direction of the global markets. They are also used to compare investment performance, and to assist in decision making.

Dow Jones Industrial Average: Follows the performance of 30 select stocks chosen from the nation's biggest companies. If you hold shares in a fund that invests in one or more of these companies, the performance of the Dow may be reflected in the performance of your fund. But because funds invest in many other companies, the change in value of your fund may not be as pronounced as the change in the Dow.

Standard & Poor's 500 Index: Measures the performance of the broad U.S. stock market, particularly the large-company segment. It is composed of 500 leading companies representing all major industries. Many funds attempt to replicate or closely track the S&P 500.

Significant Closing Dates

Date	First close over
Nov. 14, 1972	1,000 points
Nov. 21, 1995	5,000 points
March 29, 1999	10,000 points
May 7, 2013	15,000 points
Nov. 21, 2013	16,000 points
Dec. 26, 2023	40,000 points

In addition to periods of positive performance, the Dow also experiences periods of loss. Learn more about the Dow online: dowjones.com

Russell 2000® Index: The Russell 2000 Index is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell Index.

MSCI EAFE (Morgan Stanley Capital International Europe, Australasia and Far East): Represents the developed markets of the world, not including the United States, by way of an aggregate of 21 individual country indexes. It is widely accepted as a benchmark for international stock performance.

Barclays U.S. Aggregate Bond Index: Tracks the broad U.S. investment-grade bond market including government, corporate and mortgage-backed loans.

Get to Know the Dow a Little Better

The Dow Jones industrial average has tracked the performance of select stocks since Charles Dow created the index in 1896. Back then, 12 companies comprised the Dow.

Today, The Wall Street Journal maintains the Dow, and 30 companies are on the list. Today's index is a who's who of American business. Here's a partial list:

- American Express
- Boeing
- Chevron
- Coca-Cola
- Nike
- The Home Depot
- IBM
- McDonald's
- Wal-Mart

What About Investment Options?

It's been a long time since amber, that brownish-yellow resin now common in jewelry, was the most valued commodity on the planet. These days, valued commodities include investments, which can usually be described in three ways:

Cash Equivalents: Offer low risk and returns that have historically been at, or slightly above, the rate of inflation. Losing money is unlikely. However, returns may not stay ahead of inflation.

Bonds: Offer moderate potential return and less potential risk of loss of principal (the amount invested) than stocks.

Stocks: Offer the highest potential return – and the most potential risk to principal.

The chart below describes the key features of each investment category.

Mutual funds are a common type of investment option. Mutual funds purchase securities that create an investment portfolio based on a specific investment strategy. Investors then purchase shares of the fund.

Some mutual funds focus on different sectors of the economy, such as healthcare or real estate. Others concentrate on companies of a certain size.

Most mutual funds are automatically diversified among a number of individual securities. So if some securities perform poorly, those losses may be offset by other securities that perform better than expected. But be aware that diversification does not ensure a profit or protect against loss in a declining market.

Investment Category	Description	How Investors Make Money	How Investors Lose Money
Cash equivalents	This category usually includes a money market fund or stable value security. Designed to maintain a principal value that does not fluctuate.	Investors receive interest income and a return of their invested principal.	It is possible to lose money if the issuer defaults or returns only a portion of the amount invested.
Bonds	Companies, the U.S. government and various governmental units issue bonds (sometimes called fixed-income investments) to investors to raise money. When you purchase a bond, you are lending your money to the bond issuer for a certain period. The main reason bond prices move is changing interest rates. As interest rates rise, the prices of bonds fall.	Bonds pay interest to investors. The interest rate is usually fixed. Another way to make money from a bond is to sell it before maturity at a price higher than your purchase price.	If you sell a bond before maturity for less than you paid for it, you will lose money. It is possible to lose all the money invested in a bond if the bond issuer has severe financial problems and can't repay the debt.
Stocks	When you buy shares of stock (sometimes called equities) in a company, you become one of the owners of the company. Companies sell their stock to investors to raise money.	Stock investors can make a profit by selling their shares for more than the price they paid. Some companies also pay stockholders regular dividends from company earnings and profits.	Investors who sell their shares at a lower price than they paid lose some of their invested money. If the company issuing the stock goes bankrupt or greatly decreases in value, a shareholder could lose the entire amount invested.

Your plan may be funded by a mutual fund trust or a group annuity contract. Both are suitable for long-term investing, including saving for retirement. While annuities generally provide tax-deferred treatment of earnings, the group annuity contract does not provide any additional tax-deferred treatment beyond the treatment provided by your retirement plan.

When Is a Good Time to Be in the Market?

When it comes to saving for retirement, financial advisors say the longer you're invested, the better off you're likely to be. Long-term investing gives more time for potential growth and may absorb the ups and downs of the markets.

For your time in the market to pay off, however, you still need an investment strategy that's suitable for your risk tolerance, the time you have until retirement and other financial goals.

It's also important to stick with your strategy instead of chasing returns. The markets will always be subject to volatility. The same characteristics that allow the market to have dramatic growth also allow surprising declines. Things can change quickly.

That's one reason why a practice commonly known as "timing the market" has a tendency to backfire on investors. If you chase returns by moving your money around based on where the profits are, there are two common downsides.

First, you're more likely to buy high. Once you can discern a growth pattern in a particular sector or fund, the stock price has already inflated, and you'll pay more to buy than someone who was already invested before the trend started.

Second, if you move a lot of your money into a fund because it's pulling in good returns, you could lose big if the trend turns around.

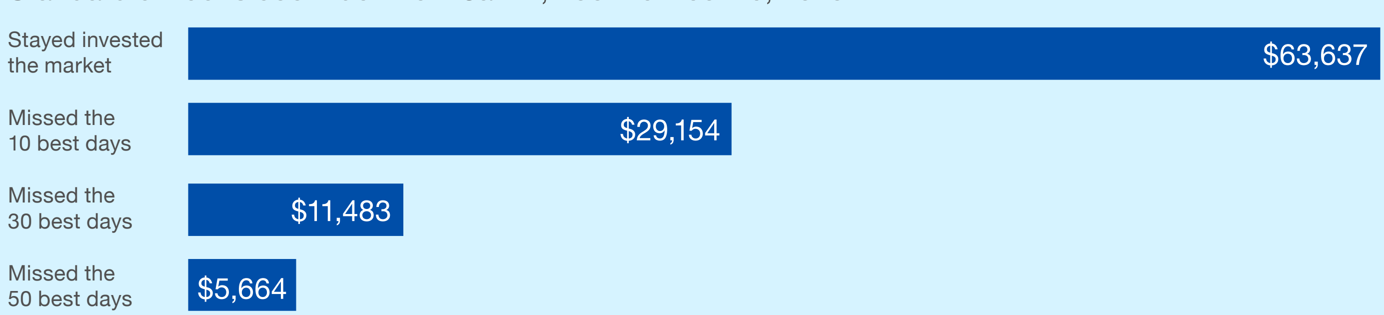
For an example of how this can backfire, think about the technology sector. In the late 1990s, tech funds were flying high, and many investors heavily weighted their portfolios in technology to take advantage of those returns. The tech-laden NASDAQ posted an astronomical return of 85.6 percent in 1999. But it didn't last.

Many investors who jumped on the bandwagon in 2000 lost large portions of their investments when the tech stocks collapsed and the NASDAQ posted a loss of 39.2 percent in 2000.

The moral is simple: Stick to a strategy that's right for you, and don't get caught in the chase.

It's Time in the Market that Counts

The following example illustrates the hypothetical growth of a $10,000 investment in the Standard & Poor's 500 Index from Jan. 1, 2004 to Dec. 29, 2023.



Source: JP Morgan Asset Management, 2024. This illustration is hypothetical and for illustrative purposes only and is not indicative of the performance of any specific investment. Past performance is no guarantee of future results. Investments are subject to market risk and fluctuate in value. The S&P 500 is an index of 500 widely traded stocks and is considered to represent the performance of the stock market in general. An investment cannot be made directly in an index.

The Standard | 1100 SW Sixth Avenue, Portland, OR 97204 | **standard.com**

Employers and plan participants should carefully consider the investment objectives, risks, charges and expenses of the investment options offered under the retirement plan before investing. The prospectuses for the individual mutual funds in the group annuity contain this and other important information. Prospectuses may be obtained by calling 877.805.1127. Please read the prospectus carefully before investing. Investments are subject to market risk and fluctuate in value.