

# The Basics of **Investing**

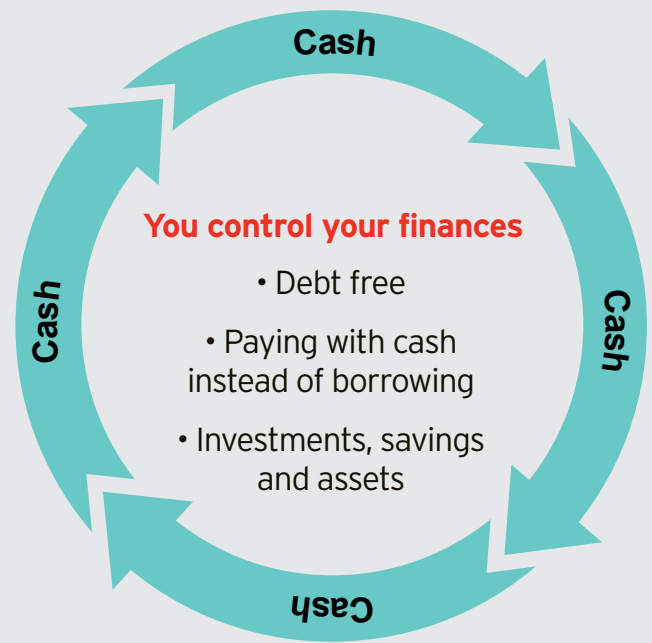


# Most American Families Live in a Debt Cycle vs. a Cash Cycle

## Debt Cycle:



## Cash Cycle:



Of all the threats to your financial security, none is more dangerous than debt.

The solution:

### STEP ONE:

#### **Pay yourself first**

Set up three fundamental accounts

+

### STEP TWO:

#### **Eliminate debt**

Set up a debt stacking program

# STEP ONE: Pay yourself first

## Three Fundamental Accounts



### 1 Emergency Account

**Goal:** Up to three months of income

- Emergencies
  - Vacations
  - Purchases within 0-2 years
- 



### 2 Short-Term Account

**Goal:** Up to six months of income

- Reserve for unforeseen events
  - Loss of job
  - Disabilities
  - Short-term purchases
  - Car
  - Down payment for a house
  - Purchases within 3-5 years
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### 3 Wealth-Building Accounts

**Goal:** Retirement Funds

- Roth or Traditional IRA\*
- 401(k), deferred comp, TSA, etc.\*
- Tax-deferred accounts\*

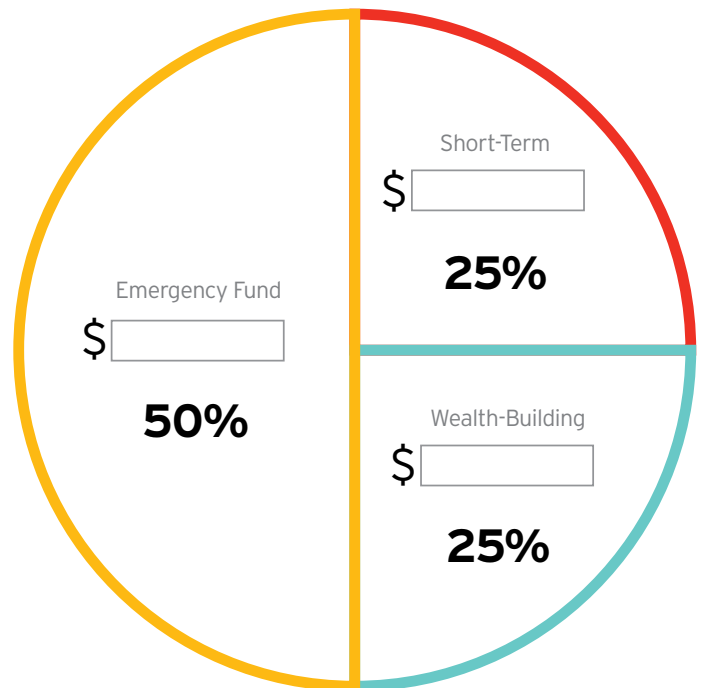
\* Withdrawals before 59½ may be subject to ordinary income tax and a 10% tax penalty. Consult with your tax advisor with questions regarding your situation.

Based on your total investment amount, allocate:

- **50% to your emergency account**
- **25% to your short-term account**
- **25% to your wealth-building account.**

Once emergency and short-term goals are satisfied, add those investment amounts to the wealth-building account.

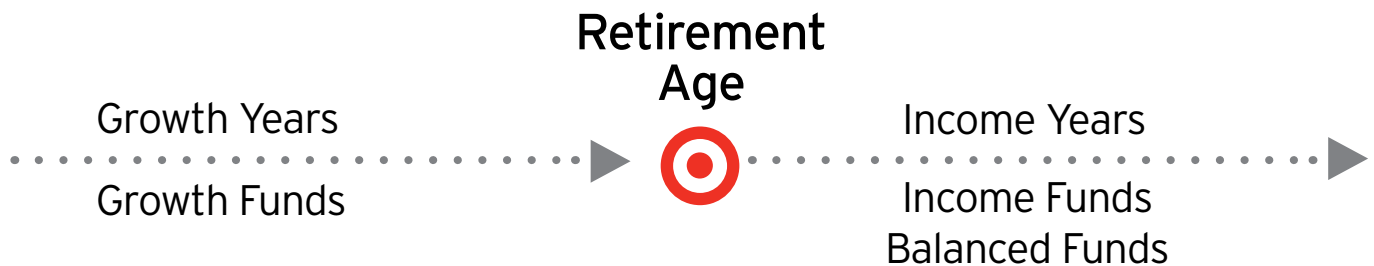
\$ \_\_\_\_\_  
**Total**



**1. Emergency Fund:** 100% Money Market Fund<sup>1</sup>

**2. Short-Term Fund(s):** Conservative Allocation<sup>2</sup>

### 3. Wealth-Building Concepts:



A **growth fund** invests primarily in the common stock of well-established companies. This type of fund may invest for long-term capital gains and is not intended for an investor who seeks income.

An **income fund** invests in either corporate, government, or municipal debt securities. A debt security is an obligation, which pays interest on a regular basis. This type of fund is designed for investors who desire periodic income payments. There are, however, substantial differences and varying degrees of risk among income funds depending on the credit quality of the debt issuer, the maturity of the debt instrument, and prevailing interest rates. Bond prices move in the

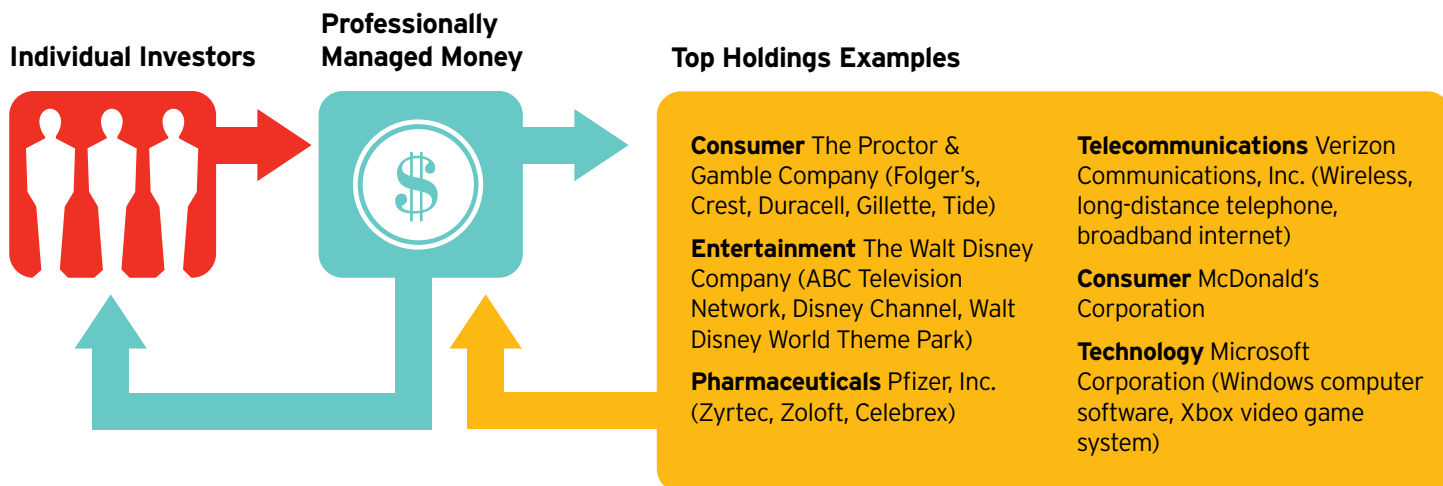
opposite direction of interest rates. In a declining interest rate environment, the portfolio may generate less income.

A **balanced fund** invests for both growth and income. The fund will invest in both equity and debt securities. A balanced fund seeks to provide long-term growth through its equity component as well as income to be generated by the portfolio's debt securities. The specific companies listed do not constitute a recommendation to buy or sell securities. Bond prices move in the opposite direction of interest rates. In a declining interest rate environment, the portfolio may generate less income.

<sup>1</sup> An investment in a money market is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.

<sup>2</sup> The shorter the time frame, the more conservative an allocation should be. Market fluctuations will affect the ability of your investment to reach your desired goal in a specified period of time. The value of mutual funds fluctuate and shares, when redeemed, may be less than the original value. Investments in mutual funds involve risk, including loss of principal.

# One of the Most Effective Long-Term Investment Vehicles



## Did you know the typical mutual fund holds more than 150 stocks on average?

The specific companies listed do not constitute a recommendation to buy or sell securities.

Note: Each mutual fund invests differently. Read the mutual fund's prospectuses to determine how a fund may invest and to determine its current holdings. Mutual funds are actively managed portfolios and incur advisory fees and internal management costs. The value of a fund fluctuates and, shares, when redeemed, may be less than the original value. Investments in mutual funds involve risk including loss of principal. Source: Morningstar. Average based on 3,276 U.S. domestic equity open-end funds.

## What Is a Mutual Fund?

A mutual fund is an opportunity for you, together with many other investors, to pool your money. Professional money managers invest the "pool" for you, keeping the investments under constant supervision. The money managers use their knowledge of securities and changing market conditions to invest the pooled assets in many different companies within a variety of industries.

### The Three "Ds" of Investing

A good way to keep your focus on your goals is to remember the three "Ds" of investing: Dollar-Cost Averaging, Discipline and Diversification.

#### Dollar-Cost Averaging

Dollar-cost averaging means investing a certain fixed amount each month, regardless of what's happening in the stock market. This eliminates having to predict when to invest as you will be able to take advantage of the market highs and lows – by purchasing fewer units when the prices are high and more units when the prices are low.

While dollar-cost averaging can't assure a profit or protect against loss, it does show how a systematic investing plan, sustained over a period of time has the potential to pay off, relieving your worries about whether the market is up or down.

#### Discipline

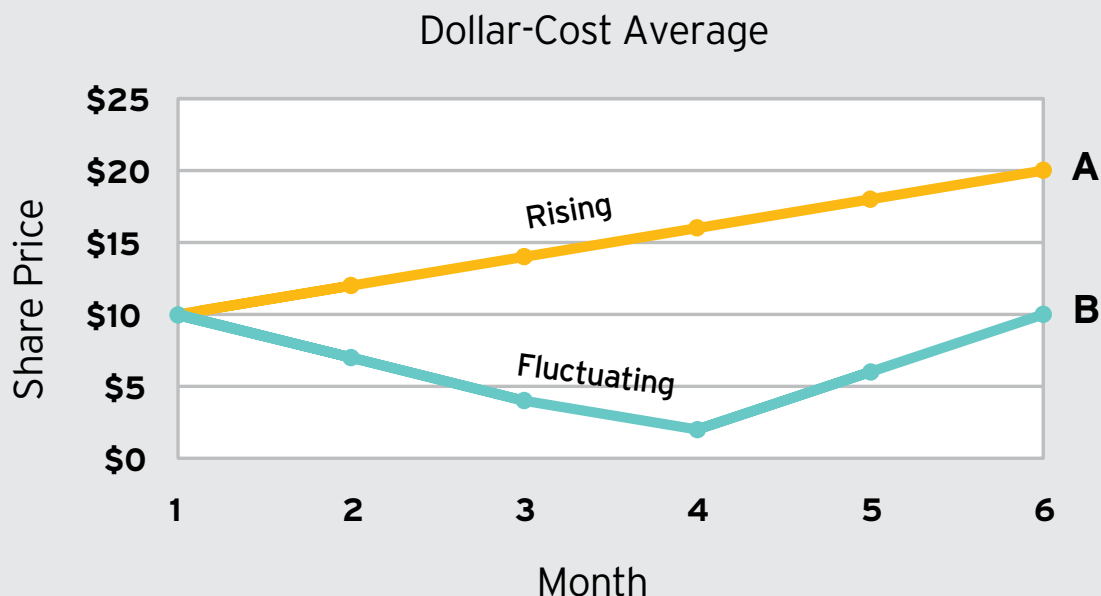
By staying focused and staying invested through all market activity, you can increase your long-term potential because missing even a handful of the best-performing days in the market over time can considerably diminish your returns. Experts say market "timing" is a bad way to invest. The key is to maintain a long-term view and stay focused on your goals.

#### Diversification

Because there is no single, perfect investment, take advantage of the next best thing which is to build your portfolio by balancing a variety of investments. Together these investments help you achieve your goals and reduce your portfolio's risk. This may also work to increase returns by offsetting losses in one asset class with an opportunity for gains in another. Diversification does not assure a profit or protect against loss.

Investing entails risk including loss of principal. Shares, when redeemed, may be worth more or less than their original value.

# Systematic Investing: Dollar-Cost Averaging



	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Number of Shares Accumulated
<b>Investor A</b>							
Invests \$100/month	Per share: \$10.00	\$12.00	\$14.00	\$16.00	\$18.00	\$20.00	<b>42</b>
	# of shares: 10.00	8.33	7.14	6.25	5.56	5.00	
<b>Investor B</b>							
Invests \$100/month	Per share: \$10.00	\$7.00	\$4.00	\$2.00	\$6.00	\$10.00	<b>126</b>
	# of shares: 10.00	14.29	25.00	50.00	16.67	10.00	

Amount Invested in 6 months	Number of Shares Accumulated	Avg. Cost Per Share
<b>A \$600</b>	<b>42.28</b>	<b>\$14.19</b>
<b>B \$600</b>	<b>125.95</b>	<b>\$4.76</b>

Dollar-cost averaging is a technique for lowering average cost per share over time. Dollar-cost averaging cannot assure a profit or protect against loss in declining markets. Investors should consider their ability to continue to invest in periods of low-price levels. These values are hypothetical and not intended to reflect any specific market period.

# STEP TWO: Eliminate debt

## Debt Stacking Can Lead to Debt Freedom

If the idea of paying off your debt seems overwhelming, consider debt stacking. They say you can eat an elephant – one bite at a time. Well, the same concept works with paying off your debt! By taking into account the interest rate and amount of debt, debt stacking identifies an ideal order for you to pay off your debts. You begin by making consistent payments on all of your debts.

The debt that debt stacking suggests that you pay off first is called your target account. There are programs you can enroll in that will automatically select your target account for you using a variety of criteria to help you get out of debt faster.

When you pay off the target account, you roll that payment into

the payment that you were making on the next target account. These extra dollars help you reduce the effect of compound interest working against you. As each debt is paid off, you apply the amount you were paying to that debt to the payment that you were making on the next target account.

Debt stacking allows you to make the same total monthly payment each month (in the example it is \$2,720 each month) toward all of your debt and works best when you do not accrue any new debts. You continue this process until you have paid off all of your debts. When you finish paying off your debts, you can apply the amount you were paying towards your debt toward creating wealth and financial independence!

### Debt Stacking ■ Target Account ■ Extra Debt Payment Amount

Retail Card 1 \$220			+\$220		As each debt is paid off, you apply the amount you were paying to that debt to the payment that you were making on the next target account.	
Credit Card 2 \$353	Credit Card 2 \$573	+\$573				
Car Loan \$551	Car Loan \$551	Car Loan \$1,124	+\$1,124			
Credit Card 1 \$303	Credit Card 1 \$303	Credit Card 1 \$303	Credit Card 1 \$1,427	+\$1,427		
Mortgage \$1,293	Mortgage \$1,293	Mortgage \$1,293	Mortgage \$1,293	Mortgage \$2,720		
<b>Total \$2,720</b>	<b>Total \$2,720</b>	<b>Total \$2,720</b>	<b>Total \$2,720</b>	<b>Total \$2,720</b>		

	Without Debt Stacking	With Debt Stacking
<b>Payoff</b>	<b>24 years, 3 months</b>	<b>9 years, 1 month</b> 182 Months Sooner
<b>Interest Saved</b>	<b>\$0</b>	<b>\$130,643</b>
<b>Interest Paid</b>	<b>\$214,432</b>	<b>\$83,789</b>
<b>Monthly Payments</b>	<b>\$2,720</b>	<b>\$2,720</b>

The above example is for illustrative purposes only. The Debt Stacking concept assumes that: (1) you make consistent payments on all of your debts, (2) when you pay off the first debt in your plan, you add the payment you were making toward that debt to your existing payment on the next debt in your plan (therefore you make the same total monthly payment each month toward your debts) (3) you continue this process until you have eliminated all of the debts in your plan. In the example above, when the retail card is paid off, the \$220 is applied to credit card 2, accelerating its payment to \$573. After credit card 2 is paid off, the \$573 is applied to the car loan for a total payment of \$1,124. The process is then continued until all debts are paid off. Note that the total payment per month remains constant.

# Set Up Your Program

Are you in a cash cycle or a debt cycle? Talk to your Primerica representative today about getting started on the right path. To get where you want to be, you need to take the first step. **Are you ready to get started?**

## 1. Implement your investment plan and pay yourself first

- Emergency account
- Short-term account
- Wealth-building accounts

## 2. Set up your Primerica DebtWatchers™ program

- Go to **my.primerica.com** and click on the **"Register"** link to set up a new account with Primerica.
- Click on the **"Activate"** button in the Primerica DebtWatchers™ / Score Power® section.
- Select the **"Activate Primerica DebtWatchers for the first time"** option and click continue.
- Enter your Primerica representative's five-digit alphanumeric solution number available below, provide some personal information and answer two authentication verification questions.
- Read the agreements and then enter your payment information.
- Click **"Access my product"** now and you're on your way!

My Primerica Representative

Name: \_\_\_\_\_

Phone Number: \_\_\_\_\_

Solution Number:

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