

**MetLife**

# Investing 101

Small Steps Can Make a Difference



## Today's Agenda

### **Saving vs. Investing**

#### **Investment Basics:**

- Cash
- Bonds
- Stocks

### **Mutual Funds**

### **Asset Allocation**

## Today's Agenda

What would you like to get out of today's session?



## What is the Difference Between Saving and Investing?



Saving



Investing

## The Long and the Short of it



### Saving

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Putting money aside in a safe place for short-term needs—like a bank account or a money market fund



### Investing

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Putting money aside in an effort to realize higher returns

## *The Basics*



**Cash Equivalents**



**Bonds**



**Stocks**

## Cash Equivalents

### Easy access to your money

➔ Investment that typically earns a fixed interest rate

- Savings accounts
- Certificates of Deposit (CDs)
- Treasury bills

➔ Preservation of principal

➔ Subject to inflation risk



#### Investment Products are not...

• Not FDIC / NCUSIF insured	• Not a Deposit Product	• May Lose Value	• No Bank / Credit Union / Affiliate Guarantee
• Not a Condition of Any Bank / Credit Union Service		• No Guarantee of Insurance Underwriter Performance	

## Inflation in Action

Purchasing power diminishes

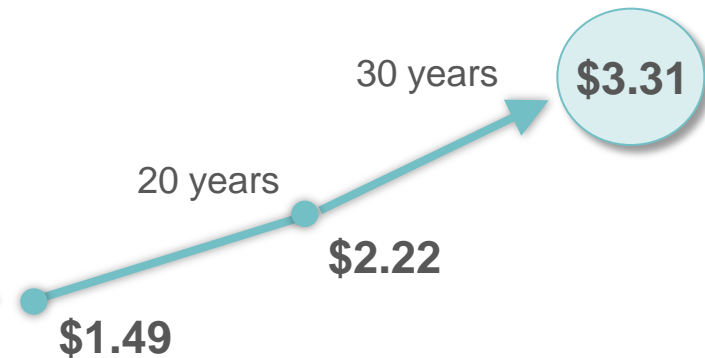
What will today's \$1 be worth in...10 years?



Two views of the same effect

Prices rise

A \$1 expense today may look like...in 10 years

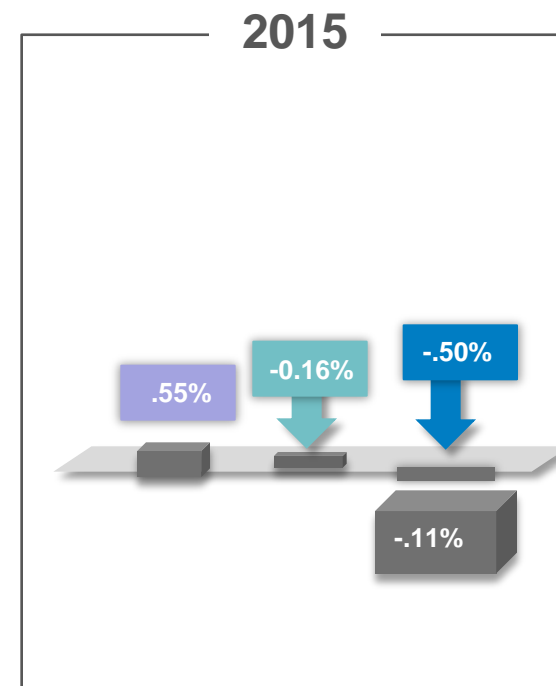
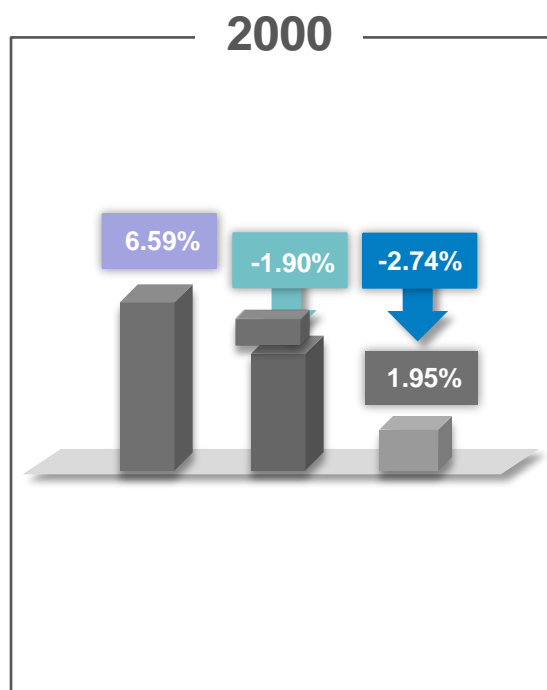
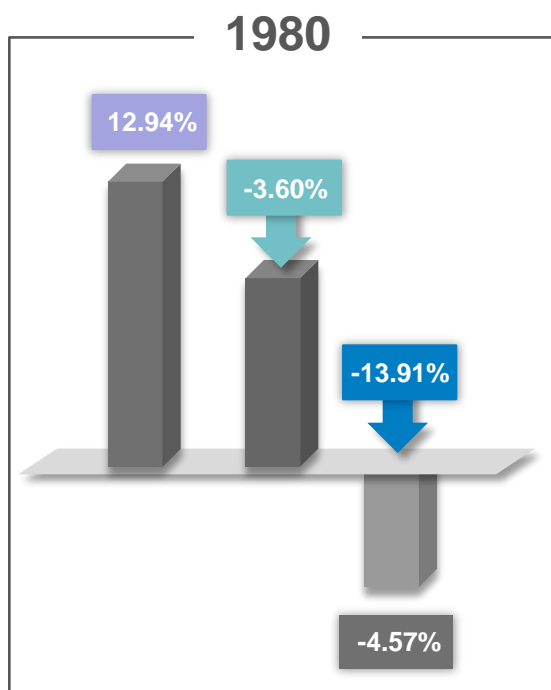


Note: These illustrations assume 4% inflation and monthly compounding from beginning of period.



## The Impact of Taxes + Inflation

$$\text{CD Rate} \textit{ minus Taxes} \textit{ minus Inflation} = \text{Real Rate of Return}$$



Source: 6-month secondary market CD, Federal Reserve Board–Bureau of Labor Statistics — Inflation rates Tax rates - median rate for married filing jointly — Tax Foundation  
 Stocks are represented by the S&P 500 Index; Bonds are represented by Barclays Capital Aggregate Bond Index. Cash is represented by the 30-Day Money Market Index and  
 Inflation is represented by the Consumer Price Index. Indexes are unmanaged and not available for direct investment.

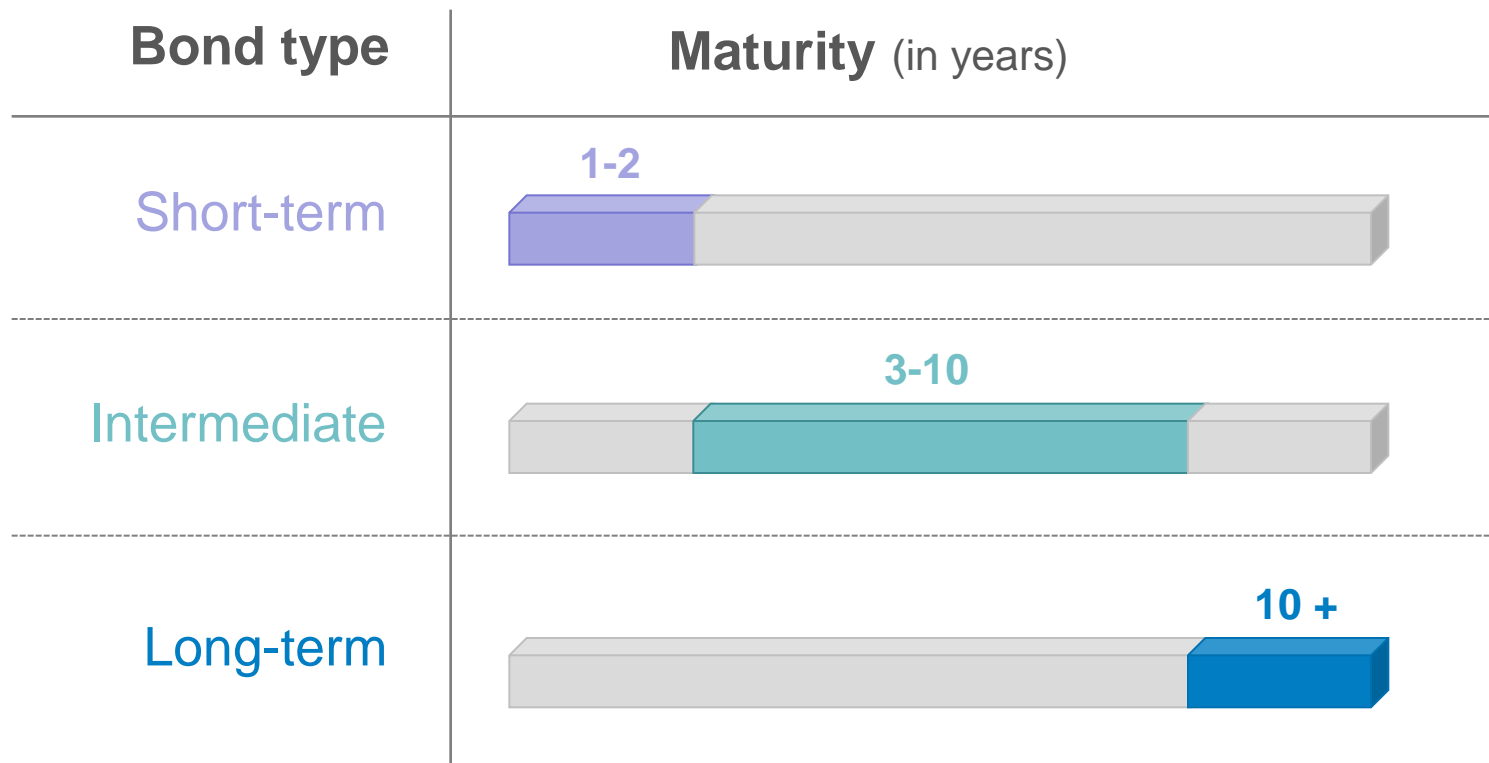
## Bonds

### Investor loans money in exchange for principal plus interest

- ➔ Subject to interest and credit-rate risk
- ➔ Income is fixed, value is not
- ➔ Bond prices usually *decrease* as interest rates **rise**
- ➔ Bond prices usually *increase* as interest rates **decline**
- ➔ Lower volatility than stocks
- ➔ Moderate income opportunities



## Maturity of Bonds



## Stocks

### Represent ownership in a company



Small-cap, mid-cap or large-cap and international stocks

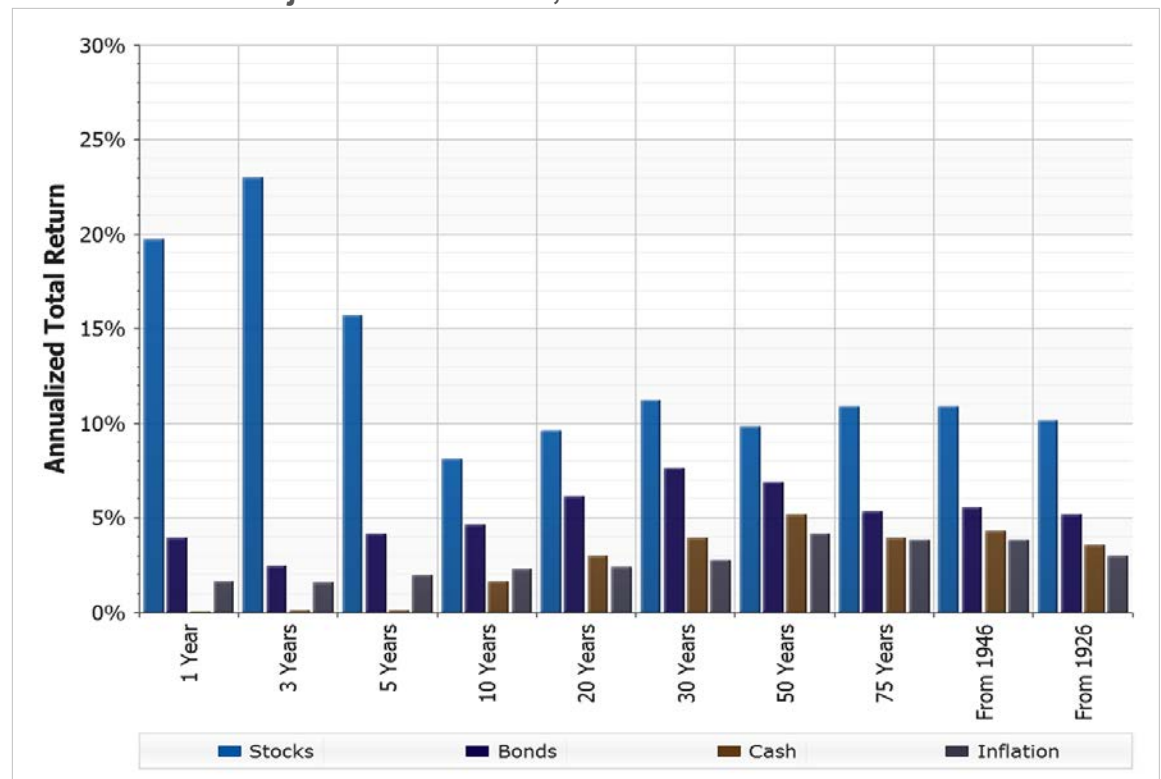
- Subject to market risk
- Growth potential



## Stocks Are Volatile, Long-Term Performers

*This chart shows the performance stocks, bonds, cash and inflation over various periods since 1926*

Major Asset Classes, Annualized Returns



\* From the period January 1, 1926 to June 30, 2015

## A Lot of Bull



**Increase in stock prices (Bull Market) is generally the result of:**

- ➔ Strong economy
- ➔ Low inflation/low interest rates
- ➔ Positive corporate earnings
- ➔ Strong cash flows
- ➔ Low unemployment

## Grin and Bear It

**Decline in stock prices (Bear Market) is generally the result of:**

- ➔ Slowing rate of earnings growth
- ➔ High inflation/high interest rates
- ➔ Increased consumer debt
- ➔ Climbing unemployment



## Types of Market Downturns

Correction?

Speculative Bubble?

Crash?



The foregoing discussion of market cycles is general in nature and not intended as specific advice. Neither MetLife nor its representatives are engaged in rendering tax, accounting or legal advice. A qualified professional should be consulted regarding the effect of such considerations on the matters covered in this publication. No reference to any MetLife product is intended.



## Types of Market Downturns

### Correction

*Sudden drop of 10%*

### Speculative Bubble

*Prices at unsustainable high levels*

### Crash

*Sudden drop of 20% or more*



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# What Should You do if the Stock Market Drops?



## How to Stay Focused When Your Stock Drops

### Tips for responding to stock market volatility:

- Don't Panic
- Carefully consider choices before shifting investments; moving at a low point can lock in losses
- Remember: Saving for retirement is long-term, designed to weather the market's ups and downs



## How to Stay Focused When Your Stock Drops

### 7 Years or Less Until Retirement

- Adjust your strategy to provide a larger degree of stability
- Estimate retirement income needs
- Analyze retirement distribution options

### 15 Years or More Until Retirement

- Maintain focus on long-term growth
- Consider adding more conservative fixed income investments to your portfolio
- Supplement retirement accounts with IRAs

## Mutual Funds

**Liquid investment that pools money from many people and invests in stocks, bonds or other securities.**

Shares represent proportionate ownership in the fund, which pursues specific investment objectives.

- ➔ Professional management
- ➔ Diversification
- ➔ Liquidity



## Four Basic Types of Mutual Funds

### Stock (Equity) Funds

- Growth, aggressive growth, global, specialty

### Balanced Funds

- Growth and income from stocks and bonds

### Bond and Income Funds

- Government, municipal, corporate, high-yield (junk bonds)

### Money Market Funds

- Cash, short-term income and savings

Money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although they seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.

## Fund Management Styles



### Active

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Manager uses research and market forecasts to try to beat the market

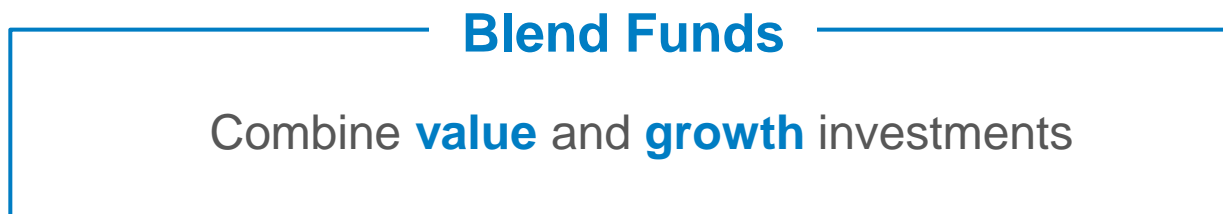
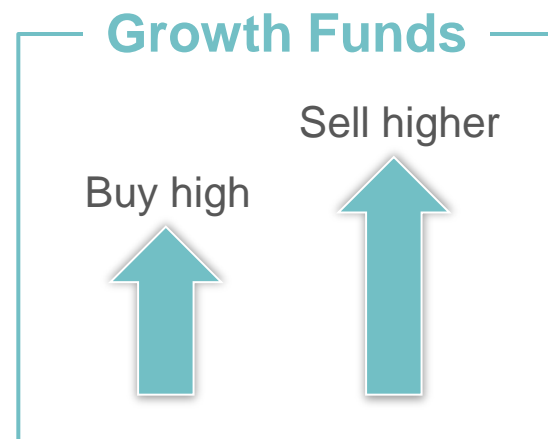
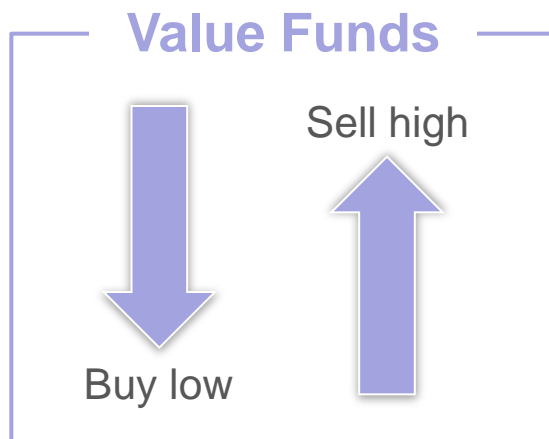


### Passive

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Manager invests in the same securities that make up the target index

## Investment Disciplines








# Asset Allocation Strategy



## How Asset Allocation Helps Investors

-  Reduce risks
-  Achieve more consistent returns
-  Decrease volatility

While diversification through an asset allocation strategy is a useful technique that can help manage overall portfolio risk and volatility, there is no certainty or assurance that a diversified portfolio will enhance overall return or outperform one that is not diversified. An investment made according to an asset allocation model neither guarantees a profit nor prevents the possibility of a loss.

## Minimize Your Risk with Diversification

Spread your investments across different asset classes:

Stocks



Bonds



Cash



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## Use Time, Life and Risk as Your Guide

### Time Horizon

- When will I need the money?

### Sensitivity to Risk

- Investment Risk
- Inflation Risk
- Interest Rate Risk
- Retirement Shortfall Risk

### Life Events

- College
- New Home
- Medical Care
- Starting a Family

### Personal Financial Situation

- Marital Status
- Income Level
- Other

## Creating a Long-Term Financial Strategy

- ➔ Retirement savings programs
- ➔ After-tax investments
- ➔ Life insurance
- ➔ College funding
- ➔ Long term care insurance



## Today's Agenda

What would you like to get out of today's session?



Questions?



## Mutual Funds

**Mutual funds are sold by prospectus only, which is available from your registered representative. Please carefully consider investment objectives, risks, charges, and expenses before investing. For this and other information about any mutual fund investment please obtain a prospectus and read it carefully before you invest. Investment return and principal value will fluctuate with changes in market conditions such that shares may be worth more or less than original cost when redeemed. Diversification cannot eliminate the risk of investment losses.**



## Tax Rates

Any tax rate used in these charts is a hypothetical tax rate as it might apply to one's marginal taxable income. Your actual income taxes in a given year may be higher or lower and can vary from year to year depending on your income level, sources and types of income, tax deductions, tax credits, state income taxes, applicability of Alternative Minimum Tax (AMT), and other factors that affect your tax rate. Tax laws are subject to change.

Currently reduced income tax rates apply to Long Term Capital Gains and certain eligible Dividends. Distributions from TSAs do not qualify for these reduced income tax rate. When you take distributions from an annuity all or a portion will be taxed as ordinary income and there may be an additional 10% federal tax penalty if you are under age 59 ½.

Accordingly, to the extent that the taxable account generates long-term capital gains and dividends, the effective tax rate may be significantly lower than the ordinary income tax rate applicable to the taxable portion of payments and withdrawals from annuity contracts. Currently, this reduction is set to sunset after 2010. Additional fees and charges on the actual investments selected would have the effect of reducing performance.

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