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Investing with Mutual Funds

Mutual funds can help you reach your short- and long-term financial goals. But before you invest in a fund, know what to look for.

You can't read an article, visit the Web or channel-surf without encountering advertisements for mutual funds. Indeed, an increasing number of Americans are investing for the future, and many are doing it through mutual funds.

But what, exactly, are mutual funds and how can people potentially benefit from investing in them? A mutual fund pools the money of thousands of investors and buys a broad portfolio of investments, such as stocks, bonds and money market instruments. Your investment buys shares in the fund, giving you partial ownership of the fund based on the number of shares you hold. As the mutual fund earns income on its investments, these earnings are distributed to you in the form of dividends. You can receive dividends as cash or reinvest them by buying more shares.

Because mutual fund portfolios are run by teams of experienced securities analysts and researchers, investing in a mutual fund gives you the potential to benefit from expert asset management. Whether you're saving for a house, a car, next year's tuition or some other goal, you can find mutual funds that are appropriate for your investment needs. However, before investing in a fund, read the fund's prospectus. The prospectus is like a road map: It provides information on the fund's objectives, the securities it invests in, fees and historical performance. Reviewing these factors can help you determine if the fund is a good match with your investment goals.

When reviewing mutual funds, here are some key issues to consider:

Investment objectives: Know which securities the fund invests in and how it invests in them, whether they're stocks, bonds, money market instruments or a combination. The fund that's best suited to your needs should be aligned with your investment goals, *risk tolerance* (your ability or willingness to endure declines in the prices of investments while waiting for the

prices to increase in value) and your *time horizon* (the number of years you'll be investing before you need the money, and how long you'll need the money to last).

Performance: Look at the fund's performance statistics for at least the last three years. But remember, past performance is no guarantee of future results. Also, look for stability in the management of the fund. Operational changes of the fund can affect future performance. For example, the investment advisor responsible for the fund's past success may no longer be managing the fund.

Risk: Read the prospectus carefully to learn about the fund's inherent risks. For example, funds with higher rates of return may take risks that make you uncomfortable or are inconsistent with your financial goals. For example, an international fund that invests primarily in foreign stocks will be susceptible to the political risks of the various countries. Generally, the potential return of any investment corresponds to its risk level.

Expenses and fees: All funds have expenses. But even small differences in fees or expenses can translate into much larger differences in returns over time. As a rule of thumb, consider no-load funds that are broadly diversified, and avoid funds with annual expenses over 1.00% of assets.

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