BUILDING BLOCKS FOR RETIREMENT

Investment Strategy

What's Your Investing Style?

Are you style conscious when it comes to fashion? What about when it comes to investing? Stock fund and portfolio managers follow different investing styles. Understanding them may help you make better investment choices.[1]

Off the Rack vs. Custom

One investment theory suggests that it's difficult to beat market performance, so investors might as well "buy the market." Known as passive investing, fund managers essentially aim to copy the performance of a market index (such as the S&P 500). The resulting funds, called index funds, hold the same securities in the same proportions as the indexes they follow. The only time managers switch investments is when the underlying index changes.[2]

Active investing, on the other hand, means that fund managers strive to outperform a market index. Managers take different approaches to accomplish that goal.

Some Like Growth

Managers who follow a growth style investing strategy favor the stocks of established companies that typically deliver above-average growth in earnings and profits. These companies generally reinvest their earnings, a sign that they intend to keep growing.

Some Prefer Value

Managers who follow a value style investing strategy look for undervalued stocks that the managers feel may be poised for a comeback. Value stock prices may be low for a number of reasons: a company's earnings may have fallen short of estimates, the stock may be temporarily out of favor, or the entire industry or sector may be troubled.

The Size Factor

In addition to growth and value strategies, some managers focus on company size through a measure known as market capitalization, or market cap. This refers to the total dollar value of a company's outstanding stock at a specific point in time. The dollar ranges to determine market cap aren't set in stone, but there are general definitions:

Large-cap stocks (blue chips) are stocks of the largest companies. They are generally well-known, established companies that have a significant share of the market for their products or services. Large caps are suitable for investors interested in the potential for long-term capital appreciation.

Midcap stocks, those of medium-size companies, tend to be more volatile than large-cap stocks, but also offer the potential for long-term growth.

Small-cap stocks are issued by small companies that are typically less well-established than larger firms. Small-cap stocks tend to be extremely volatile. Managers who favor small-cap stocks believe they offer the potential for rapid price appreciation.[3]

Source/Disclaimer:

[1]Investing in stocks involves risks, including loss of principal.

[2]Indexes are unmanaged. It is not possible to invest directly in an index. Past performance is not a guarantee of future results.

[3]Securities of smaller companies may be more volatile than those of larger companies. The illiquidity of the small-cap market may adversely affect the value of these investments.

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