

P I M C O



PIMCO EDUCATION



The What, Why and How of Investing

A company of **Allianz** 

This information is summary in nature and not intended to be all inclusive. This material does not take into account the objectives, financial situation or needs of any specific investor or class of investors. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest long-term, especially during periods of downturn in the market. No representation is being made that any account, product, or strategy will or is likely to achieve its objectives, generate profits, or avoid losses. Investors should consider the investment objectives, risks charges and expenses of any investment product before they invest or send money and consult an investment professional prior to making an investment decision.

pimco.com
blog.pimco.com
pimco.com/diverse-perspectives

What is an asset allocation?

Why worry about retirement investing now?

How do I pick an advisor?

Asking questions is the best way to gain understanding, but investors aren't always sure where to find answers.

This small book offers simple, practical responses to some of the most commonly asked questions about investing. It will introduce you to the fundamentals, including investing terms, concepts and strategies.

A woman with curly hair is smiling and hugging a man from behind. The man is wearing a blue shirt and has keys on his belt. They are in a room with several cardboard boxes, suggesting a move or a new home. The word "What?" is overlaid on the image.

What?

What is investing?

Investing is the act of committing money now (for example buying shares in a company) with the goal of receiving more money in the future.

What?

What are stocks?

Stocks are a unit of ownership in a company. Companies issue shares of stock to raise money. The initial price of a share is based on a company's estimated worth. After that, the price fluctuates based on supply and demand for the shares by investors.

What?

What are bonds?

Bonds represent a loan or a way to borrow money.

A company, state or government issues bonds to raise money. The issuer agrees to pay periodic interest payments for the term of the bond and to pay back the full amount borrowed at the end of the bond's life (called maturity).

What?

What is a portfolio?

An investment portfolio is a collection of investments. An investor can buy a single security (for example a stock or a bond) or they can hold numerous securities in a portfolio.

What?

What is asset allocation?

Asset allocation is how an investor distributes their money between different types of investments, such as stocks, bonds and cash. Asset allocation can help balance a portfolio's risk and return (a strategy known as diversification).

What?

What are mutual funds?

Mutual funds are investments that pool money from many investors to buy securities, such as stocks or bonds. An investor buys a share in the fund (and does not directly own any of the actual securities in the fund). The price of a share (called its net asset value or NAV) is the combined value of all of the securities in the fund divided by the number of shares outstanding. The price fluctuates daily with the changing prices of the securities.

What?

What are exchange-traded funds?

Exchange-traded funds, or ETFs, are investments that pool money from many investors to buy securities, such as stocks or bonds, similar to mutual funds. But, unlike mutual funds, ETFs trade like a common stock on a stock exchange. Because ETFs trade on an exchange, they allow for intraday tradability and offer transparency. The price of an ETF may fluctuate throughout the day as they are bought and sold.

What?

What is a benchmark?

A benchmark is a standard against which to measure investment performance. In most cases, an investment's benchmark is a market index or a combination of indexes. An index tracks the performance of a selected basket of securities, such as all listed stocks or all government bonds. Indexes are unmanaged and an investor cannot invest directly in an index.

What?

What is active management?

Active management is an investment strategy where the manager of the portfolio seeks to select securities and initiate trades with the goal of achieving the investment objective. In contrast, passive management is an investment strategy where the manager typically seeks to buy and hold a portfolio that represents a benchmark in an effort to track benchmark performance.

What?

What return can I expect from my investment?

It is impossible to accurately predict future returns. Over the last 20 years, stocks (as measured by the S&P 500 Index) returned an average of 9.80% per year and bonds (as measured by the Bloomberg U.S. Aggregate Bond Index) returned an average of 3.10% per year.* It is important to note that past performance is no guarantee of future results.

*As of 31 December 2022.

What?

What is risk tolerance?

All investments carry some degree of risk. These risks include the chance that an investor will lose the money they invested. Investors generally require more return potential to take on more risk. Each investor must determine how much risk they are comfortable with – their risk tolerance level.

What?

What is volatility?

The price of a security (such as a share of stock and a bond) goes up and down based on supply and demand pressures from investors. Volatility measures how much a security's price typically fluctuates.

What?

A woman with dark hair, wearing a dark blue cardigan with a floral pattern and a white top, is using a handheld barcode scanner on a smartphone. She is smiling and looking towards the left. The background is a warm, indoor setting with many green plants and a wooden ceiling. The word "Why?" is overlaid in white text in the center of the image.

Why?

Why invest?

Investing can help individuals reach their financial goals. Individuals may invest to increase their wealth (called capital appreciation), generate income or maintain the money they have (capital preservation).

Why?

Why not keep my money in cash?

Individuals are sometimes tempted to keep the bulk of savings as cash or in other short-term investments (such as CDs and money markets) to reduce their risk levels. But, these investments typically offer the lowest return potential, making it difficult to reach financial goals.

Why?

Why work with financial professional?

The financial markets are increasingly complex.

Individuals may not have the time or interest in staying on top of changing conditions and actively managing a portfolio. A financial advisor can offer these individuals important benefits, including helping to develop custom investment plans, recommending specific investments, and monitoring markets and portfolio performance.

Why?

Why diversify my portfolio?

Diversification is an investment strategy that helps spread out risk exposures by investing a portfolio across different asset classes. In this way, if any single investment or asset class does badly others might compensate by performing well, potentially smoothing returns overall.

Why?

Why start investing early?

Time can be a big advantage in investing. An investor who starts early and invests consistently can accumulate more assets. In addition, the longer time frame may allow an investor to better ride out volatility and to potentially realize the benefits of compounding. Compounding is when earnings on an investment are reinvested in the investment, potentially generating additional earnings.

Why?

Why is consistency important?

Market conditions change. Security prices go up and down. Investors may be tempted to try and time when to buy and sell investments, but history shows that creating a plan and sticking with it is most often a smarter strategy.

Why?

Why worry about retirement now?

People are living longer, meaning many individuals may spend decades in retirement. Financing those years will require sufficient retirement savings. The sooner an individual starts investing for retirement the better, especially if the investments can be done within a retirement account (such as an IRA or a 401(k) available to investors in the U.S.). There are restrictions, but many contributions to a retirement account are tax deferred in the U.S. until they are withdrawn in retirement.

Why?

A photograph of two women in a cafe setting. One woman is seated on a wooden stool, wearing a dark blue blazer and jeans, holding a red tablet. The other woman stands behind her, wearing a red leather jacket and a striped skirt. They are both looking at the tablet. The background features a bar with shelves of bottles and a window with a view of the street.

How?

How do I get started?

The first step is decide how involved an individual wants to be in selecting and managing their investments, or if they'd rather work with a financial advisor. In either case, an individual will need to identify their investment goal (what you need the money for, such as financing a child's college education or retirement), their investment timeframe (how long until you need the money) and their risk tolerance. With that information the investor (and their advisor if they have one) can develop an investment plan.

How?

How much do I need to start investing?

An individual should be able to cover their necessary expenses and have some money set aside for an emergency before investing. Any money after that can be invested. Beginning investors may want to consider investing 10% of their income (including contributions to a retirement account).

How?

How can I grow my invested assets?

Investors primarily interested in growing their assets are likely pursuing a capital appreciation strategy. Capital appreciation is an increase in the price or value of an investment. Stocks have historically provided the best opportunity for capital appreciation over time, but bonds can also offer appreciation potential. There are no guarantees that the value of stock or bond investments will appreciate and in fact they can lose value.

How?

How can I preserve my money?

Investors primarily interested in maintaining the principle value of their money are pursuing a capital preservation strategy. Historically less risky investments such as CDs, money market accounts, and interest bearing bank accounts can maintain their value, but offer low return potential. For an increased risk, bonds can offer return potential that will help investors keep pace with inflation and move towards financial goals. All investments involve risk and there are no guarantees that bonds or any other investment will deliver a positive return or that they will not lose money.

How?

How can I generate income?

Investors interested in income may consider several strategies, including dividend-paying stocks, bonds and short-term investments. Selecting the appropriate strategy will depend on an individual's situation, including the amount of income needed, their investment time frame and their risk tolerance.

How?

How do I balance short- and long-term goals?

Most individuals are investing for more than one goal. These can include longer-term goals such as accumulating assets for retirement and more immediate goals such as generating income to supplement earnings. Investors may be tempted to prioritize short-term goals, but it is important to take advantage of time to achieve long term goals. A professional financial advisor can be helpful in balancing these goals and selecting appropriate investments to pursue both.

How?

How do I manage volatility?

Investors who are uncomfortable with volatility can adopt one or more strategies that may help reduce it. These include focusing on less volatile types of securities (such as certain types of bonds) and diversifying money across investments. There is no guarantee that any of these strategies will reduce or eliminate volatility.

How?

How often should I check and/or change my investments?

Scrutinizing every fluctuation in the market or in the value of an investment can create a lot of anxiety.

Investors may instead want to set a schedule to review performance and make any adjustments. It is important to keep in mind, however, that a disciplined approach to a long-term investment strategy may yield the best results.

How?

How do I choose an advisor?

Investors looking for a financial advisor will want to ensure that they do their due diligence. Make sure the individual is licensed and that he or she has references. Ask about their investment philosophy, their services, their fee structure and their availability. Beyond that, selecting a financial professional should be a very personal process.

How?

How can I learn more about investing?

There is no end of available information on investing, from educational content to current analysis. The challenge is finding a reliable, relatable source. Individuals who would like to continue their education journey with PIMCO can visit pimco.com/resources/education.

How?

All investments contain risk and may lose value. Investing in the **bond market** is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and low interest rate environments increase this risk. Reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. **Equities** may decline in value due to both real and perceived general market, economic and industry conditions. **Asset allocation** is the process of distributing investments among various classes of investments (e.g., stocks and bonds). It does not guarantee future results, ensure a profit or protect against loss. **Diversification** does not ensure against loss.

Bloomberg U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

S&P 500 Index is an unmanaged market index generally considered representative of the stock market as a whole. The Index focuses on the large-cap segment of the U.S. equities market. It is not possible to invest directly in an unmanaged index.

This material contains the current opinions of the manager and such opinions are subject to change without notice. This material is distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed.

PIMCO as a general matter provides services to qualified institutions, financial intermediaries and institutional investors. Individual investors should contact their own financial professional to determine the most appropriate investment options for their financial situation. This is not an offer to any person in any jurisdiction where unlawful or unauthorized. | **Pacific Investment Management Company LLC**, 650 Newport Center Drive, Newport Beach, CA 92660 is regulated by the United

States Securities and Exchange Commission | **PIMCO Europe Ltd (Company No. 2604517, 11 Baker Street, London W1U 3AH, United Kingdom)** is authorised and regulated by the Financial Conduct Authority (FCA) (12 Endeavour Square, London E20 1JN) in the UK. The services provided by PIMCO Europe Ltd are not available to retail investors, who should not rely on this communication but contact their financial adviser. | **PIMCO Europe GmbH (Company No. 192083, Seidlstr. 24-24a, 80335 Munich, Germany), PIMCO Europe GmbH Italian Branch (Company No. 10005170963, Corso Vittorio Emanuele II, 37/Piano 5, 20122 Milano, Italy), PIMCO Europe GmbH Irish Branch (Company No. 909462, 57B Harcourt Street Dublin D02 F721, Ireland), PIMCO Europe GmbH UK Branch (Company No. FC037712, 11 Baker Street, London W1U 3AH, UK), PIMCO Europe GmbH Spanish Branch (N.I.F. W2765338E, Paseo de la Castellana 43, Oficina 05-111, 28046 Madrid, Spain) and PIMCO Europe GmbH French Branch (Company No. 918745621 R.C.S. Paris, 50-52 Boulevard Haussmann, 75009 Paris, France)** are authorised and regulated by the German Federal Financial Supervisory Authority (BaFin) (Marie-Curie-Str. 24-28, 60439 Frankfurt am Main) in Germany in accordance with Section 15 of the German Securities Institutions Act (WpIG). The Italian Branch, Irish Branch, UK Branch, Spanish Branch and French Branch are additionally supervised by: (1) Italian Branch: the Commissione Nazionale per le Società e la Borsa (CONSOB) (Giovanni Battista Martini, 3 - 00198 Rome) in accordance with Article 27 of the Italian Consolidated Financial Act; (2) Irish Branch: the Central Bank of Ireland (New Wapping Street, North Wall Quay, Dublin 1 D01 F7X3) in accordance with Regulation 43 of the European Union (Markets in Financial Instruments) Regulations 2017, as amended; (3) UK Branch: the Financial Conduct Authority (FCA) (12 Endeavour Square, London E20 1JN); (4) Spanish Branch: the Comisión Nacional del Mercado de Valores (CNMV) (Edison, 4, 28006 Madrid) in accordance with obligations stipulated in articles 168 and 203 to 224, as well as obligations contained in Title V, Section I of the Law on the Securities Market (LSM) and in articles 111, 114 and 117 of Royal Decree 217/2008, respectively and (5) French Branch: ACPR/Banque de France (4 Place de Budapest, CS 92459, 75436 Paris Cedex 09) in accordance with Art. 35 of Directive 2014/65/EU on markets in financial instruments and under the surveillance of ACPR and AMF. The services provided by PIMCO Europe GmbH are

available only to professional clients as defined in Section 67 para. 2 German Securities Trading Act (WpHG). They are not available to individual investors, who should not rely on this communication. | **PIMCO (Schweiz) GmbH (registered in Switzerland, Company No. CH-020.4.038.582-2, Brandschenkestrasse 41 Zurich 8002, Switzerland).** The services provided by PIMCO (Schweiz) GmbH are not available to retail investors, who should not rely on this communication but contact their financial adviser. | **PIMCO Asia Pte Ltd** (Registration No. 199804652K) is regulated by the Monetary Authority of Singapore as a holder of a capital markets services licence and an exempt financial adviser. The asset management services and investment products are not available to persons where provision of such services and products is unauthorised. | **PIMCO Asia Limited** is licensed by the Securities and Futures Commission for Types 1, 4 and 9 regulated activities under the Securities and Futures Ordinance. PIMCO Asia Limited is registered as a cross-border discretionary investment manager with the Financial Supervisory Commission of Korea (Registration No. 08-02-307). The asset management services and investment products are not available to persons where provision of such services and products is unauthorised. | **PIMCO Investment Management (Shanghai) Limited** Unit 3638-39, Phase II Shanghai IFC, 8 Century Avenue, Pilot Free Trade Zone, Shanghai, 200120, China (Unified social credit code: 91310115MA1K41MU72) is registered with Asset Management Association of China as Private Fund Manager (Registration No. P1071502, Type: Other) | **PIMCO Australia Pty Ltd** ABN 54 084 280 508, AFSL 246862. This publication has been prepared without taking into account the objectives, financial situation or needs of investors. Before making an investment decision, investors should obtain professional advice and consider whether the information contained herein is appropriate having regard to their objectives, financial situation and needs. | **PIMCO Japan Ltd**, Financial Instruments Business Registration Number

is Director of Kanto Local Finance Bureau (Financial Instruments Firm) No. 382. PIMCO Japan Ltd is a member of Japan Investment Advisers Association, The Investment Trusts Association, Japan and Type II Financial Instruments Firms Association. All investments contain risk. There is no guarantee that the principal amount of the investment will be preserved, or that a certain return will be realized; the investment could suffer a loss. All profits and losses incur to the investor. The amounts, maximum amounts and calculation methodologies of each type of fee and expense and their total amounts will vary depending on the investment strategy, the status of investment performance, period of management and outstanding balance of assets and thus such fees and expenses cannot be set forth herein. | **PIMCO Taiwan** Limited is an independently operated and managed company. The reference number of business license of the company approved by the competent authority is (110) Jin Guan Tou Gu Xin Zi No. 020. The registered address of the company is 40F., No.68, Sec. 5, Zhongxiao East Rd., Xinyi District, Taipei City 110, Taiwan (R.O.C.), and the telephone number is +886 2 8729-5500. | **PIMCO Canada Corp.** (199 Bay Street, Suite 2050, Commerce Court Station, P.O. Box 363, Toronto, ON, M5L 1G2) services and products may only be available in certain provinces or territories of Canada and only through dealers authorized for that purpose. | **PIMCO Latin America** Av. Brigadeiro Faria Lima 3477, Torre A, 5° andar São Paulo, Brazil 04538-133. | No part of this publication may be reproduced in any form, or referred to in any other publication, without express written permission. PIMCO is a trademark of Allianz Asset Management of America LLC in the United States and throughout the world.
©2023, PIMCO.

PWIG_3273724

CMR2023-0424-2864723