



10 Key Lessons From PORTFOLIOS™

INVESTMENT SIMULATION GAME

1. Invest to put your money to work making more money.
2. How much you make (or lose) depends on the rate of return you earn on the assets (stocks, bonds, etc.) you invest in.
3. Money market funds are considered safe (because their price doesn't change) but they have lower rates of return.
4. Bonds usually have a higher rate of return than money market funds, but they can lose money. If interest rates go up, the price of a bond goes down and vice versa.
5. Stocks usually have higher returns than money market funds and bonds over the long run. In the short run, stocks can lose money.
6. You can't control where interest rates are going or what the stock market will do. What you can control is your asset allocation - the mix of stocks, bonds and other assets in your portfolio.
7. Define your investment goal and choose an asset allocation mix to match your goal
8. Allocating a large percentage of your portfolio to one investment is gambling, not investing. The simple way to reduce risk is to spread your investments out - diversify.
9. The real power of investing happens when you take the money you make and put it to work to make even more money. This compounding of returns is so powerful that Einstein called it the 8th wonder of the world?
10. Starting to invest early and making regular contributions to an investment portfolio or retirement plan will allow the magic of compounding to work and help secure your financial future.

Some Investment Basics

The Investment Process

Investing involves putting money to work to make more money. The amount of money you make (or lose) depends on the rate of return of the assets (stocks, bonds, etc.) that you invest in and how long you let it work.

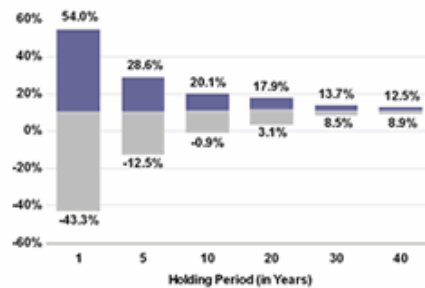
Let's look at an example. Let's invest \$1,000 each in different asset classes - t-bills, stocks and bonds. In each asset class we earn a rate of return and the moneys grow over the span of one year. Now, let's look at the magic of compounding - Einstein's 8th wonder of the world:

INVEST ASSET	\$1,000	\$1,000	\$1,000
RATE OF RETURN	T-Bills 3.70%	Bonds 5.30%	Stocks 10.40%
VALUE in 1 year	\$1,037	\$1,053	\$1,104
Value after COMPOUNDING over TIME			
10 years	\$1,438	\$1,676	\$2,690
20 years	\$2,068	\$2,809	\$7,234
30 years	\$2,974	\$4,708	\$19,457
40 years	\$4,277	\$7,891	\$52,331

Remember lesson #10 from Portfolios ... Starting to invest early and making regular contributions to an investment portfolio or retirement plan will allow the magic of compounding to work and help secure your financial future.

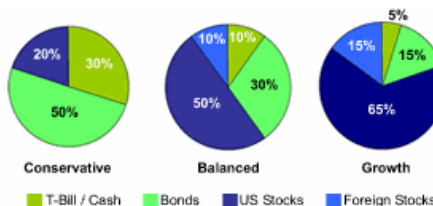
Risk

Owning stocks can be very risky in the short run, but the risk decreases over longer holding periods. The chart shows the best and worst returns for different holding periods.



Asset Allocation

Investors control risk through asset allocation. Your asset allocation strategy should be matched to your investment goals. A conservative strategy is best suited to a short investment time horizon. Over longer time periods, a growth strategy with a higher allocation of stocks is often appropriate.



CREW CAPITAL

DECISION TRAP #5 SHOOTING FROM THE HIP

Investors are subject to a number of "decision traps" that get in the way of making sound financial decisions. One classic investing mistake is to fail to follow a disciplined process and instead rely on intuition.

To see how powerful intuition can be - and how wrong - try your hand at the following.

The Monty Hall Problem

Suppose you were on a game show and you're given the choice of three doors. Behind one door is a car; behind the others, goats. You pick Door Number 1 but, before opening it, the host, who knows what's behind each door, opens Door Number 3 to reveal a goat. He turns to you and says, "Are you sure? Do you want to pick Door Number 2 instead?"

Is it to your advantage to switch your choice?

Source: Craig F. Whitaker, Ask Marilyn, Parade Magazine

What does your intuition tell you about your odds of winning if you switch your choice?

If you're like most people, you'll be pretty convinced it's 50/50. It's not. In fact, if you switch your choice, your actual odds of winning are 2 out of 3!

Hard to believe? Yes, but no harder to believe than that a diversified portfolio of stocks can be less risky than a money market fund if your goal is to have enough money to retire.

To learn more about this and other common investment "decision traps", please contact Rob Jung at:

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