Understanding the Basics of Investing

Start With The Basics

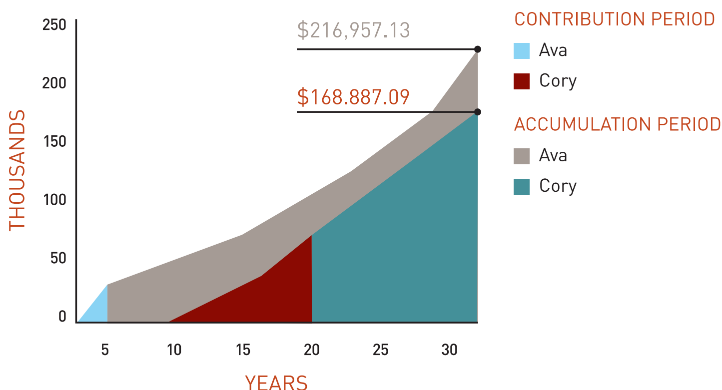
Imagine you have decided you are ready to buy a new car. You are visiting a dealership and the salesperson asks you a series of questions. Two doors or four? Manual or automatic transmission? Leather or cloth interior? Once you understand these options, you can be sure to drive off in the vehicle that best fits your needs.

Choosing your investments is no different. Understanding basic investment concepts can help you make educated investment decisions and create the best vehicle to meet your needs.

BASIC 1: COMPOUNDING

Compound returns on your investment offer one of the most powerful ways to build wealth. Compounding means that your interest earns interest. So, the longer you save, the longer your money has to compound and the longer it works for you.

In the hypothetical illustration below, Ava starts contributing to an IRA at age 25. She invests the maximum annual amount of $5,500 for five years, making a total contribution of $27,500. Cory waits until he is 35 and invests $5,000 annually into an IRA over a 10-year period, making a total contribution of $50,000.



At the end of the thirty-year period, Ava has accumulated assets of $216,957.13, while Cory invested twice as much, for twice as long and accumulated only $168,887.09. This example reinforces the concept that time is on your side.

This hypothetical example assumes an 8% rate of return and reinvestment of all dividends, and it is not indicative of an investment in the PNC Funds. Please keep in mind that mutual fund investing involves risk.

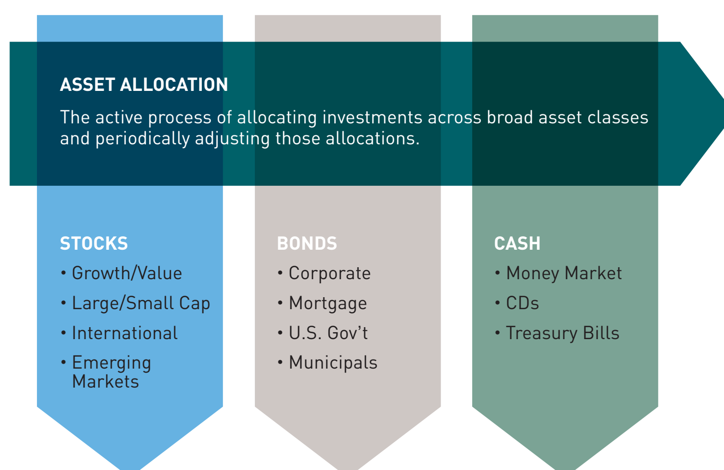
BASIC 2: INFLATION

When reviewing your investment strategy and assessing your future expenses, don't forget about the effects of inflation. Over time, an increase in the prices of goods and services reduces your purchasing power and standard of living. Consider that the rate of inflation has been approximately 3% since 1926. Project 3% into the future and one dollar today would buy only 97 cents worth of merchandise next year. In two years, that dollar would be worth only 94 cents. And, over 30 years, that dollar would be worth only 41 cents.

Though historical inflation figures are not guarantees of price increases in the future, and it is unlikely that inflation will increase at the same rate each year, it is important that you account for inflation when creating an investment plan to cover your future expenses.

BASIC 3: ASSET ALLOCATION

Everyone needs help enduring the market's ups and downs. Diversification is a strategy that involves spreading your dollars among stocks, bonds, and cash in an effort to offset the risks associated with any single investment. Carry diversification a step further, and you have asset allocation, a proven investment process that determines how your money should be divided among the various asset classes. Asset allocation can help you pursue an investment return consistent with your goals, your time horizon, and your risk tolerance.[1]



1 While asset allocation does not guarantee a profit or protect against a loss in a declining market, it is a widely used strategy by long-term investors.

PNC FUNDS

BASIC 3: ASSET ALLOCATION [CONTINUED]

STOCKS

Companies issue, or sell, stock to the public to raise capital for their business. When you buy stock in a company, you become a shareholder of that company.

Some corporations pay dividends as well. A dividend is a portion of a company's profits paid to investors. Many stocks provide both the potential for growth through price appreciation and income from dividends. If a company issuing stock does not perform well, the stock may decrease in value.

Stocks have more potential for price fluctuation – or volatility – than bonds or cash. Therefore, stocks are regarded as the asset class with the highest level of risk. Historically, this risk has been rewarded with higher rates of return over the long term, though the ride can be bumpier. Stocks can be categorized by the size of the company, their strategy and objective, their growth phase or industry.

Most stocks are categorized either as growth or value stocks. Growth stocks commonly offer higher potential for price appreciation but usually at above-average risk. Value stocks typically reflect a stock price lower than its obvious value, even though the company's business model is sound. Investors may see a value stock as a long-term buying opportunity. Generally value-oriented stocks pay higher dividends than growth stocks. A blended portfolio invests in both growth and value stocks.

BONDS

When you buy a bond, you lend money to a corporation or government entity for a specific period of time. The issuer of the bond promises regular income payments in the form of interest to the investor in exchange for use of the money. The agreed upon interest rate and life span of the bond – or maturity – are set when the bond is issued. This is why bonds are often referred to as fixed income investments.

The value of a bond moves opposite to changes in interest rates. Because of this risk, bonds are considered to be less risky than stocks but riskier than cash. Investors are compensated for this risk with the payment of interest and, to a small degree, a capital gain (or potential capital loss).

Types of bonds vary by the organization that issues them, by their credit quality and by the maturity of the bond.

CASH

The asset class that carries the least amount of risk is referred to as cash, cash equivalents or money market funds. Money market funds invest in such instruments as U.S. Treasury bills, certificates of deposit, savings deposits or short-term debt of corporations. They generally have low risk, are usually valued at a fixed price of $1.00, and thus have low potential return. Typically the underlying securities that make up a cash or money market fund are short-term in nature, often held less than 12 months, and are considered very liquid. Income is generated with these investments in the form of regular interest.

Although these investments pose lower risk to your investment principal, they offer little long-term growth reward, and you also risk not keeping pace with inflation. A cash or money market fund may be appropriate for an investor who wants to avoid the volatility that comes with investing in stocks and bonds.

BASIC 4: MUTUAL FUNDS

Building a portfolio with individual securities can be time-consuming. In contrast to individual securities, mutual funds offer a quick and economical way to carry out an asset allocation plan.

Mutual funds provide instant depth to a portfolio by investing in dozens or even hundreds of different securities within each asset class. (Bear in mind that investing in mutual funds does involve risks, including the loss of principal.)

With PNC Funds, you and your advisor can structure a program to meet your financial objectives at every stage of life. Our family of mutual funds comprises domestic, emerging markets and international equity, taxable and tax-exempt fixed income, and money market portfolios — a broad range of choices to match all your investment goals.

Follow Your Plan

As an investor, it is important to keep in mind your investment objectives. Knowing the basics of investing can take you a long way and may help you avoid pitfalls like chasing last year's highest return or pulling out of the market prematurely during an economic downturn.

Review your investment strategy periodically to determine whether your personal circumstances warrant a shift in your approach. The benefits of establishing an asset allocation mix are lost without disciplined rebalancing, meaning reallocating assets within funds to maintain your desired balance between stock, bond and cash holdings.

Your time horizon and risk tolerance will change as you get older or as your goals shift. Rebalancing your portfolio on a regular basis will help keep it current with market conditions and your life stages.

REMEMBER, WHEN IT COMES TO INVESTING, IT IS NOT ABOUT WHERE YOU START, BUT HOW YOU FINISH.

To Learn More About PNC Funds:

- CONSULT YOUR FINANCIAL ADVISOR
- VISIT PNCFUNDS.COM
- CALL 800-622-FUND (3863)

You should consider the investment objectives, risks, charges, and expenses of PNC Funds carefully before investing. A prospectus with this and other information about the Funds may be obtained by calling 800-622-FUND (3863) or at pncfunds.com. The prospectus should be read carefully before investing.

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