What Stock and Bond Alternatives Do I Have?

Many prudent investors may have at least some of their holdings in stocks, corporate bonds, or both. In fact, when most people think of “investing,” they think of Wall Street and the stock markets.

Many fail to realize that there are a number of ways to invest in stocks besides owning individual shares.

Mutual Funds

A mutual fund is a collection of stocks, bonds, or other securities. Investors purchase shares of the mutual fund that is managed by a professional investment company.

A typical mutual fund may hold dozens of different securities. That offers some measure of diversification — a sharp decline in an individual security wouldn’t be nearly as damaging to your portfolio as it would be if you only owned a few securities. Diversification is a method used to help manage investment risk; it does not guarantee against loss.

Mutual funds are professionally managed. Fund managers devote their attention to buying and selling securities according to the goals of their funds.

And mutual funds often have a minimum investment of only $1,000 — some will accept even less.

The return and principal value of mutual funds fluctuate with changes in market conditions. Shares, when sold or redeemed, may be worth more or less than their original cost.

Bond funds are subject to the interest-rate, inflation, and credit risks associated with the underlying bonds in the fund. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance.

Variable Universal Life Insurance

The insurance companies have developed some innovative products that enable you to invest in a wide range of securities — including stocks — through your life insurance policy.

A variable universal life (VUL) insurance policy operates much the same as a “traditional” universal life policy. In exchange for premiums, the insurance company provides a death benefit. And, just like more traditional life insurance policies, the cash value within the policy accumulates tax deferred. When considering this product, you should have a need for life insurance.

But here is the unique difference: you decide how the premium is divided among the subaccounts. With most policies you can select from several different investment subaccounts (or investment options). These investment options allow you to participate in the market and experience the gains and losses realized by the underlying securities.

The cash value of a VUL policy is not guaranteed. The investment return and principal value of the variable subaccounts will fluctuate. Your cash value, and perhaps the death benefit, will be determined by the performance of the chosen subaccounts. Withdrawals may be subject to surrender charges and are taxable if you withdraw more than your basis in the policy. Policy loans or withdrawals will reduce the policy’s cash value and death benefit, and may require additional premium payments to keep the policy in force. There may also be additional fees and charges associated with a VUL policy.

Variable Annuities

The insurance companies have developed another interesting product: the variable annuity. With a variable annuity, you invest a sum with an insurance company, just as you would with a fixed annuity.

But instead of investing your money in its general account, as with a fixed annuity, the insurance company invests it in a separate account. Like a variable universal life insurance policy, this separate account is made up of a number of different investment subaccounts. You specify how much of your annuity will be invested in the various subaccounts. Your return will be based on the performance of the investments you select.

There are contract limitations, fees, and charges associated with variable annuities, which can include mortality and expense risk charges, sales and surrender charges, investment management fees, administrative fees, and charges for optional benefits. Withdrawals reduce annuity contract benefits and values. Variable annuities are not guaranteed by the FDIC or any other government agency; they are not deposits of, nor are they guaranteed or endorsed by, any bank or savings association. Withdrawals of annuity earnings are taxed as ordinary income and may be subject to surrender charges plus a 10 percent federal income tax penalty if made prior to age 59½. Any guarantees are contingent on the claims-paying ability of the issuing company. Variable annuity subaccounts fluctuate with changes in market conditions, and when surrendered, your principal may be worth more or less than the original amount invested.

Mutual funds, variable annuities, and variable universal life insurance are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the mutual fund, variable annuity contract, or variable universal life policy and their underlying investment options, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

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