Investing 101:

Answers to 10 essential questions

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Introduction

- Investing can often feel daunting, with many unfamiliar concepts and terms, complex choices, and large long-term consequences.
- The first step toward building a secure financial future is to understand the basics.
- In this presentation, we answer 10 commonly asked questions about saving, investing, and planning for retirement.

Table of contents: 10 common questions

What is the difference between saving and investing?

Saving

Setting money aside in cash and savings accounts. Saving assets have limited return potential and a limited risk of loss.

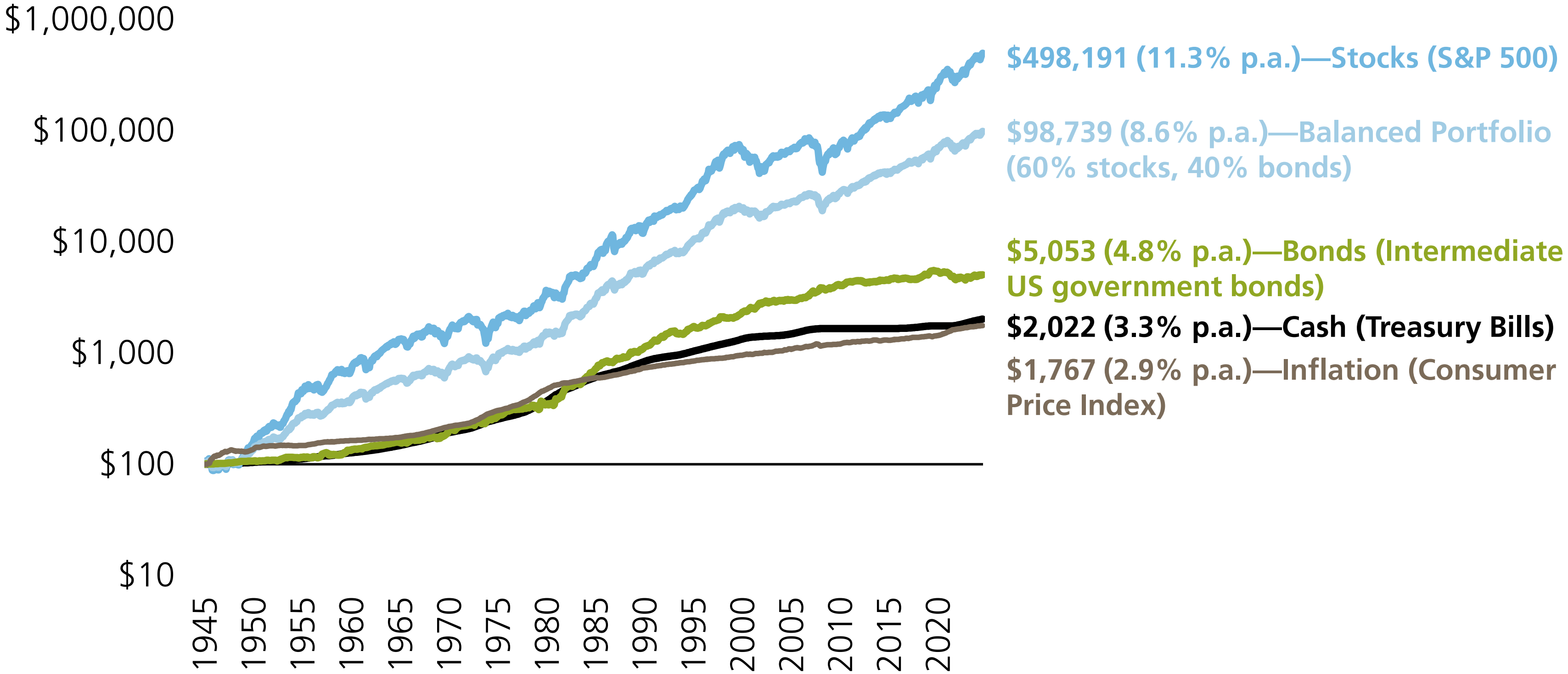
Investing

Purchasing a stock or other financial vehicle for income and growth potential. Investment assets may lose value.

Tip Be sure to have around six months of expenses set aside before you prioritize investing.

What is the difference between saving and investing? (cont.)

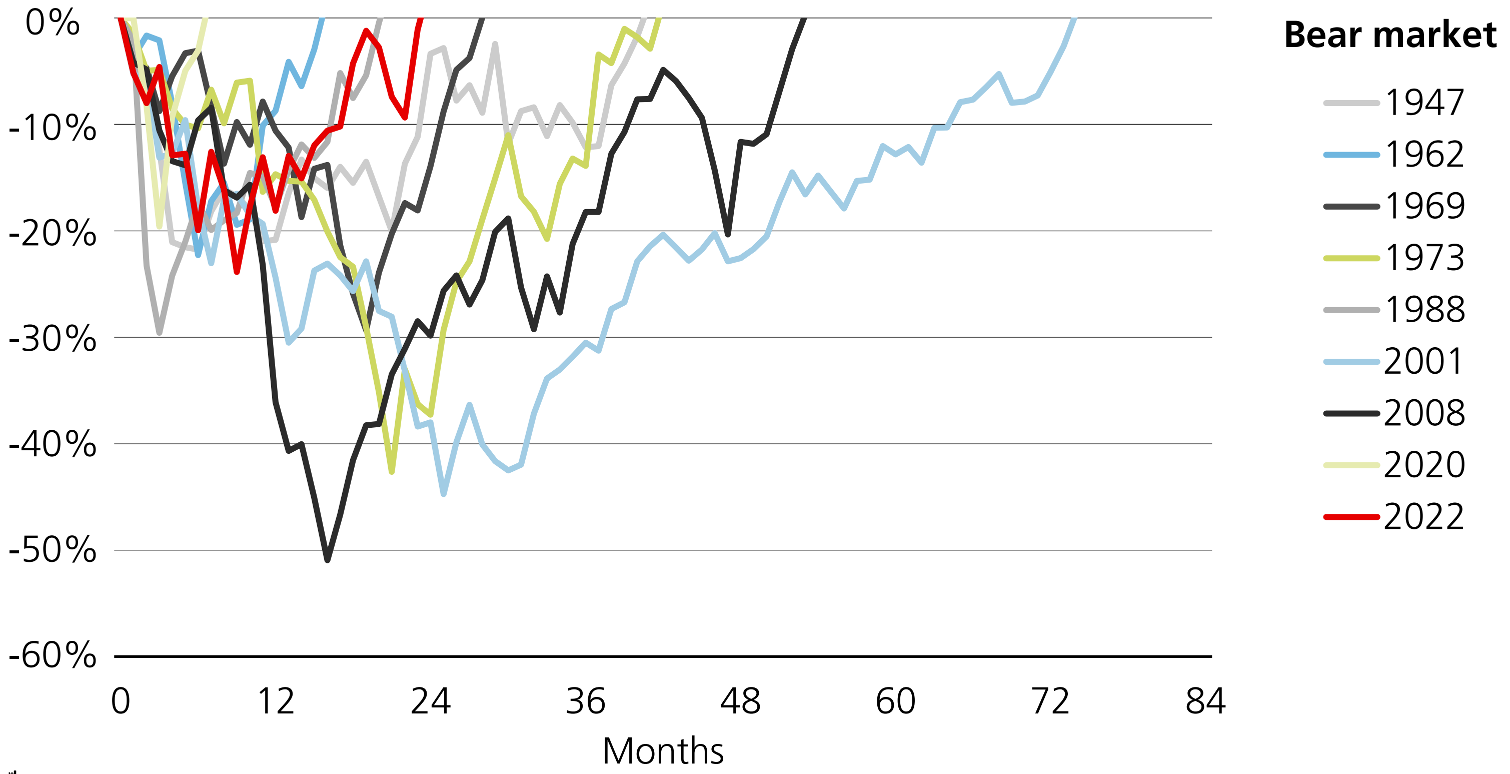
Annualized return and growth of $100 invested in December 1945 in various asset classes. Logarithmic scale.



UBS For illustrative purposes only; past performance is not indicative of future results. The illustration assumes dividends and income are reinvested into the account and no withdrawals were made. It does not reflect the impacts of any fees, charges, or taxes. Source: Morningstar Direct, Bloomberg, UBS, as of 31 July 2025

What is the difference between saving and investing? (cont.)

Stocks % drawdown from last all-time high during bear markets (20%-plus losses in the S&P 500) since 1945



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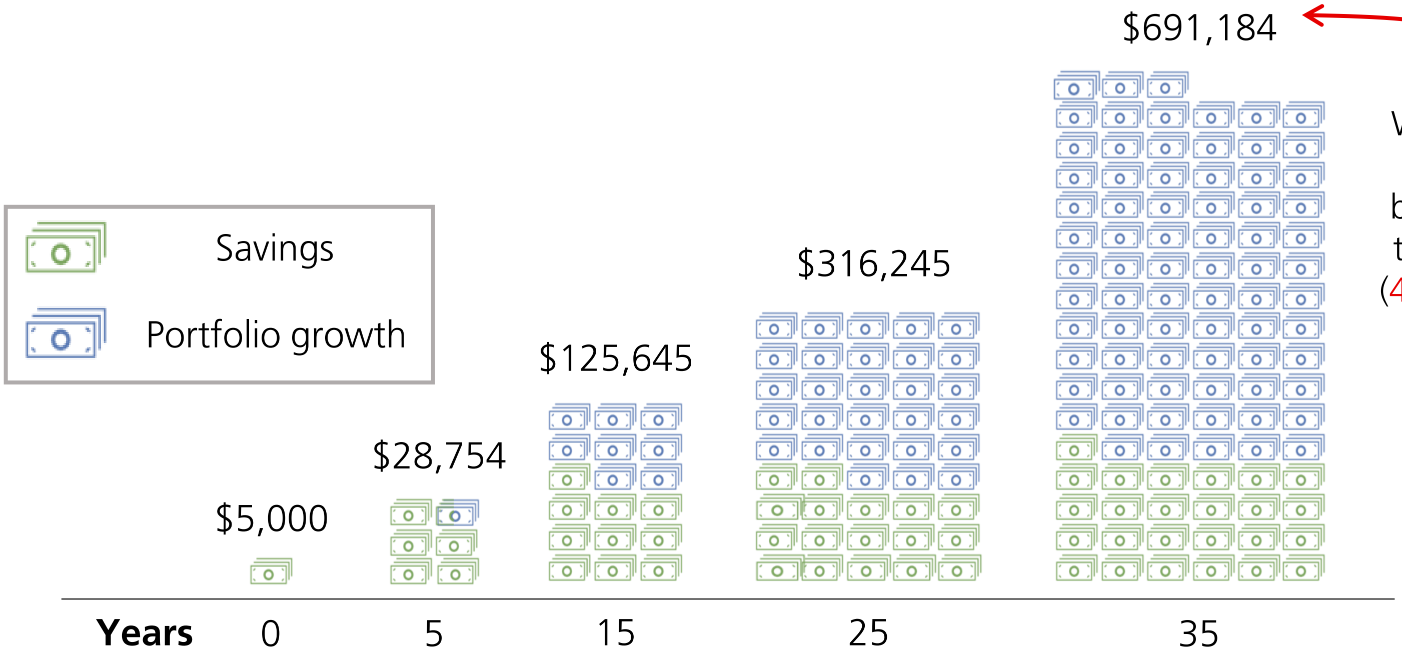
What is compound interest?

Cumulative growth of $5,000 annual contributions assuming a 7% annual return

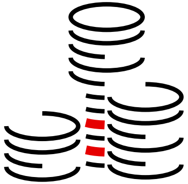


With compounding, $5,000 invested every year could become nearly $700,000 by the beginning of retirement (4x the $175,000 total saved)

Source: UBS. For illustration purposes only. Hypothetical growth of an invested portfolio after 5, 15, 25, and 35 years assuming $5,000 of annual contributions and a 7% annual return. The illustration assumes no withdrawals were made. It does not reflect the impacts of any fees, charges, or taxes. The compounding concept is hypothetical, and not intended to represent the performance of any specific investment, which may fluctuate. Investing involves risks, including the potential of losing money or the decline in value of the investment. Performance is not guaranteed.

What are the main “asset classes”?

“Asset classes” are investment categories that exhibit similar risk and return characteristics

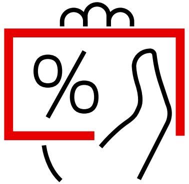


Cash and Cash Equivalents

Includes cash, money market funds, Treasury bills (short-term bonds), and Certificates of Deposit (CDs)

Lowest risk, lowest return

Inflation/Purchasing power risk



Bonds / Fixed income

A loan to a government entity or company

Low risk, low reward

Default/Credit risk

Stocks / Equities

Ownership in a company & claim on profits

High risk, high reward

Market risk. Could lose entire investment in bankruptcy.

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This description is general in nature and is not intended as an exhaustive description of the asset classes listed, the types of products included, or the potential risks associated with investment in each asset class. Asset allocation does not assure a profit and does not fully protect against a loss in declining markets.
Source: UBS.

What are some different ways to invest?

Mutual funds and exchange traded funds (ETFs) help you avoid stock-picking

Direct investing

Own individual bonds and stocks

Trades and prices throughout the day

Can be tax-efficient (control when capital gains are realized for tax purposes)

Fractional shares may be available

Exchange-traded funds (ETFs)

Own shares in a "fund" that is usually diversified across many individual stocks and/or bonds

Trades and prices throughout the day

Can be tax-efficient (control when capital gains are realized for tax purposes)

Popular investment vehicle for brokerage accounts and Individual Retirement Accounts (IRAs)

Fractional shares may be available

Mutual funds

Own shares in a "fund" that is usually diversified across many individual stocks and/or bonds

Trades daily, price published at the end of the day

Not tax efficient (capital gains distributed to all shareholders each year)

Popular investment vehicle for 401(k)s and other retirement plans

Fractional shares are generally available

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Investing involves risks, including the potential of losing money or the decline in value of the investment. Performance is not guaranteed.
Source: UBS.

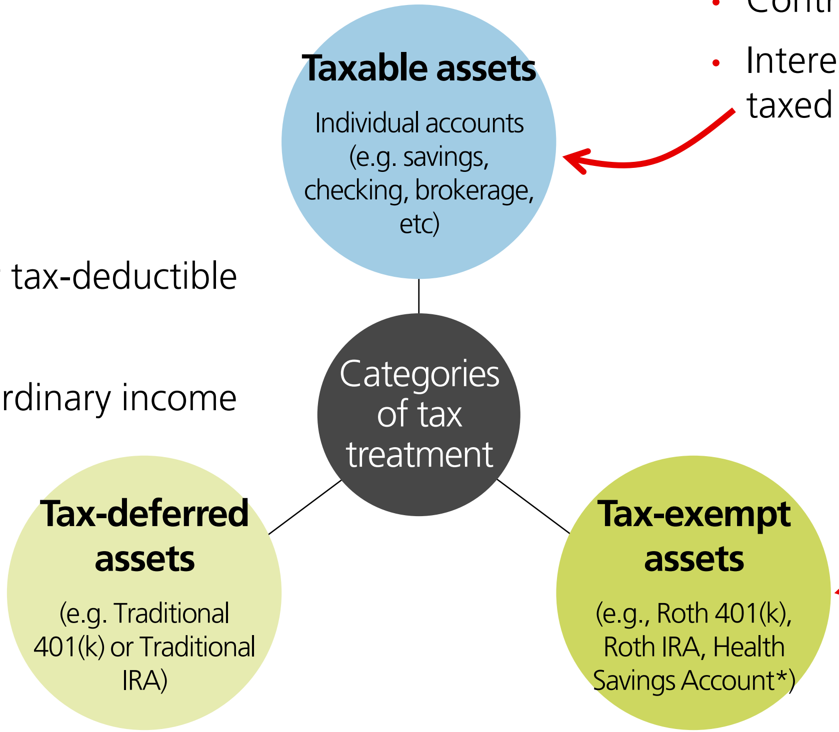
What are the basic types of investment accounts?

There are three main types of accounts, based on tax treatment

- Contributions are after-tax
- Interest, dividends, and earnings are taxed annually, or when sold

- Contributions are pretax or tax-deductible
- Investments grow tax-free
- Distributions are taxed as ordinary income

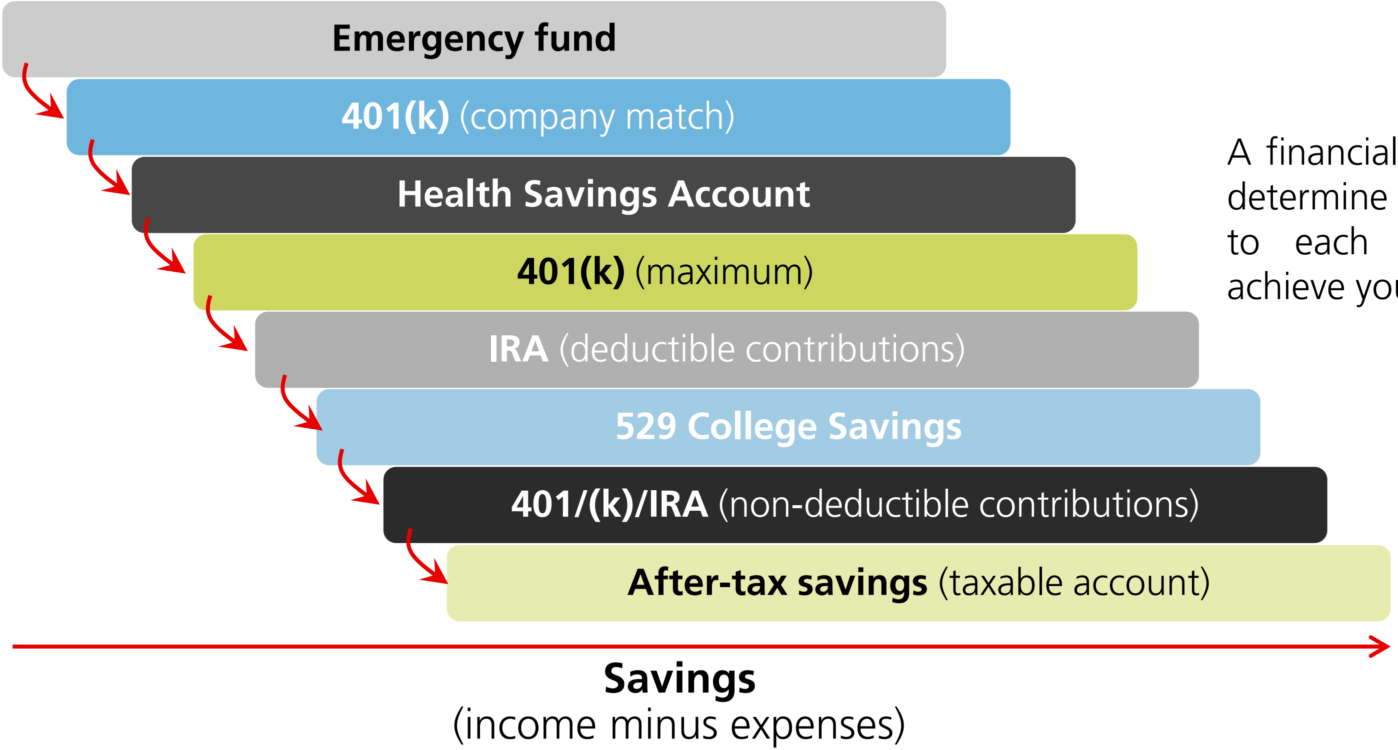
- Contributions are after-tax
- Investments grow tax-free
- Distributions are tax-free



 Source: UBS. *HSA contributions are tax-free, and distributions are tax-free if used for qualified medical expenses

What are the basic types of investment accounts? (cont.)

A “savings waterfall” can help prioritize savings across account types based on growth potential



A financial advisor can help you to determine how much to contribute to each account to help you achieve your financial goals

Source: UBS. For illustration purposes. Strategies are subject to individual client goals, objectives and suitability.

What are the different types of investing orders?

There are many ways to buy or sell investments. Here are some key trade order types.

Time

Day or Good-'Til-Cancelled (GTC)

A **Day** order is cancelled at the end of the trading day, even if the total number of shares in the order weren't executed.

A **GTC** order will remain active until it is executed or cancelled.

Price

Market

Buy or sell immediately at the best available current price.

Limit

An order to buy or sell at a specific price or better.

- A **buy limit** will only execute at the limit price or lower.
- A **sell limit** will only execute at the limit price or higher.

Stop

An order to buy or sell an investment once it reaches a "stop" price.

Once the stop price is reached, this becomes a market order and will fill at any available price.

Stop-Limit

A combination of the stop and limit orders. Once the stop price is reached, a limit order is entered. This order will only execute at a specific price or better.

Source: UBS.

What are "options"?

Options are a financial contract that gives the holder the right to buy or sell an underlying asset (such as a stock or exchange-traded fund) at a specified price ("strike price") on or before a certain date ("expiration date")

A **Call** option gives the holder the right to buy 100 shares of the underlying asset.

A **Put** option gives the holder the right to sell 100 shares of the underlying asset.

An option's value is equal to its intrinsic value (the "in-the-money" value, if exercised today) and its "time value" (the additional value an option has due to the possibility that its intrinsic value could increase before expiration).

Example

Jane Smith owns 1 call option on TechCo, with a strike price of $50 and an expiration of June 2027. The stock is trading at $55, so the option's intrinsic value is **$5 per share** ($55 – $50 = $5).

The option is trading at **$8 per share** today (this is its "premium"), reflecting the possibility that TechCo's stock could go higher before expiration. Therefore, the current "time value" of the call option is about **$3 per share**.

Options involve risk and are not suitable for all investors. Prior to buying or selling options, investors must read the Characteristics and Risks of Standardized Options, also known as the Options Disclosure Document (ODD). The ODD explains the characteristics and risks of exchange-traded options. A copy of the ODD can be obtained from your broker, any exchange where options are traded, or The Options Clearing Corporation (OCC).
Investing involves risks, including the potential of losing money or the decline in value of the investment. Performance is not guaranteed.
Source: UBS.

What are the differences between key stock market indexes?

A stock market index tracks the performance of a specific group of stocks. Indexes are used as a benchmark for how the stock market is performing. Indexes also help to determine the allocation of investment funds (e.g., which stocks an index fund owns, and how much is invested in each stock).

S&P 500

Includes **500** stocks representing the largest publicly traded US companies. Stocks are chosen by a committee based on market capitalization (the total market value of the company's stocks), profitability, and liquidity.

This index is generally diversified across all sectors.

Market capitalization-weighted index, meaning larger companies have a bigger impact on the index's performance.

Nasdaq Composite

Includes all **3,000** common stocks listed on the Nasdaq exchange.

This index tends to have a larger allocation to growth-oriented sectors, such as technology.

Market capitalization-weighted index, meaning larger companies have a bigger impact on the index's performance.

Dow Jones Industrial Average

30 stocks, chosen by a committee to represent major industries.

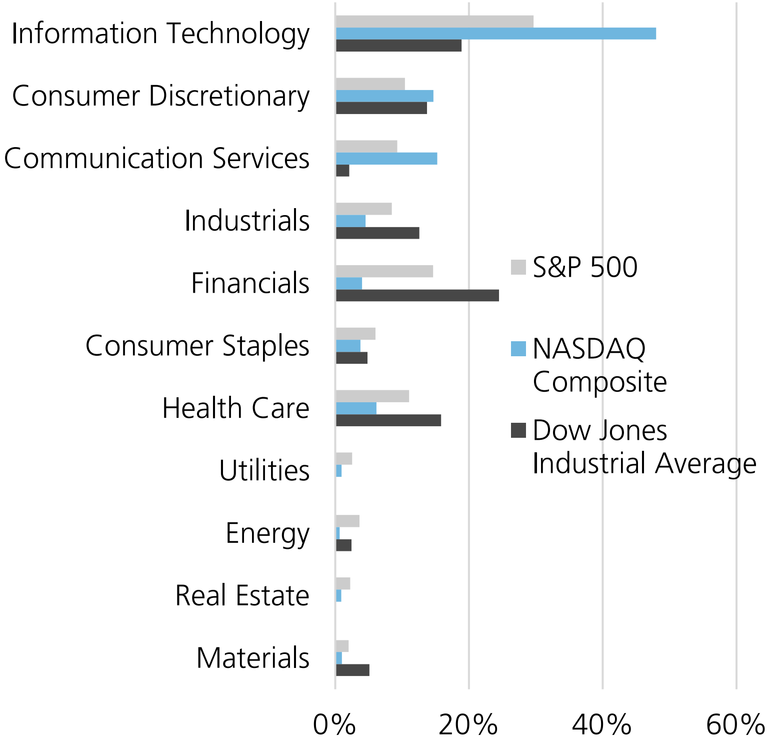
This index tends to be diversified across sectors, but with a lower allocation to the largest stocks.

Price-weighted index, meaning higher-priced stocks have a larger allocation in the index (even if the company is smaller by market capitalization).

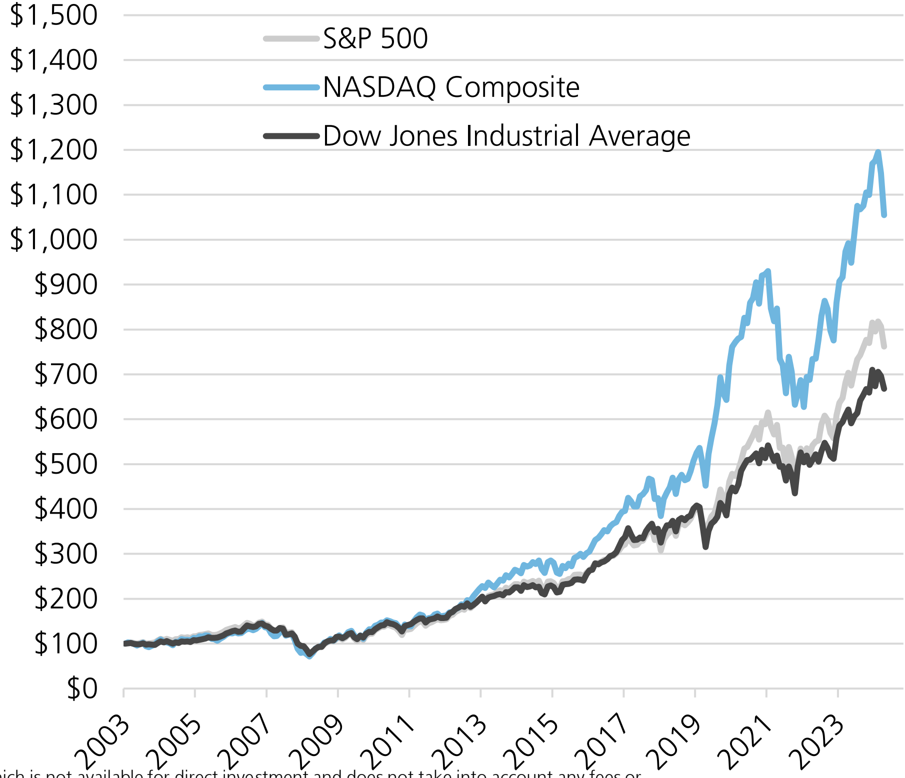
An index reflects an unmanaged universe of securities, which is not available for direct investment and does not take into account any fees or transaction costs which will reduce their overall return.
Source: UBS.

What is the difference between key stock market indexes? (cont.)

Sector allocation, major US stock market indexes



Performance (growth of $100 since December 2003)



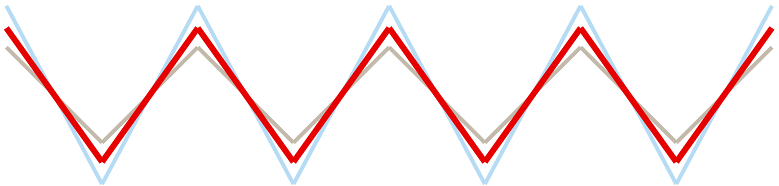
For illustrative purposes only. An index reflects an unmanaged universe of securities, which is not available for direct investment and does not take into account any fees or transaction costs which will reduce their overall return.

Source: Bloomberg, UBS, as of 31 March 2025

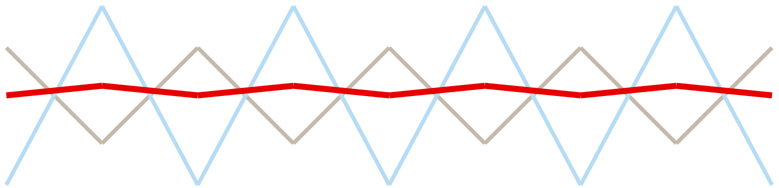
What is diversification, and why is it important?

Diversification comes from investments that are uncorrelated with one another

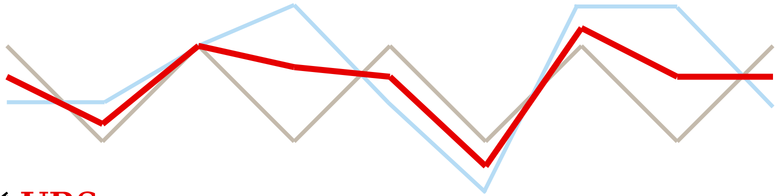
Correlation of **1**: The two assets move in the same direction



Correlation of **-1**: The two assets move in opposite directions

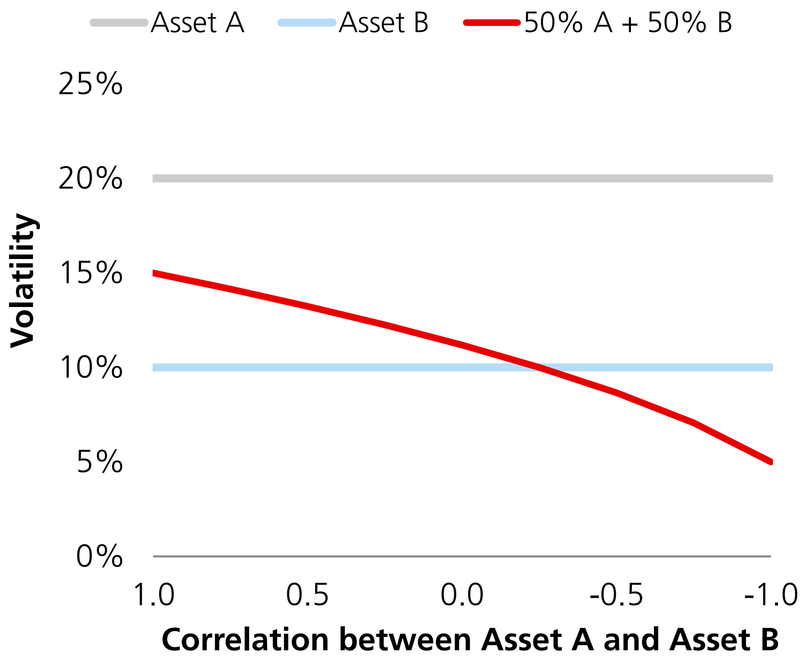


Correlation of **0**: The two assets move independently



Diversification can help to reduce portfolio volatility

Two-asset portfolio's volatility depending on asset class correlations

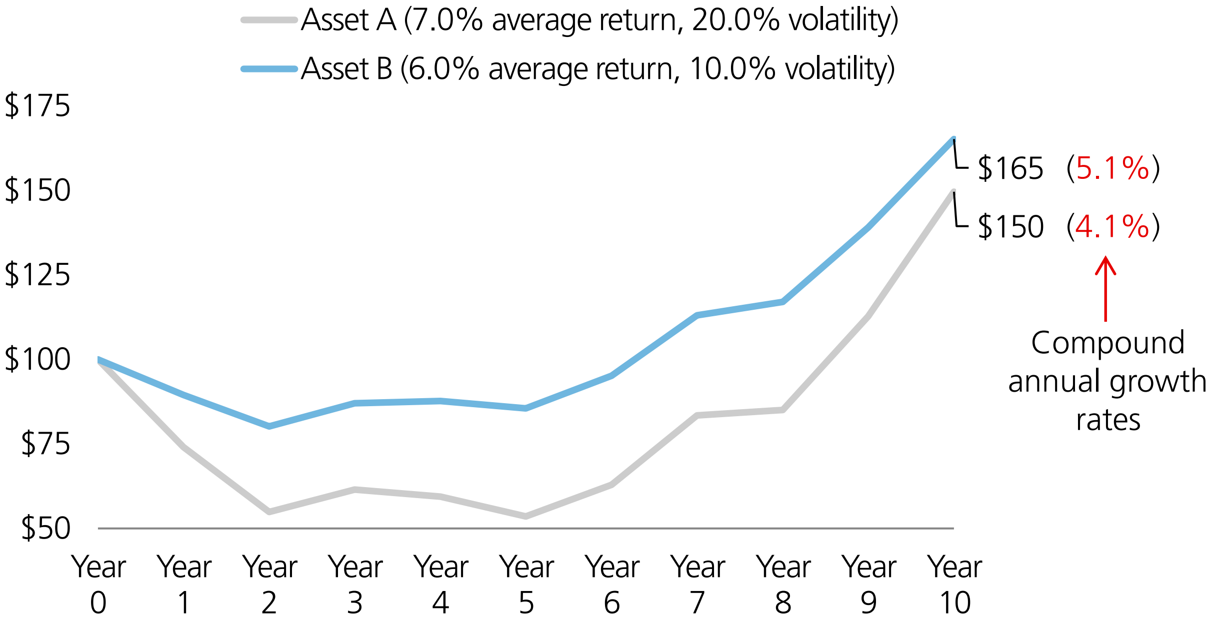


Source: UBS.

What is diversification, and why is it important? (cont.)

Lower volatility can boost growth due to sequence risk

Growth of $100 invested in two hypothetical investments



For illustration purposes only.
Source: UBS.

What is "risk"?

There are many ways to measure "risk"

Here are some example risk measurements that may be used when evaluating your investments:

- **Volatility:** How uncertain / variable are the investment returns?

- **Tail risk:** How much can the investment lose?

- **Time under water:** How long does it take for the investment to recover from a loss?

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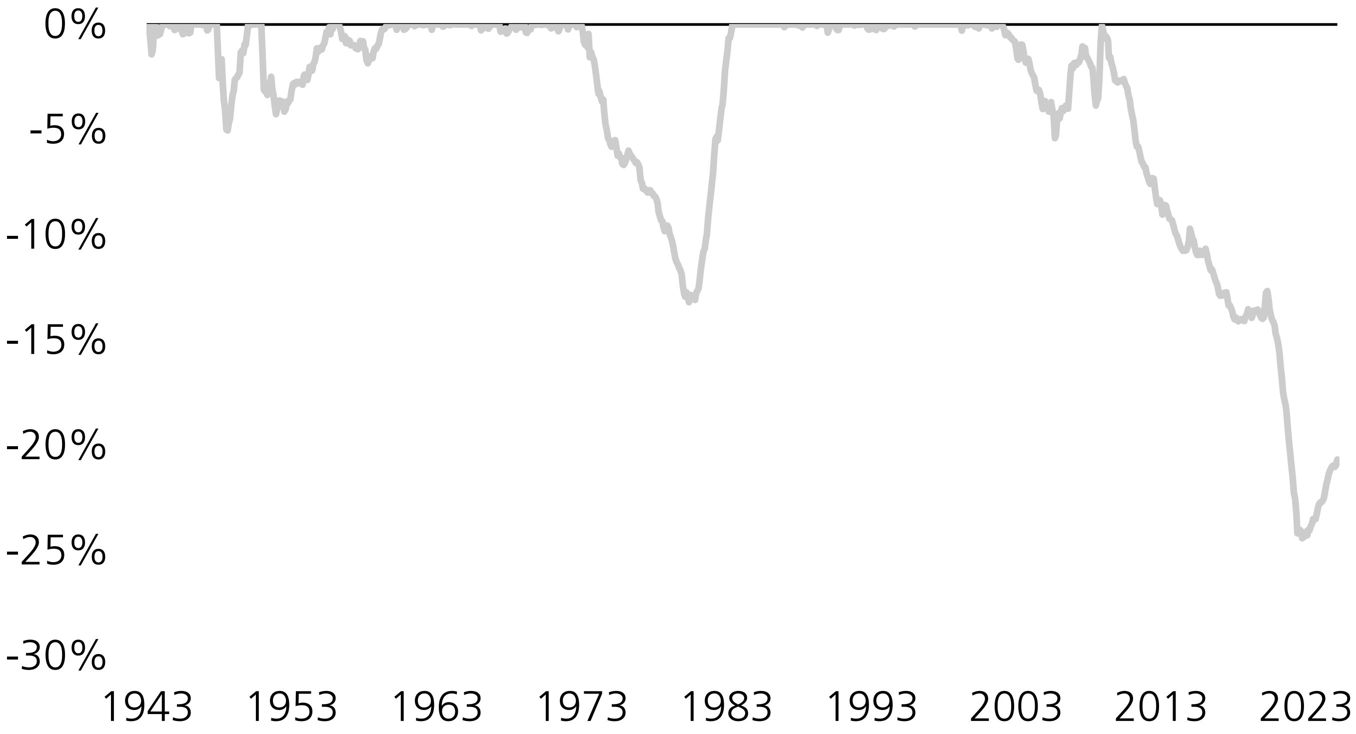
What is “risk”? (cont.)

Purchasing power drawdowns of cash (three-month Treasury Bills)



By many traditional risk measures, cash is a safer investment…

…but over the long term, cash is risky owing to inflation

What is “risk”? (cont.)

Permanent loss is a useful way to define investment risk. Here are three main ways to cause a permanent loss, and potential solutions that could help manage each risk:

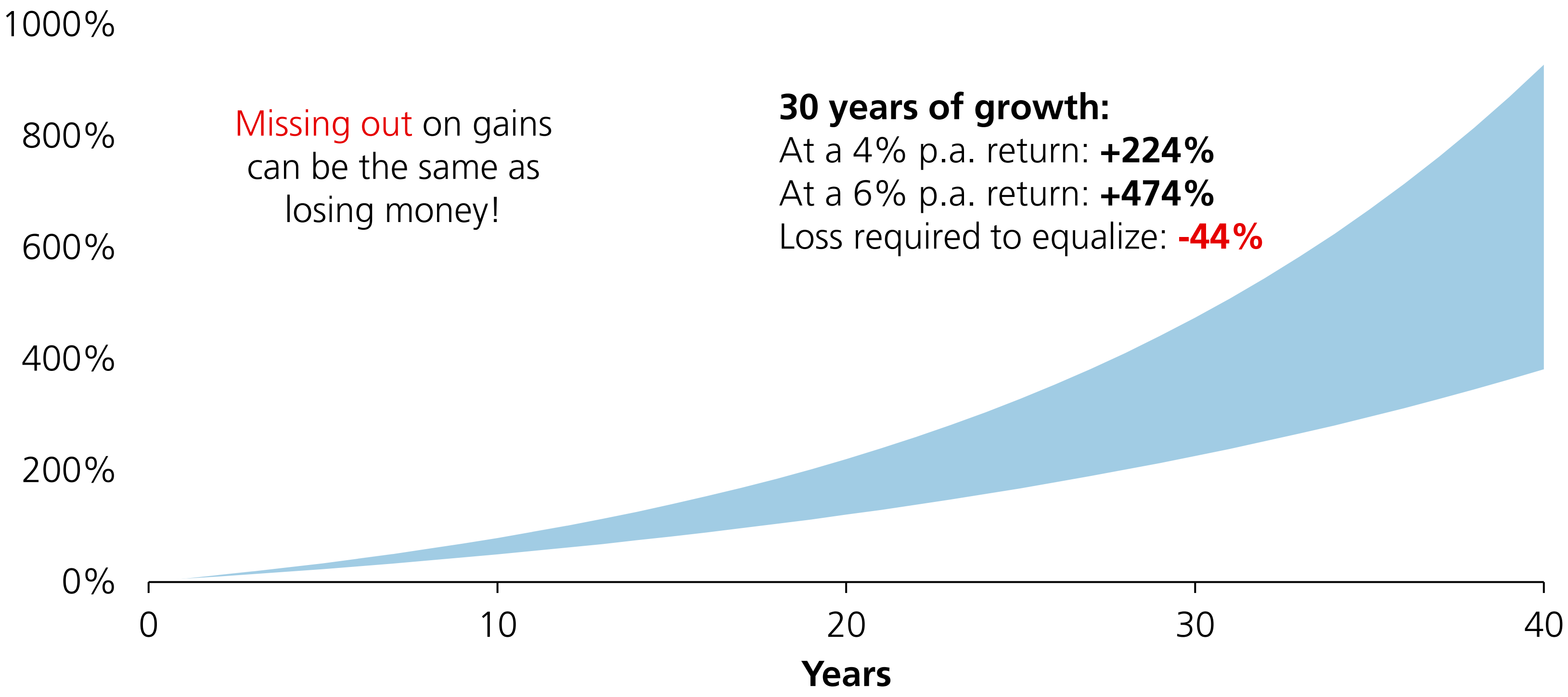
1. Own a security or investment that defaults or goes bankrupt
- **Solution:** Diversify across many investments.

2. Sell after a price decline, thereby “locking in” the loss
- **Solution:** Stay invested.

3. Miss out on investment gains, suffering “opportunity cost”
- **Solution:** Take an appropriate amount of “risk.”

What is "risk"? (cont.)

Cumulative growth with a 4% or 6% annualized return



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Source: UBS.

What to do next

Put your new knowledge to work.

- Review your saving and investing options
- Set clear financial goals
- Automate deposits to save & invest consistently
- Read about financial planning & investing
- Track your progress & celebrate your achievements

Tip: Automating your savings and investments helps you stay consistent as you seek to build wealth without having to think about it.

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