



# Combined Funds, Inc.

## CARPENTERS' COMBINED FUNDS, INC.

### UNDERSTANDING STOCK CLASSIFICATIONS

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You are responsible for deciding where you should invest your annuity/savings plan money. Before making this important decision, consider two factors:

1. the types of funds available to you; and
2. whether the investments in each fund have the potential to meet your long-term financial goals.

Choosing whether to invest, say, in stocks or bonds is a matter of personal goals and circumstances. Think about what is most important to you. The potential for a high rate of return? Lower exposure to risk? Long-term stability?

This article focuses mainly on funds which invest in stocks. Stock funds can offer different strategies, as described below. Remember, there can be no assurance that any fund will meet its investment objectives.

#### **Large Capitalization Funds:**

There are made up of the stock of large, well-known companies, such as Ford, IBM, and General Mills. Historically, these companies have generally experienced sales and earnings. They have paid a dividend and have tended to be consistent and reliable stock market performers.

#### **Medium Capitalization Funds:**

These funds seek long-term capital appreciation by investing primarily in common stocks of medium-sized companies. Mid-cap company stocks have generally been more volatile than stocks of large, well-established companies, but they have offered the possibility of more rapid growth. They have tended to be less volatile than small company stocks.

#### **Small Capitalization Funds:**

These funds invest in the stocks of small companies whose sales and earnings may have the potential to grow rapidly and whose share prices have tended to move up and down more rapidly than the share prices of stocks held in more conservative funds.

Stock funds can be further defined according to whether they pursue a *growth* or a *value* strategy. The funds will still select large, medium, and/or small company stocks, but their selections will vary according to the following strategies or styles.

#### **Value Funds:**

Value fund managers try to purchase stocks at bargain prices, for example, when a company has suffered what is anticipated to be a temporary setback in sales or earnings. It is hoped that such stocks can increase in price as market conditions change and the true value of the stock is recognized by the market.

#### **Growth Funds:**

A growth fund invests in companies that have experienced above-average increases in market share and earnings. The outstanding performance of these companies can result in greater-than-expected growth in the value of their shares.

There are also special categories of funds that may focus on a specific type of stock or a specific investment goal.

#### **Sector Funds:**

A sector fund invests in a specific industry or market sector. If a market sector is doing well in the economy, then the fund specializing in it may also perform well. Since sector funds are not diversified among many

industries, however, they present higher-than-average investment risk.

### **Index Funds:**

An index is a statistical model that is used as a gauge of how well an investment is doing. An index may also be referred to as a benchmark. An index fund is a mutual fund that buys stocks or bonds that make up an index. The goal of an index fund is to mirror the performance of the securities represented by the index.

### **Foreign and World Funds:**

Still another way to diversify your portfolio is to invest in companies that are headquartered outside the United States. Foreign funds provide this type of strategy and typically, invest little or no dollars in the U.S. World funds on the other hand, invest in companies domiciled around the globe, which includes the U.S. It is important to remember that there are risks associated with these types of funds that are different from domestic stock funds. Among these risks are risk of currency exchange rates, diplomacy risk and political risk, just to name a few.

### **Income Funds:**

Income funds are a fairly conservative investment that offer lower risk of loss. Investors may gain or lose principal. Much of an income fund's return comes from:

- Dividends from stocks,
- Interest on corporate or government bonds,
- Or both.

The table below summarizes the potential performance (rate of return) and risk potential of the investment types and strategies discussed above. This table is based on the historical performance of these types of investments. Past performance is no guarantee of future results.

**Please note:** Because index funds can invest in a variety of indices, they vary in risk exposure and return potential. For that reason, they are not included in the chart below.

<b>Fund Type</b>	<b>Performance / Return Potential</b>	<b>Market Risk / Loss Potential</b>
<b>Large Capitalization</b>	Moderate	Moderate
<b>Medium Capitalization</b>	Moderate / High	Moderate / High
<b>Small Capitalization</b>	High	High
<b>Value</b>	Moderate	Moderate
<b>Growth</b>	High	High
<b>Sector</b>	High	High
<b>Foreign / World</b>	Varies	Varies
<b>Income</b>	Moderate	Low

**Before investing, you should evaluate your plan's investment options in light of your investment goals, your tolerance for risk, and the time you have available to invest for your retirement.**