

Market Mechanics

You don't have to know how your car's engine works to drive it, but understanding what goes on under the hood can help you take proper care of your vehicle.

Similarly, knowing how the stock and bond markets work can provide useful insights into your retirement plan's performance. You don't have to match the skills of a veteran stock market professional to be a money-smart investor. But you do need to know the basics of how the markets work and how the value of your investments is likely to rise or fall in response to events in those markets.

The markets move up or down because of the investment decisions made by millions of people, some of them investment professionals, but many of them people just like you. The more upbeat people feel about the economy and their own financial futures, the more they tend to invest in stocks. Then the stock market goes up. When people feel pessimistic about the future, they tend to sell stocks, causing the stock market to fall. Worried investors might shift money into bonds, which generally are more conservative than stocks. Or they might seek even more security by keeping their money in money-market mutual funds.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. While the fund seeks to preserve the value of your investment at \$1 per share, it is possible to lose money while investing in the fund.

Even if you don't invest directly in the stock and bond markets, if you are a participant in your employer's retirement plan, you're among the millions Americans who own mutual fund shares. That makes you a market mover.

Your financial future depends on the investment decisions you make today. If you pay attention to what's happening in the markets, it will help you gauge the performances of the funds in your retirement plan.

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