What Is Common Stock?

How common stocks fit into your retirement portfolio

Common stock is the technical name for the stocks you buy and sell every day. They are issued initially by a corporation and then traded among investors. There are two ways to make money with common stock: when you sell the stock for more than you paid for it, and when you receive dividends (a portion of company profits paid by some, but not all, common stocks).

Common stocks offer no performance guarantees, but over time have produced a better return than other investments. The risks are that the individual company will not do well or that stock prices in general will weaken. Stock funds, such as the ones offered through retirement plans, buy the stocks of many different issuers and are considered less risky because losses in some of the stocks may be offset by gains in others.

Have Questions? Need More Information?

Web site*:	www.nefkey401k.com
Guide Line*:	800-926-8630
TDD for hearing impaired:	800-482-5472

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FINANCIAL Footnotes

The Stock Market: A Primer

Understanding how Wall Street works

When you buy a stock, you become an owner of the company, entitled to a share of its distributed profits. People buy stock because they believe the value of their shares will increase in the future. If profits go up, share value usually goes up, so someone is likely to pay a higher price for that stock and you can sell at a gain. If the company's profits don't go up, you probably would have to sell at a loss to get someone to buy the stock from you.

Buying Stock

Say you decide to buy 100 shares of stock in (hypothetical) company X. You place your order with a stockbroker, who forwards it to a trader working with that broker on the floor

Continued inside

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The Stock Market: A Primer

Continued from cover

of the New York Stock Exchange (NYSE). The trader goes to the post where company X is traded. (Each of the 2,800 companies listed on the NYSE trades at a post.) There, a specialist (a person whose job is to match orders to buy with orders to sell) brings together the trader looking to buy company X stock with a trader looking to sell company X stock. The trade is completed at a price acceptable to both parties and you own 100 shares of company X.

Stock Trading

Transactions like this happen thousands of times a day on the floor of the NYSE. Stock trading is still done face-to-face on most major stock exchanges of the world, but an increasing amount is being done by computer. The NASDAQ Stock Market (founded by the National Association of Securities Dealers, but now independently operated), trades by computer. The NYSE is the world's biggest stock exchange, but Nasdaq, where many of today's high tech stocks trade, is a close second.

You may not own individual stocks, but instead invest in mutual funds that own stocks. The trade proceeds the same way, whether you or the manager of your mutual fund do the trading. The reason for buying or selling stocks is the same, too: Both you and the mutual fund manager are hoping for the best possible return on your money.

Source: The New York Stock Exchange

People buy stock because they believe the value of their shares will increase in the future.

Tracking Indexes

Knowing what indexes are out there is key to good investing.

In addition to the Dow Jones Index (Dow) and the Standard & Poor's Index (S&P), there are several other indexes designed to take the temperature of key segments of the market.

The Lipper Indexes track 10 to 30 of the largest mutual funds in a particular investment category, and can be particularly helpful to retirement savings plan investors.

The Morgan Stanley Capital International Europe, Australasia and Far East (MSCI EAFE) Index, a benchmark for international funds, tracks approximately 1000 foreign stocks in developed markets in Europe, Australia, Asia and the Far East.

Lehman Brothers Government/Bond Index is a benchmark index made up of the Treasury Bond Index and the Agency Bond Index, as well as the 1-to-3 Year Government Index and the 20-plus-Year Treasury Index.

You can track these and other indexes online at **smartmoney.com**, **morningstar.com** and most business-related Web sites. While you can invest in mutual funds that try to mimic the performance of indexes, you can't invest directly in an index.