

Comparing Alternatives for Investment

Although many options exist in the investment world, most churches and related organizations choose from the following categories. The chart below outlines the major features and characteristics of these different investment and management alternatives. As part of its ministry to the United Church of Christ, the United Church Foundation works with UCC organizations as they consider the issues related to their individual investment strategies, and as they develop investment policies to guide future decision-making.

INVESTMENT TYPE	BANK INSTRUMENTS	DEDICATED PORTFOLIO	PUBLIC MUTUAL FUNDS	UNITED CHURCH FOUNDATION COMMON INVESTMENT FUNDS
<p>FEATURES</p>	<p>Most local banks offer a range of savings choices.</p> <p>Interest rates vary depending on the amount invested and the length of time funds are committed.</p> <p><i>Certificates of Deposit (CD)</i> <i>Money Market Accounts</i> <i>Interest-bearing Checking</i> <i>Passbook Savings</i></p>	<p>With the advice of a broker, investment consultant or committee, a portfolio is constructed in accordance with the organization's objectives and limitations.</p> <p><i>Equity (stock)</i> Investors become "owners" of a company, and are often paid a percentage of profits (dividends) for each share.</p> <p><i>Fixed Income (bonds, debt)</i> Investors become creditors (lenders) to a company or government, and are paid interest on their "loan."</p>	<p>Instead of purchasing individual stocks and/or bonds, investors purchase shares/units in a very large, professionally managed portfolio and share in the growth or decline of the overall portfolio. Most mutual funds are part of a "fund family" that offers investors a selection of options among which they may distribute and shift their investments.</p>	<p>The UCF's Common Investment Funds function similarly to mutual funds, but are available only to organizations associated with the United Church of Christ. Actively managed for Total Return by a team of investment professionals, the funds offer broad diversification in a conservative style.</p> <p><i>UCF Equity Fund</i> Primarily invested in the stock of large U.S. corporations, the Equity Fund reflects the S&P500 with the addition of a small international portfolio (currently less than 10% of the total portfolio).</p> <p><i>UCF Fixed-Income Fund</i> Managed for Total Return, this fund owns U.S. Treasury and agency notes, as well as quality corporate and foreign bonds.</p> <p><i>UCF Balanced Fund</i> Owning shares in both the Equity and Fixed-Income funds, the Balanced Fund gives investors a position in both "sides" of the market.</p> <p><i>UCF Cash & Equivalent Fund (C&E)</i> For short-term needs, this fund invests in money markets, commercial paper and the like.</p>

TIME HORIZON & LIQUIDITY	<p>Short-term.</p> <p>Liquid (with the exception of long-term CDs).</p>	<p>Generally long-term (five years or more).</p> <p>Publicly-traded investments are liquid.</p>	<p>Generally long-term (five years or more).</p> <p>Public funds are liquid.</p>	<p>Long-term (C&E: short-term)</p> <p>Funds are available, if needed, on the first of the month (C&E: funds available at any time).</p>
COST	<p>Fees vary, though some accounts are free.</p>	<p>Varies; usually \pm 1-2% annually of the market value of the portfolio.</p>	<p>Varies widely; usually 1-5%, 12b-1 costs, and various transaction fees for changes, checks, etc.</p>	<p>Annual: currently .20% (20 basis points) of market value, charged monthly against investment income.</p>
ADVANTAGES	<p>Funds can usually be withdrawn quickly (liquidity).</p> <p>Some accounts offer checking privileges.</p> <p>CDs and some other accounts are available at no cost.</p> <p>Insured by the FDIC up to \$100,000.</p>	<p>Investors may select exactly the companies and/or industries in which they want to invest, and the manner in which they want assets to be allocated.</p> <p>Equity investments offer a hedge against inflation.</p>	<p>A huge number of funds are available, with everything from broadly diversified to highly specific options.</p> <p>Funds are valued daily, and most values are published in newspapers.</p> <p>Funds and their managers are often reviewed by the financial media.</p> <p>Equity investments offer a hedge against inflation.</p> <p>Investors are insured by the Securities Investors Protection Corporation (SIPC) against errors and fraud.</p>	<p>Investors may shift money freely among UCF funds.</p> <p>UCF funds are managed according to social responsibility guidelines.</p> <p>Withdrawals from an account may be made monthly.</p> <p>Additional investments may be made at any time.</p> <p>Equity investments offer a hedge against inflation.</p> <p>Investors are insured against errors and fraud.</p>
DRAWBACKS	<p>Rates are generally low, with no growth potential (except compounding).</p> <p>No inflation hedge.</p> <p>Penalties incurred when funds are withdrawn early (CDs).</p>	<p>Unless an organization has a large amount to invest, the portfolio may not be well-diversified.</p> <p>Performance is dependent on the skill and expertise of the individual portfolio manager or committee.</p> <p>Management by an internal committee or group member may lead to conflicts, including conflicts of interest.</p>	<p>Selection and monitoring of appropriate funds can create a challenge for organizations and investment committees.</p> <p>Transaction fees can raise the overall cost of investment in a mutual fund.</p>	<p>At present, funds are valued monthly, limiting withdrawals to the first of each month.</p>
RISK & REWARD	<p>Very low risk with commensurate returns. Principal value can be eroded by inflation.</p>	<p>Equities tend to be more volatile than fixed-income investments, but generally offer higher returns. The quality of portfolio management, individual investment selection and diversification play major roles in overall risk and reward potential.</p>	<p>Depending on the fund type, mutual funds generally offer investors good diversification, which mitigates risk. The skill of the fund manager plays a major role in a particular fund's overall risk and reward potential.</p>	<p>Equities offer greater opportunity for return, but are also more volatile than fixed-income investments. The UCF funds are broadly diversified and conservatively managed, with dual goals of capital preservation and growth.</p>