



## When evaluating investments, look at value

**M**ost investors pay a great deal of attention to the price of their investments - yesterday's price, today's price,

tomorrow's price, next year's price and so on. And that's understandable, because we always want the prices of our investments to rise. Yet, if you focus too much on prices, you could end up making some costly mistakes.

Why? Because price-driven behavior is emotional behavior - and as an investor, you're much better off making decisions with your head, not your heart. Suppose, for example, that you've seen a steep decline in the price of one of your investments. After a while, you may feel that you just can't take it anymore and you decide to "cut your losses" by selling the investment. Conversely, you may have an investment that has gone up and up - and to grab even bigger gains, you buy more shares.

Both these decisions could backfire on you. When you sold the investment whose

price had fallen, you might find yourself on the investment "sidelines" if that same investment starts to turn around. And when you throw more money at an investment whose price has skyrocketed, you're betting against history - because no investment goes up forever. Furthermore, in both cases, your emotions will have led you to violate one of the guidelines of investing: buy low and sell high.

But apart from the tactical errors you may make when you over-concentrate on price movements, you're also ignoring another key characteristic of investments - their value.

Traditionally, an investment's "value" has been largely defined as whether or not it's considered "expensive" or "cheap." That's why many investors take a close look at a stock's price-to-earnings ratio (P/E). Generally speaking, a high P/E means a stock is more expensive, relative to its earnings, than a stock with a low P/E. Investors may be willing to pay more for the high P/E stocks because they feel these companies will be worth more in the future.

But P/E doesn't tell the whole story of investment value. Any individual investment may have value to you because it can help you diversify your holdings. And while diversification, by itself, can't guarantee a profit or

See Money Matters, p35

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# Financing your home improvement project

One of the most important considerations for your home improvement project is financing. After all, the project will go nowhere if you can't pay for it.

Fortunately, there are several options that can provide the dollars you need. Four of the most common are a home improvement loan, a home equity line of credit, a home equity loan (second mortgage) and a cash-out refinancing of your current mortgage.

**Cold, hard cash.** The simplest method of financing is cash. If you have cash in savings to pay for your remodeling project, this may be the best way to finance your home improvements. But be sure to consider the fact that, by paying in cash, you tie up money that could be earning investments. In other words, you need to look at the interest rate that you would be charged by financing the project and compare this to the interest you could earn by investing these funds alternatively. Remember that interest payments on a home improvement loan may be tax-deductible, while you can't write off the expenses of a project paid with cash. Crunch the numbers with a financial adviser to determine whether paying in cash will really pay off in the long run.

**Home improvement loan.** Two special loans administered through the Federal Housing Administration (FHA) are the Title I and Section 203(k) programs. A Title I loan allows you to borrow up to \$25,000 for improvements to a single-family home. This is a fixed-rate loan that the FHA insures

See Financing Your Home Improvement, p36

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