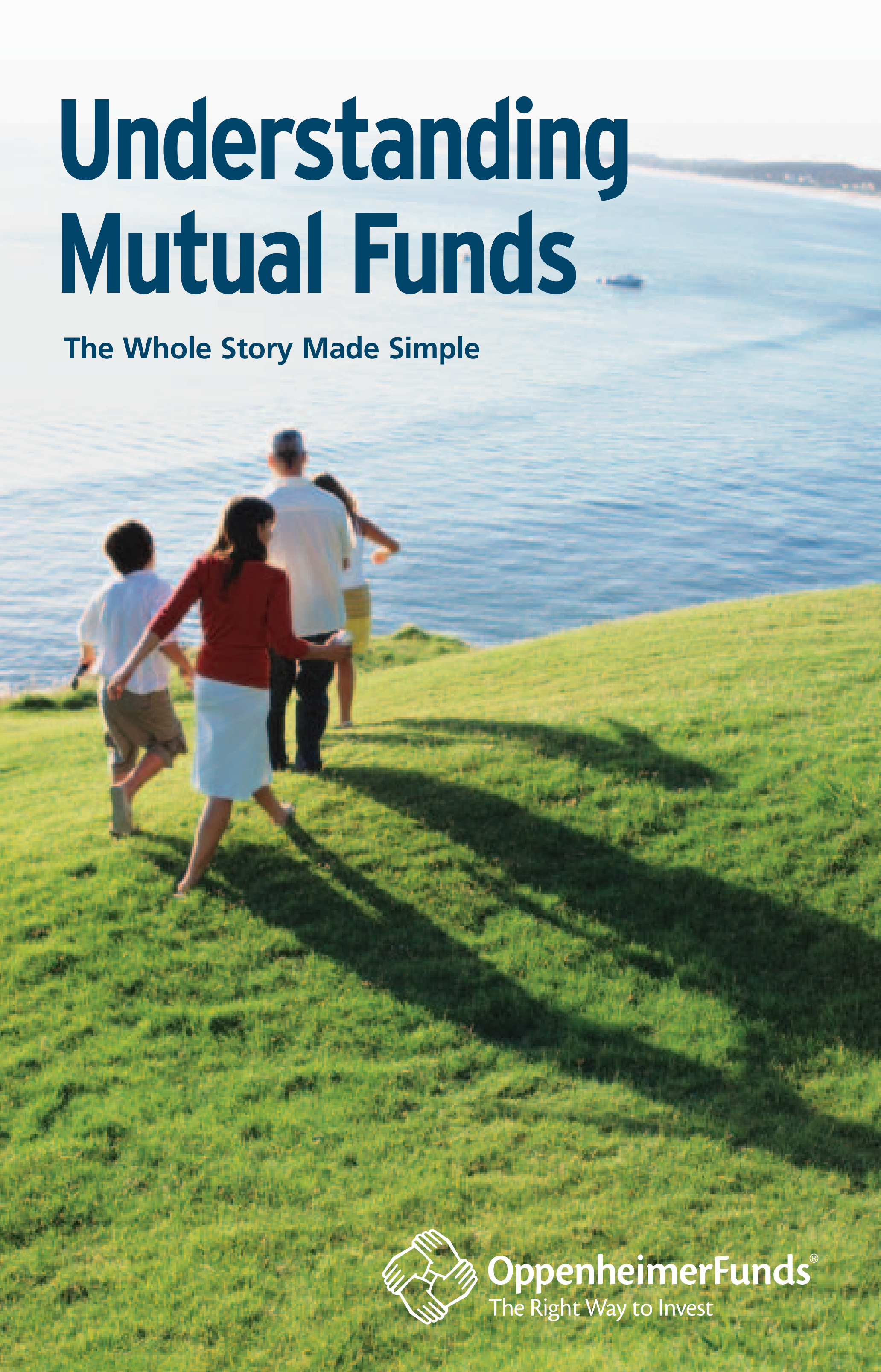
Understanding Mutual Funds

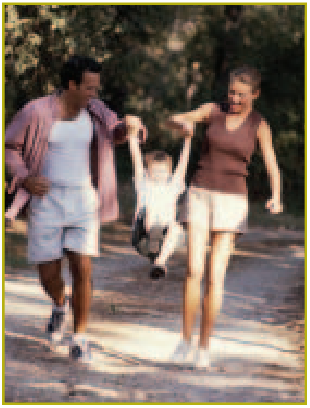
The Whole Story Made Simple



OppenheimerFunds®
The Right Way to Invest

Answering Your Mutual Fund Questions

If you're like most people, you may feel your money should be working harder to help you meet your financial goals.



Over the years, mutual funds have proven to be a successful way to help investors:

- **Plan for a comfortable retirement**
- **Save for children's college education**
- **Lighten tax burdens**
- **Increase monthly income**

A key benefit of mutual funds is simplicity. Choosing individual investments on your own can be complicated, risky and time consuming. With mutual funds, you can rely on the experience and expertise of professional money managers to make those decisions.

However, there are thousands of mutual funds from which to choose, and finding those that best match your investment objectives and strategy can be a real challenge.

This booklet can answer a lot of the questions you may have about mutual funds. It's a good start to help you be better prepared to make the right decisions for your financial future.

A key benefit of mutual funds is simplicity.

What is a mutual fund?

A mutual fund allows people with common financial goals to pool their resources together in one professionally managed investment that holds many different securities.

What does a mutual fund invest in?

Mutual funds typically invest in one or more types of securities and other financial instruments such as stocks, bonds, money market instruments or other specialized types of investments.

What are stocks?

Stocks represent units of ownership or "shares" in a company. Also known as equities, stocks may be traded in U.S. stock markets like the New York Stock Exchange or be listed on the Nasdaq—and in similar markets abroad. Due to a variety of economic factors and market forces, stock prices can rise and fall on a daily basis. Although past performance is no guarantee of future performance, stocks historically have been associated with higher returns over the long term. Fixed income investments provided only a fraction of the growth provided by stocks. However, the higher returns achieved by stocks are associated with much greater risk.

What are bonds?

Bonds are also known as fixed income securities because they generally pay regular income to bondholders. Essentially, bonds are "IOUs" issued by corporations or governments in exchange for your loan to them. Bond issuers promise to pay you interest on your loan (usually every six months) and to repay the principal amount of the loan itself on a specific maturity date—which can be as long as 30 years' time. Like stocks, bonds may be traded in exchanges or markets in the United States and abroad.

What are money market investments?[1]

Money market investments (also known as "cash") are made in highly rated fixed income securities that have less than a year before they mature. Since money market instruments seek short-term income and stability, the risk of losing principal on this investment is minimal. However, the interest you earn is lower than on other fixed income investments—such as bonds—and earnings reflect current interest rates. So your money market investments may not keep ahead of inflation over the long term.

What are the benefits of professional management?

Most investors are so busy with their professional and personal lives that they don't have the time, expertise or resources to make daily decisions on their investments. By investing in mutual funds, you gain the expert assistance of professional fund managers who often specialize in selecting specific types of investments to reflect a particular objective or strategy. However, you should be advised that mutual funds are subject to fees and expenses, including management fees, and investors may pay a sales charge.

What is diversification?

Remember the saying "Don't put all your eggs in one basket"? That's the idea behind diversification. A mutual fund generally holds many different investments that perform at varying levels during different points in the economic cycle. This way, the strong performance of some of the fund's holdings can help offset the poor performance of other investments in the fund. Diversification, however, does not assure a profit or protect against loss.

Let's say you have $1,000 to invest in a mutual fund. Because your money is pooled with that of other investors, the fund is able to invest that money in many different securities. On your own, you would probably only be able to invest in a very limited number of securities—which would limit your diversification.

1. **Shares of money market funds are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although these funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in these funds.**

What types of mutual funds are there?

The many different types of mutual funds makes it hard to tell them apart. A good place to start is the fund's objective. Most mutual funds pursue either growth of capital, value or income—or some combination of objectives. To maintain a diversified and balanced portfolio, you may want to invest in a variety of funds, each with a different objective.

What is a growth fund?

A growth fund typically invests in stocks of companies with potential for long-term growth. These could include companies in fast growing industries, or well-established companies. While growth funds are subject to the daily ups and downs of the stock market, their long-term potential as well as their volatility can be substantial.

What is an aggressive growth fund?

Aggressive growth funds generally have investment policies and strategies that pursue growth with much less consideration to price or volatility. They may invest in smaller companies that have the potential to grow much larger over time. Alternatively, they may focus on investments in emerging markets such as Asia and Eastern Europe. Investing in foreign markets, in general, and emerging and developing markets, in particular, entails special risks, such as currency fluctuations, foreign taxes and economic and political factors. Aggressive growth funds can be very risky and are not suitable for all investors. However, a well-diversified mutual fund portfolio can help reduce some of this risk.

What is a value fund?

In contrast to a growth fund, a value fund focuses on companies that are temporarily out of favor with the market—so their stock may be selling for less than their estimated worth. Usually, these are well-established companies that investors have overlooked, companies experiencing a positive change or event, or companies in cyclical businesses. Although these companies generally have lower than average price-to-earnings ratios, they have the potential for better-than-expected earnings if they return to favor. Value investing involves the risk that the market may not recognize that securities are undervalued, and they may not appreciate as anticipated.

"Growth versus Value"

Historically speaking, growth and value investments tend to react differently during the economic cycle. Since value stocks are often cyclical in nature, they may benefit from the increased spending that usually occurs during an economic expansion. Growth stocks may also perform well during an expansion, but they may be out of favor during market downturns, when investors pay more attention to price ratios. So both types of investments play an important role in a long-term portfolio.

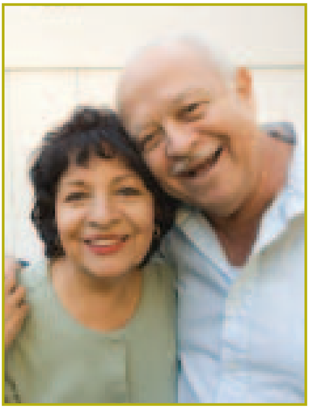
What is an income fund?

Income funds invest primarily in bonds or other income-producing securities, such as stocks that pay dividends. They may seek current income or income over time. This type of fund may be more stable in share price than a growth or value fund, but income funds are more susceptible to change in interest rates. When interest rates rise, bond prices generally fall and a fund's share prices can fall. Depending on the securities an income fund invests in, the income can be either taxable or tax exempt.

What is a taxable income fund?

Taxable income funds invest primarily in corporate bonds or dividend-paying stocks. The income they may distribute is usually subject to federal and state income taxes.

What is a tax-exempt income fund?



A tax-exempt income fund invests in municipal securities issued by state and local governments, subdivisions and authorities. Much of the interest from these securities is generally exempt from federal income taxes and state and local income taxes—depending upon the state in which they are issued and where you reside.

What is a growth and income fund?

Growth and income funds typically invest in a mix of stocks for growth, along with bonds or other dividend-paying securities for income. The income may help to soften the impact of the short-term ups and downs of stocks on the overall value of your investment.

What are international funds?

International equity funds invest primarily in securities issued outside the United States. Over the past 25 years, the percentage of the world's capital represented by foreign securities has risen dramatically. International funds involve special risks, including political and economic factors, foreign taxes and currency fluctuations. However, due to their growth potential, funds that hold foreign securities are generally a sensible part of a long-term investment portfolio.

What is a global fund?

A global fund can invest overseas as well as in the United States. It is subject to the same special risks as international funds. The diversification of global funds can potentially reduce those risks.

What are alternative funds?

Alternative funds may invest in narrowly focused categories, such as precious metals or a single industry or industry group. Because of this concentration, these funds may be subject to special risk and volatility. However, as part of a diversified portfolio, an alternative fund may help offset other market risks or offer the opportunity for significant long-term results.

What are commodity-linked investment companies?

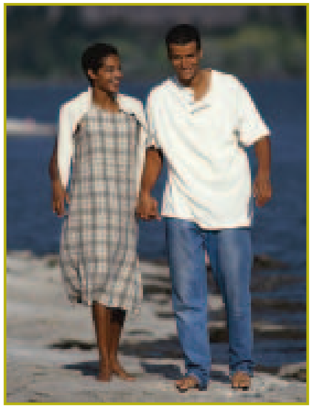
When inflation rises, the cost of producing goods or borrowing money typically increases, which can negatively impact stock or bond investments. On the other hand, raw materials such as commodities may benefit in this environment. Commodity-linked investment companies provide exposure to securities whose value is linked to the commodity markets via underlying investments in structured notes and swaps and fixed income securities. These investments are often designed to track the performance of one of the widely recognized commodities indices, and can provide investors with powerful diversification in a properly allocated portfolio. Investing in commodity markets may entail a high degree of volatility and risk of loss.

What's the difference between taxable and tax-exempt yield?

The interest rates offered by tax-exempt bonds are usually less than the rates on taxable bonds. However, you generally get to keep more of the income on a tax-exempt bond. The difference between the two depends on your tax bracket: The higher your tax bracket, the more desirable tax-exempt income becomes. However, some tax-exempt income may be subject to taxes. If you are subject to the alternative minimum tax, tax-exempt income may increase that tax. Also, capital gains distributions from a tax-exempt fund are subject to capital gains taxes.

What are lifecycle funds?

Also commonly referred to as *age-based* or *target-date* funds, lifecycle funds are based on the premise that investors tend to grow more averse to risk as they age and approach a target date, such as retirement. These funds shift allocation as the target date nears, usually automatically rebalancing to become more conservative and income-producing. Lifecycle funds normally include the target date in the fund name. An investment in a lifecycle fund is not guaranteed and a fund can suffer losses near, at, or after the target date. There is also no guarantee that an investment in a lifecycle fund will provide adequate income at and through an investor's retirement.



What are funds of funds?

Funds of funds are pools of capital that invest in a set of underlying mutual funds with the aim of achieving a specific objective, asset allocation plan or risk profile. Typically, funds of funds offer significant diversification along with access to multiple portfolio managers with different management styles.

How do I choose the right fund?

To select the funds that are most appropriate for your needs, consider the following:

- Figure out how much money you can comfortably invest after taxes and expenses
- Determine your financial goals: Are you investing for retirement, a child's education or for current income? Do you need tax-exempt income?
- Consider your time horizon. Will you need the money you invest in a few months or in 10 years? The longer your time horizon, the more risk you may be able to assume
- What is your comfort level with risk? Can you tolerate the ups and downs of the financial markets for the possibility of greater rewards?

It's important to remain focused on your goals when selecting funds for your portfolio. By factoring in elements such as your tolerance for risk and your time horizon, you'll be able to build a diversified portfolio tailored to your individual needs.

What are the risks of investing?

Your ability to tolerate risk is a critical factor in determining the kind of funds you should select. For example, the share prices of stock funds will vary according to the market conditions and factors affecting the companies the funds hold. In contrast, the share prices of bond funds will be affected by interest rate changes, which can vary the prices of the funds' holdings. So, at any given time, your investment may be worth more (or less) than when you bought it.

Of course, you may also be taking a substantial risk by not investing. Besides missing out on market opportunities for growth over time, the effects of inflation could erode your uninvested savings. As the cost of living index rises, the value of your money falls.

What can I do to help reduce risk?

By relying on the professional management and diversification of mutual funds, you may be able to reduce investment risk. You can further reduce your overall portfolio risk by strategically investing your money across different types of mutual funds through an approach called "asset allocation."

What is asset allocation?

Asset allocation is the process of diversifying your money across different types of investments. This helps reduce the risk of volatility associated with any one particular investment. Allocating your assets across a spectrum of mutual funds with varying objectives and portfolio holdings—from bond funds on the conservative end to aggressive growth stock funds at the other—can be an effective way of building a solid investment portfolio.

How do I get started?

Once you've read the fund prospectus, investing in a mutual fund is as easy as completing a simple application and writing a check. Working with your financial advisor makes it even easier. If you have any questions, speak to your advisor or call the fund company's toll-free number.

Do I need a lot of money to invest in mutual funds?

Generally speaking, mutual funds are a very affordable way to invest for almost everyone. You can start to invest in many funds with as little as $1,000. Some funds, such as those from OppenheimerFunds, offer automatic investment plans that allow you to invest as little as $50 a month. While these plans do not assure a profit or protect against losses in declining markets, they can help you get into the habit of investing on a regular basis.

When is the right time to invest?

Depending on your needs, any time may be the right time. The financial markets go up and down every day, so it makes little sense to try to "time" them. A sensible strategy is to start a plan of regular investing to take advantage of an approach called "dollar cost averaging."

What is dollar cost averaging?

Dollar cost averaging takes the guesswork out of trying to time the market. You invest a fixed amount of money at a regular interval (such as monthly), regardless of what the market is doing. With this approach, you buy fewer shares when the prices are high and more shares when the prices are low. This can help reduce the effects of market fluctuation on the average price you pay for your shares. Most importantly, it helps you maintain a regular investing plan so your investment principal can grow over time. However, since dollar cost averaging involves regular investing during periods of fluctuating prices, you should consider if you can afford to continue investing when price levels are low. Periodic investing plans do not assure a profit or protect against losses in declining markets.

How easy is it to get my money out?

You can redeem your mutual fund shares on any business day. All you have to do is make a phone call, go to **oppenheimerfunds.com,** or you can write a letter to the fund indicating you wish to sell your shares. Some funds, including certain Oppenheimer funds, allow you to set up a systematic withdrawal plan that lets you redeem a set amount from your fund at convenient time intervals. This is very convenient when you need a specific dollar amount from your fund for a child in college or if you are retired.

How can I find out how my mutual fund is doing, or get information on OppenheimerFunds mutual funds?

- Go to **oppenheimerfunds.com** to view your current account information
- Click on the "Products" tab on the website and go to "Oppenheimer Mutual Funds." Select the fund of your choice from the drop-down menu. Use the "Facts" or "Performance" tab to view the fund's strategy, top holdings, performance and daily price
- Speak with an OppenheimerFunds customer service representative by calling **1.800.CALL OPP (225.5677)**
- Call our automated PhoneLink service at **1.800.533.3310**—24 hours a day, seven days a week
- Look for quarterly mutual fund performance summaries that may be published in your local newspaper
- Review the periodic account statements you'll receive from OppenheimerFunds
- Turn to your financial advisor for any questions or concerns you may have about your mutual fund investments

Why OppenheimerFunds

Unless you're a financial expert, the world of investing can be complicated and confusing. Your financial advisor can be an invaluable source of expert and objective guidance in dealing with what can be a complex and emotional subject: your money. Whether you need advice on setting goals, dealing with tax issues, determining risk or developing an investment strategy, working with a financial advisor—along with OppenheimerFunds—can be instrumental in helping you get where you want to go.

A strong, tested industry leader

Since our founding in 1960, OppenheimerFunds has become one of the most recognized, trusted companies in the financial services industry by drawing on our strength across asset classes and operating from a set of corporate values that form the foundation of every business decision.

Committed to investment excellence

We work to deliver investment excellence via a disciplined approach to investing that combines the depth of a sharply focused "specialty shop" environment with the scale and oversight of a larger financial services firm. Our experienced investment professionals are organized into independent teams specializing in one area of the market. This approach yields unique investment ideas, low overlap from team to team and helps us seek strong relative and absolute performance over time.

Solutions to meet investors' needs

While all investors want solid performance, each has unique goals that may shift over time. From our well-known family of mutual funds to wealth management solutions, our individual and packaged solutions are designed to help investors reach milestones, such as paying for college, saving for retirement and other planned and unplanned stops along the way.

Helpful customer service

You can count on OppenheimerFunds when you need assistance. We offer you toll-free phone access to trained customer service representatives, prompt transaction processing and problem solving, convenient investment plans, informative newsletters and easy-to-understand forms.

For more information

For more complete information about any of the Oppenheimer funds, including charges, expenses and risks, ask for a prospectus and, if available, a summary prospectus from your financial advisor, visit the OppenheimerFunds website at **oppenheimerfunds.com** or call OppenheimerFunds Distributor, Inc. at **1.800.CALL OPP (225.5677).** Read the prospectus and, if available, the summary prospectus carefully before you invest or send money.

For more information,

visit our website at

oppenheimerfunds.com

or call

1.800.CALL OPP (225.5677)

Shares of Oppenheimer funds are not deposits or obligations of any bank, are not guaranteed by any bank, are not insured by the FDIC or any other agency, and involve investment risks, including the possible loss of the principal amount invested.

Before investing in any of the Oppenheimer funds, investors should carefully consider a fund's investment objectives, risks, charges and expenses. Fund prospectuses and, if available, summary prospectuses contain this and other information about the funds, and may be obtained by asking your financial advisor, visiting our website at oppenheimerfunds.com or calling us at 1.800.CALL OPP (225.5677). Read prospectuses and, if available, summary prospectuses carefully before investing.

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