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25 Tips on Treasury Inflation-Protected Securities (TIPS)

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<u>Remember: Investigate Before You Invest</u>

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Nothing contained herein is to be construed as advice for the individual investor whose circumstances merit advice and counsel from investment professionals, tempered with issues of safety, growth, income, risk, time frame, etc.

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25 Tips on TIPS

1. TIPS are inflation-linked Treasury Bills guaranteed by the U.S. Government.
2. Sources of TIPS earnings (returns) are typically as follows: (1) Semi-annual interest payments; (2) Inflation adjustments (CPI-linked); and (3) Price appreciation/depreciation due to changes in "real" interest rate (i.e., removing effects of inflation or deflation).
3. Historically, when many other securities fall, Treasury Bills rise.
4. TIPS, a valuable tool, are specifically designed to provide a substantial rate of return in inflationary times.
5. Somewhat unique regarding time horizons and safety concerns, TIPS are designed with the specific goal of long-term gains keeping pace with inflation.
6. The U.S. Treasury guarantees TIPS' published rate at purchase, plus the inflation rate which is Consumer Price Index (CPI) adjusted semi-annually.
7. Predictably, TIPS interest earnings fluctuate based on inflation-adjusted principal.
8. Deflationary times do not reduce TIPS principal payments.
9. TIPS principals remain at par value until maturity in times of deflation.
10. Over their life, TIPS have consistently constant coupon rates.
11. The probability of protracted deflation, which could reduce TIPS yields, is low.
12. Regular purchases over time (dollar-cost averaging) can reduce uncertainty about short-term CPI swings.
13. Changes in real interest rates drive the valuation in TIPS' principal (inverse relationship).
14. TIPS real, after-inflation returns are guaranteed, as the principal is adjusted to changes in CPI.
15. TIPS are exempt from state and local taxes (unlike some similar corporate offerings).
16. Investors can count on TIPS to pay interest semi-annually.
17. TIPS were first launched by College Retirement Equities Foundation (CREF) in 1997.
18. They are the only CREF-sponsored bonds that CREF offers, amid a sea of equities.
19. The CREF TIPS Fund track record has been significantly better than Teachers Insurance and Annuity Association (TIAA) Traditional (e.g., Treasury Bills) Accounts.
20. Only 10% per year of TIAA Traditional Bonds can only be moved out of TIAA and into, for example, any CREF Accounts.
21. CREF TIPS are not bound by TIAA restrictions regarding shifting or withdrawals.
22. With an openly "easy money" Fed policy (pushing more "liquidity" into and through the financial system), TIPS could be of increasing interest to investors.
23. TIPS are sold by the United States Treasury in $100 increments.
24. Maturity wise, TIPS are sold in increments of 5-, 10-, and 20-year bonds by the U.S. Treasury (800-722-2678 or www.publicdebt.treas.gov/sec/sectrdir.htm).
25. A direct purchase of TIPS without a fee can be done from the U.S. Treasury (www.treasury.gov). Fund families with TIPS-related accounts are growing.

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