It's Your Money
Week 4
Financial Planning II

PRESENTED BY LAURIE DUBCHANSKY, CFP®

Investment Planning – Basic Asset Classes

- Cash and Equivalents
- Bonds
- Stocks
- Alternatives

Investment Planning – Cash and Equivalents

What are they?

- Deposits with a bank or financial institution
- Contracts with an insurance company
- Treasury securities
- Also referred to as stable value investments

What risks do they have?

- Inflation risk – are they outpacing inflation?

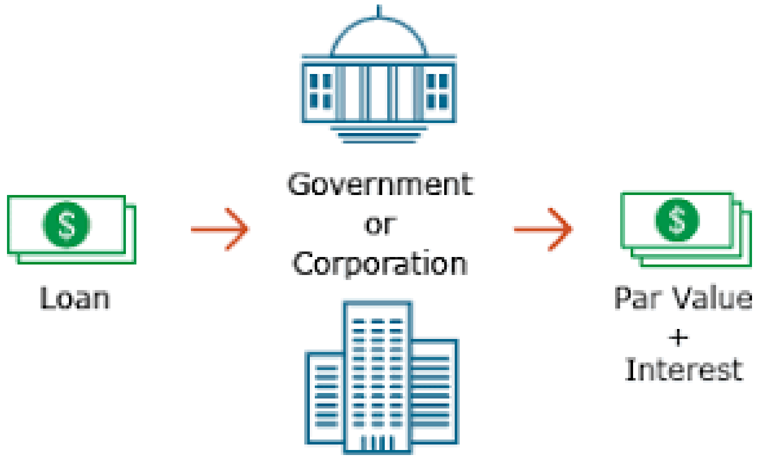
Investment Planning – Bonds

What are they?

- Loans made to a company or the government that may have a fixed rate of return
- Can be short, intermediate, or long-term bonds

What risks do they have?

- Inflation risk
- Interest risk
- Market risk
- Company performance risk



Investment Planning – Bonds

Price of bond and interest rates

You buy a corporate bond with a coupon rate of 5%. While you own the bond, interest rate rises to 7% and then falls to 3%.

- The prevailing interest rate is the same as the bond's coupon rate. The price of the bond is 100, meaning that buyers are willing to pay you the full $20,000 for your bond
- Rates rise to 7%. Buyers can get around 7% on new bonds, so they'll only be willing to own your bond at a discount. Price drops to 91 (now equal to 7% yield for them).
- Rate drops to 3%. Buyers can only get 3% on new bonds, willing to pay extra for your bond. Price rises to 104, and the yield to maturity of this bond now matches the current 3% interest rate

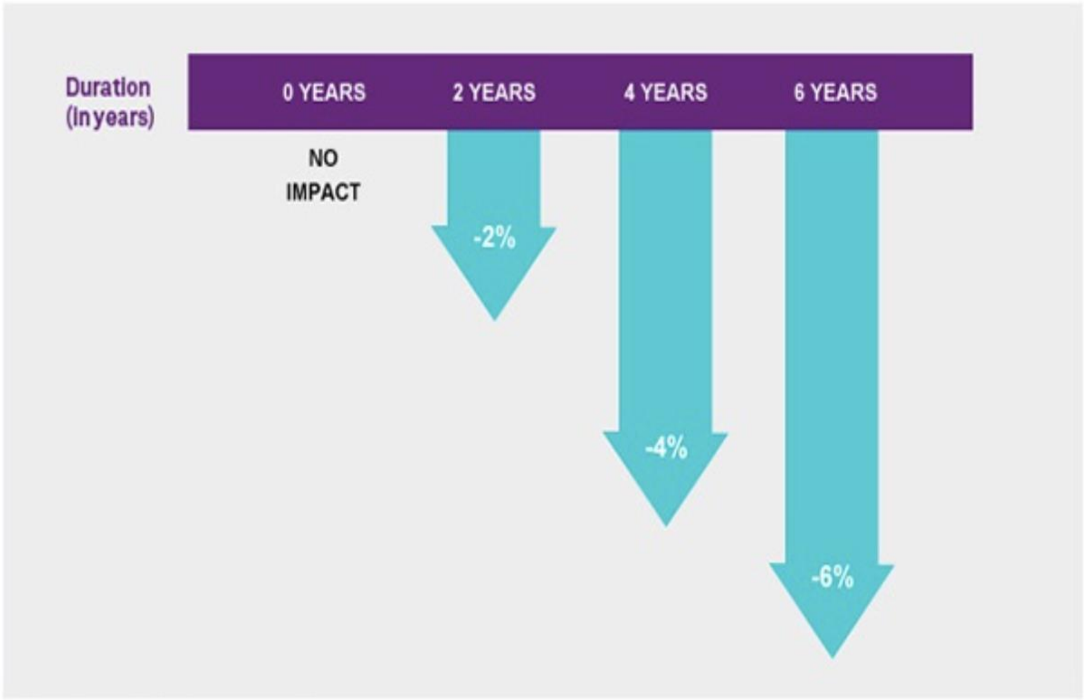
Investment Planning – Bonds

How duration affects the price of your bonds

- For every 1% increase or decrease in interest rates, a bond's price will change approximately 1% in the opposite direction for every year of duration

% Change in bond prices if rates spike 1%

Hypothetical illustration of the effects of duration, exclusively on bond prices



This chart is for illustrative purposes only.

Investment Planning – Stocks

What are they?

- Units of equity ownership in a company

What risks do they have?

- Inflation risk
- Principal risk
- Market risk
- Company performance risk

Investment Planning – Alternatives

Non-correlated assets (reduce volatility of overall portfolio)

- Commodities
- Hard assets
- Hedge funds
- Real estate
- Venture capital
- Private equity

Investment Planning – Diversifying Stocks

- Domestic vs. International Funds
- Growth vs. Value Funds
  - Growth: high price / earnings ratio
  - Value: low price / earnings ratio
- Small Cap vs. Large Cap Funds
  - Market capitalization – number of shares outstanding multiplied by share price
    - Small cap: generally less than $5 billion
    - Mid cap: generally between $5-10 billion
    - Large cap: generally more than $10 billion

Active vs Passive Management

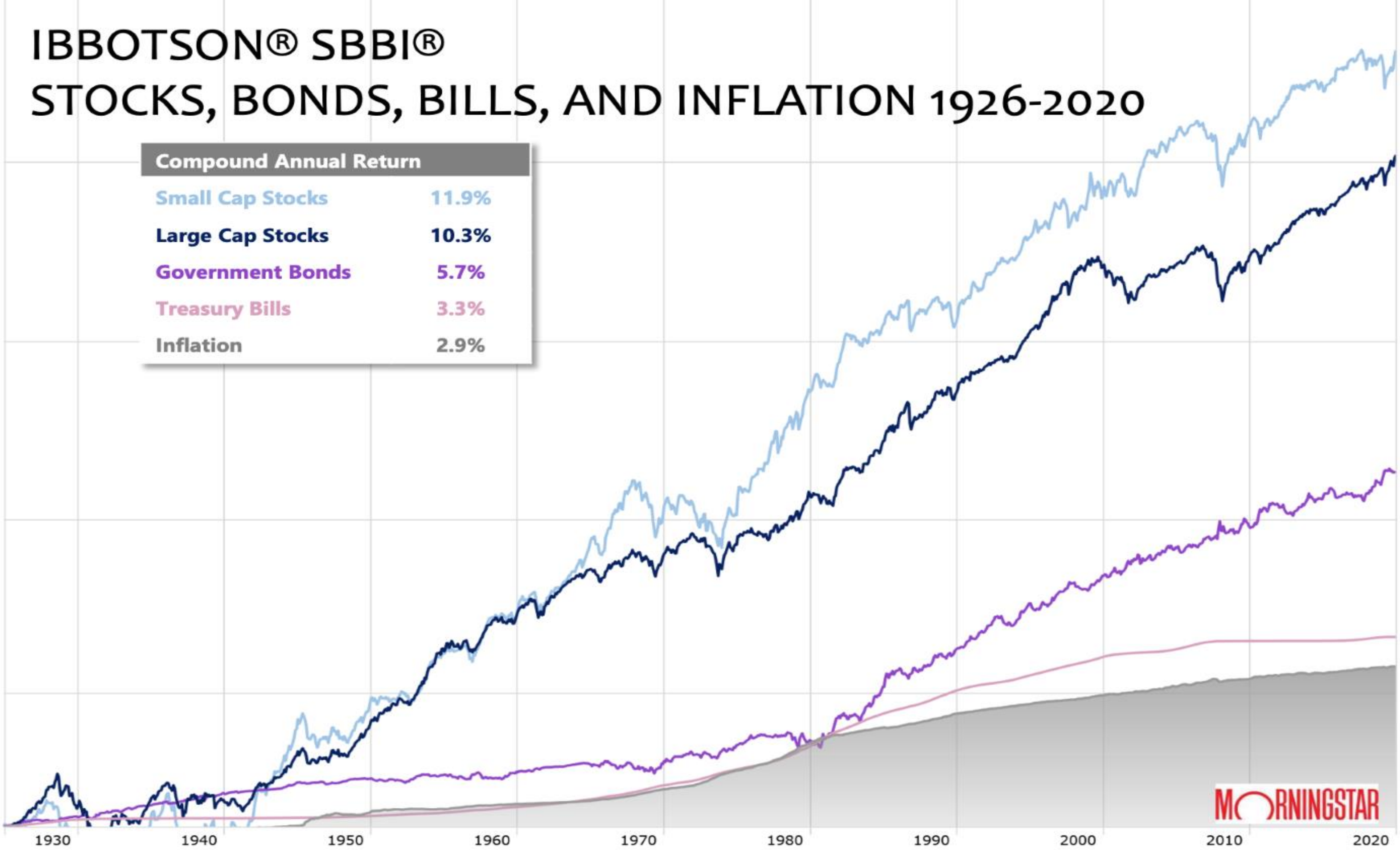
What is the difference between active and passive investing?

A major debate has divided the investment world for years!

- Active investments are funds run by investment managers who try to outperform an index over time, such as the S&P 500 or the Russell 2000.
- Passive investments are funds intended to match, not beat, the performance of an index.

IBBOTSON® SBBI®
STOCKS, BONDS, BILLS, AND INFLATION 1926-2020

Compound Annual Return	
Small Cap Stocks	11.9%
Large Cap Stocks	10.3%
Government Bonds	5.7%
Treasury Bills	3.3%
Inflation	2.9%



HISTORICAL ASSET CLASS RETURNS

Highest Return

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Em. Mkts 56.0%	Small Cap 16.5%	Em. Mkts 71.3%	Int'l Stocks 6.2%	Large Cap 37.5%	Large Cap 22.9%	Large Cap 33.3%	Large Cap 28.5%	Em. Mkts 66.5%	Mid Cap 17.5%
Mid Cap 46.6%	Alter-natives 12.3%	Int'l Stocks 30.5%	Large Cap 1.3%	Mid Cap 31.0%	Mid Cap 19.2%	Mid Cap 32.2%	Int'l Stocks 20.4%	Int'l Stocks 27.8%	Bonds 11.6%
Small Cap 43.4%	Mid Cap 9.5%	Alter-natives 26.3%	Bonds -2.9%	Small Cap 28.3%	Small Cap 16.5%	Small Cap 22.4%	Mid Cap 19.1%	Alter-natives 26.5%	Alter-natives 4.1%
Large Cap 30.4%	Em. Mkts 9.0%	Small Cap 17.3%	Small Cap -3.3%	Bonds 18.5%	Alter-natives 14.4%	Alter-natives 16.2%	Bonds 8.7%	Small Cap 21.3%	Small Cap -3.1%
Bonds 16.0%	Large Cap 7.6%	Mid Cap 13.9%	Alter-natives -3.5%	Int'l Stocks 11.6%	Em. Mkts 6.6%	Bonds 9.7%	Small Cap -2.5%	Large Cap 21.0%	Large Cap -9.1%
Alter-natives 14.5%	Bonds 7.4%	Large Cap 10.1%	Mid Cap -3.6%	Alter-natives 11.1%	Int'l Stocks 6.5%	Int'l Stocks 2.2%	Alter-natives -5.1%	Mid Cap 14.7%	Int'l Stocks -13.8%
Int'l Stocks 10.2%	Int'l Stocks -13.9%	Bonds 9.7%	Em. Mkts -8.7%	Em. Mkts -4.5%	Bonds 3.6%	Em. Mkts -11.6%	Em. Mkts -24.2%	Bonds -0.8%	Em. Mkts -30.7%

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Bonds 8.4%	Bonds 10.3%	Em. Mkts 55.8%	Em. Mkts 26.0%	Em. Mkts 34.3%	Em. Mkts 32.5%	Em. Mkts 39.7%	Bonds 5.2%	Em. Mkts 78.9%	Small Cap 26.8%
Alter-natives 2.8%	Alter-natives 1.0%	Small Cap 47.3%	Int'l Stocks 20.8%	Int'l Stocks 14.1%	Int'l Stocks 27.0%	Int'l Stocks 11.7%	Alter-natives -21.4%	Mid Cap 37.3%	Mid Cap 26.6%
Small Cap 2.5%	Em. Mkts -5.9%	Int'l Stocks 39.3%	Small Cap 18.3%	Mid Cap 12.6%	Small Cap 18.3%	Alter-natives 10.3%	Small Cap -33.8%	Int'l Stocks 32.6%	Em. Mkts 19.2%
Mid Cap -0.6%	Mid Cap -14.5%	Mid Cap 35.6%	Mid Cap 16.5%	Alter-natives 7.5%	Large Cap 15.8%	Mid Cap 8.0%	Mid Cap -36.2%	Small Cap 27.1%	Large Cap 15.1%
Em. Mkts -2.4%	Int'l Stocks -15.6%	Large Cap 28.7%	Large Cap 10.9%	Large Cap 4.9%	Alter-natives 10.4%	Bonds 7.0%	Large Cap -37.0%	Large Cap 26.4%	Int'l Stocks 8.3%
Large Cap -11.9%	Small Cap -20.5%	Alter-natives 11.6%	Alter-natives 6.9%	Small Cap 4.5%	Mid Cap 10.3%	Large Cap 5.6%	Int'l Stocks -43.0%	Alter-natives 11.5%	Bonds 6.5%
Int'l Stocks -21.0%	Large Cap -22.1%	Bonds 4.1%	Bonds 4.3%	Bonds 2.4%	Bonds 4.3%	Small Cap -1.6%	Em. Mkts -53.2%	Bonds 5.9%	Alter-natives 5.7%

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Bonds 7.8%	Em. Mkts 18.6%	Small Cap 38.8%	Large Cap 13.7%	Large Cap 1.4%	Small Cap 21.3%	Em. Mkts 37.8%	Bonds .01%	Large Cap 31.5%	Em. Mkts 18.8%
Large Cap 2.1%	Int'l Stocks 18.0%	Mid Cap 33.5%	Mid Cap 9.7%	Bonds 0.5%	Mid Cap 20.7%	Int'l Stocks 25.7%	Alter-natives -3.4%	Mid Cap 26.2%	Large Cap 18.4%
Mid Cap -1.7%	Mid Cap 17.8%	Large Cap 32.4%	Bonds 6.0%	Alter-natives -0.3%	Large Cap 12.0%	Large Cap 21.8%	Large Cap -4.4%	Int'l Stocks 22.8%	Mid Cap 13.6%
Small Cap -4.2%	Small Cap 16.4%	Int'l Stocks 23.4%	Small Cap 4.9%	Int'l Stocks -0.3%	Em. Mkts 11.8%	Mid Cap 16.2%	Small Cap –8.5%	Small Cap 22.7%	Small Cap 11.2%
Alter-natives -5.7%	Large Cap 16.0%	Alter-natives 9.0%	Alter-natives 3.4%	Mid Cap -2.2%	Bonds 2.6%	Small Cap 14.6%	Mid Cap - 11.1%	Em. Mkts 18.6%	Alts. 10.9%
Int'l Stocks -11.7%	Alter-natives 4.8%	Bonds -2.0%	Em. Mkts -2.0%	Small Cap -4.4%	Int'l Stocks 1.6%	Alter-natives 7.8%	Int'l. Stocks - 13.3%	Alts. 11.6%	Int'l Stocks 8.4%
Em. Mkts -18.2%	Bonds 4.2%	Em. Mkts -2.3%	Int'l Stocks -4.3%	Em. Mkts -14.6%	Alter-natives 0.5%	Bonds 3.5%	Em. Mkts -14.4%	Bonds 8.7%	Bonds 7.5%

Lowest Return

Investment Planning – Risk Assessment

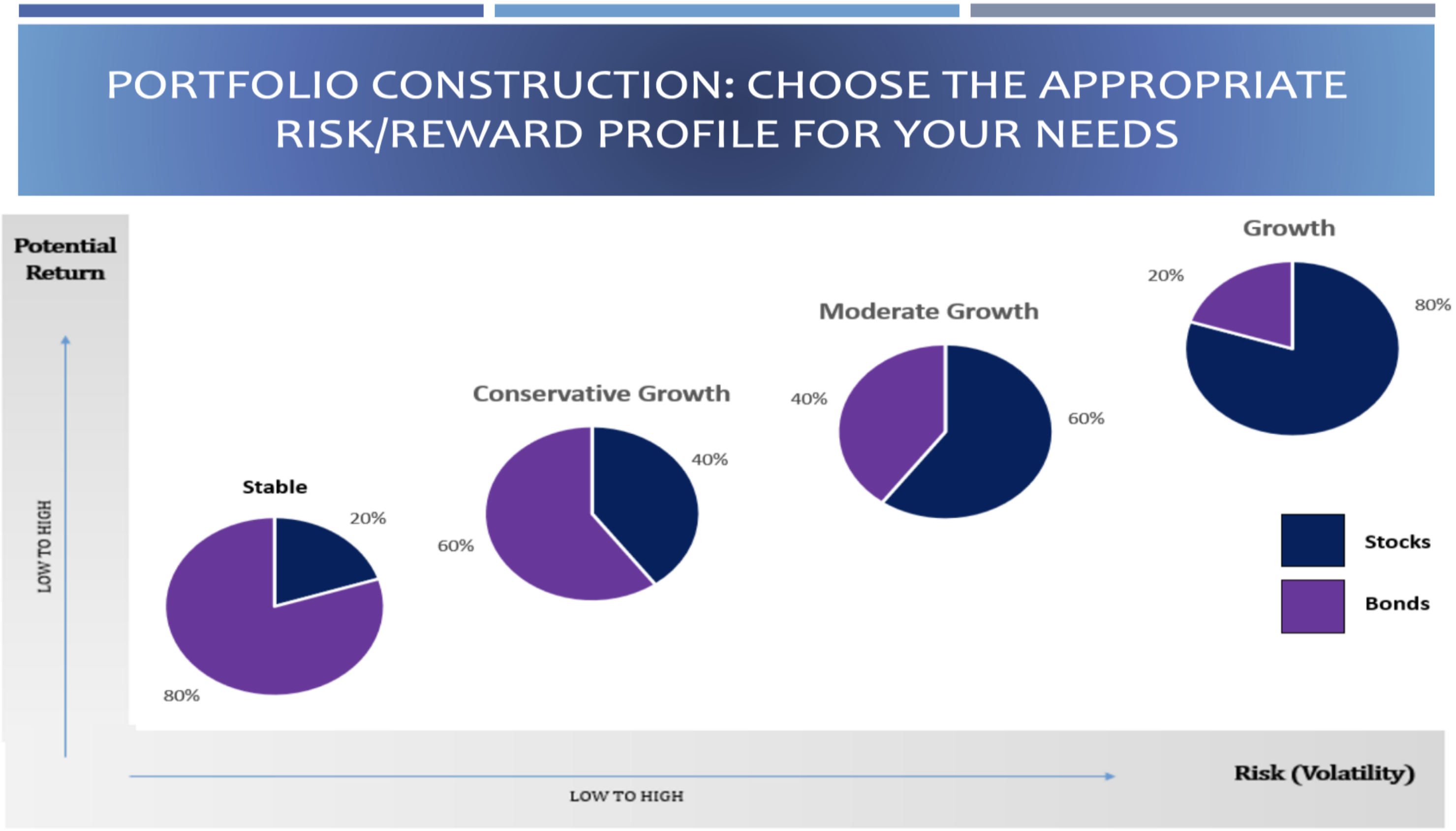
Find a portfolio that can best achieve your goals!

One that is **constrained by risk tolerance**

- Three questions
  - Do you want to take risk?
  - Do you need to take risk?
  - Can you afford to take risk?

From Kitces.com, Sept 3, 2014

Investment Planning – Choosing a Portfolio



Investment Planning – more portfolio choices

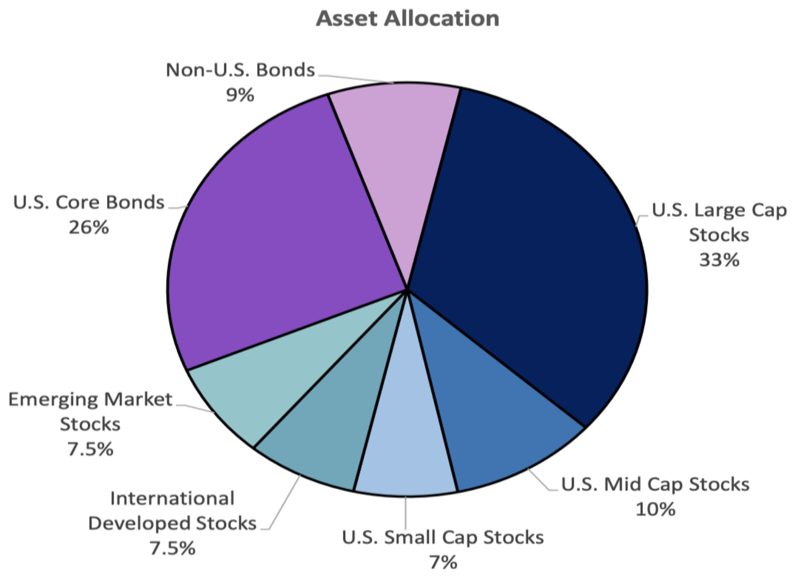
Portfolios	Name	Cash	Bond	Stock	Alternative	Fixed Index	3% Fixed	Unclassified	Projected Return	Standard Deviation
■	Current	15%	58%	28%	0%	0%	0%	0%	3.98%	4.80%
▲	Capital Preservation I	5%	67%	28%	0%	0%	0%	0%	4.05%	4.85%
	Capital Preservation II	5%	57%	38%	0%	0%	0%	0%	4.43%	6.43%
	Balanced I	4%	51%	45%	0%	0%	0%	0%	4.69%	7.51%
▼	Balanced II	4%	42%	54%	0%	0%	0%	0%	5.03%	8.96%
	Total Return I	4%	35%	61%	0%	0%	0%	0%	5.36%	10.25%
	Total Return II	3%	25%	72%	0%	0%	0%	0%	5.79%	12.07%
	Capital Growth I	2%	16%	82%	0%	0%	0%	0%	6.20%	13.79%
	Capital Growth II	0%	9%	91%	0%	0%	0%	0%	6.57%	15.31%
	Equity Growth	0%	0%	100%	0%	0%	0%	0%	6.93%	16.83%

■ Current ▲ Target ▼ Risk-Based Risk Band

Average Inflation Rate: **2.50%**

Investment Planning – Choosing a Portfolio

A GOOD BASIC MODERATE GROWTH PORTFOLIO



Investment Planning – Choosing a Portfolio

- Know type of account you need
- Know where you would like to house your account
  - Do it yourself
  - Robo advisor
  - Independent advisor
  - Large institutional advisor
- Know the asset classes you would like to own or prefer not to own
- ESG focus? A form of sustainable investing that considers environmental, social, and corporate governance factors

Investment Planning – Income Tax Consequences

- Always look at total return
- Not everyone should own municipal bonds
- Beware of mutual fund distributions
- Investment location
- Beware of annuities: may be tax in-efficient!

Sustainable Spending

- How much will/do you have?
- How much will/do you need?
- Calculate impact of additional savings
- What is the impact of inflation and taxes?
- How much can you spend?
- How should you invest to meet your goals
- Understand Social Security and Medicare

Retirement Planning - *Projections*

RULE OF 72

A rough estimate of how long it will take (or the return you will need) to double your money:

Divide 72 by the return your money is getting

- 72/6% = 12 years at 6% interest, your money will double in 12 years

Divide 72 by your investment horizon

- 72/10 years = 7.2% if you want your money to double in 10 years, you need a 7.2% return

Estate Planning

- Management during your lifetime
- Distributions following your death
- Protect loved ones
- Preserve property
- Avoid conflicts and delays
- Reduce costs and taxes

Estate Planning Techniques

- Do Nothing (intestacy)
- Will
  - Control distribution of estate
  - Probate, if over $166,250 (in CA in 2021) – slow, public, expensive
  - Select a guardian
- Trust
  - Reduce taxes and probate costs
  - No delay upon death
  - Privacy
  - Simplified administration
  - Flexibility
  - Professional management potential

Estate and Gift Taxation

- Federal Estate tax now 40%. No estate tax in CA at this time. Some states have an estate tax!
- Applicable Estate & Gift Tax Exclusion Amount = $11,700,000 in 2021
- Unlimited Marital Deduction
- $15,000 Annual Gift Exemption

Special Situations Planning – *Saving for College*

529 Savings Plans

- Investment options
  - Individual funds
  - Age-based and risk-based portfolios
- Tax-free withdrawals for **qualified expenses**
- Can use any state's plan
- Lifetime contribution limits vary in each state
- Can start with a small investment of $50
- Can pre-fund with 5 years of gifts ($15k x 5 = $75k)

10 Recommendations for Financial Success

1. Work only with fiduciary advisors
2. Focus on asset allocation, not stock picking
3. Don't try to time the market
4. Invest tax efficiently (index, tax location, use municipals if helpful)
5. Maximize contributions to retirement plans
6. Don't buy annuities
7. Do not borrow to spend (good debt vs bad debt)
8. Save for college in a 529 plan
9. Have a will or trust

Thank you for coming!

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It is my pleasure to help you learn the benefits of financial planning. As a Certified Financial Planner™ professional, I do all I can do to help educate those in our community who are willing to learn.

Bravo!

Laurie Dubchansky, CFP