

# INVESTMENT WORLD

It's Your Money – Week 4

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# PRESENTATION OVERVIEW

- How to find a financial planner
- Investment types overview
- Market history
- Investment Policy Statement
- Investing in the real world

# FINDING A FINANCIAL PLANNER

- Financial advisor terms are interchangeable and hold no legal meaning
- Registered Investment Advisor vs Registered Representative (Broker)
  - Fiduciary vs Best interest
  - Ongoing vs transactional
- Credentials:
  - Certified Financial Planner (CFP®) – Specializes in financial planning
  - Certified Public Accountant (CPA) – Specializes in taxes
  - Chartered Financial Analyst (CFA®) – Specializes in investments

# FINDING A FINANCIAL PLANNER (CONT.)

- Things to look for:
  - Experience / Credentials
  - Fee-Only
  - Independent Custodian
  - Rapport / Trust
- Review your advisor before hiring:
  - <https://adviserinfo.sec.gov/>
  - <https://brokercheck.finra.org/>
  - Review the advisors Form ADV

# INVESTMENT TYPES – CASH & CASH EQUIVALENTS

- Pros:
  - Principal is generally safe (FDIC or SIPC insurance)
  - Liquid - funds are easily accessible
  - Can still generate some interest (high yield savings / money market)
- Cons / Risks:
  - Inflation risk
- **Best Use:**
  - Short-term needs (upcoming spending / emergency fund)

# INVESTMENT TYPES – CASH & CASH EQUIVALENTS (CONT.)

Type	Interest Rate
Cash in your wallet	0.0%
Checking/Savings accounts	0.0-0.10%
High Yield Savings Account	3.0-4.0%
Money Market accounts / funds	3.5-4.5%

# INVESTMENT TYPES – CASH & CASH EQUIVALENTS



Source: Board of Governors of the Federal Reserve System (US) via FRED®

*Shaded areas indicate U.S. recessions.*

[fred.stlouisfed.org](https://fred.stlouisfed.org)

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# INVESTMENT TYPES – BONDS

- Loan to a company or government with the expectation of getting original principal + interest at the end of loan term
- Bonds are rated by quality of borrower. Typically, higher quality company will pay a lower interest rate and vice versa
- Sold in varying terms; 4 weeks to 30 years
- Ways to own bonds:
  - Directly from borrower (i.e. Treasury purchased via TreasuryDirect)
  - Individual bond from an exchange
  - Bond fund from an exchange
- Pros:
  - Higher interest rates than cash
  - Higher certainty of investment outcome than stocks
  - Less volatile than stocks
- Cons:
  - Inflation risk
  - Interest rate risk
  - Credit risk
- **Best Use:**
  - Provide income, serve as ballast during market downturns

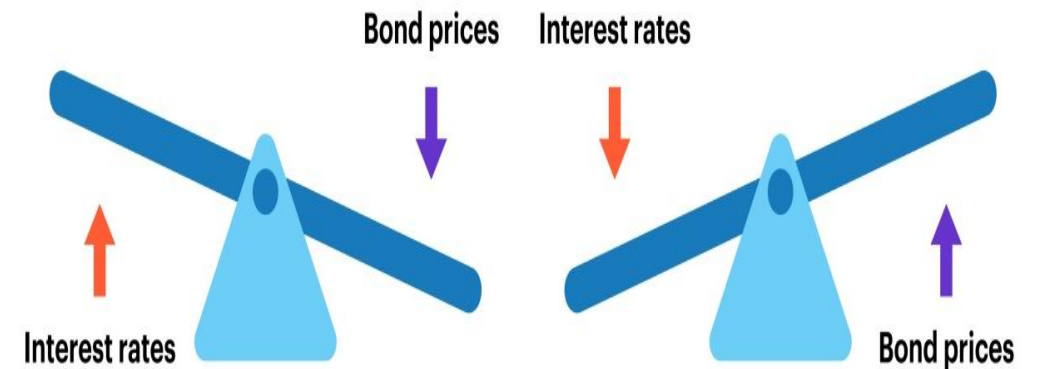


# INVESTMENT TYPES – BONDS (CONT.)

- US Treasuries
  - T-Bills 4 weeks to 52 weeks (interest paid at maturity)
  - T-notes 2 to 10 years (interest paid every 6 months)
  - T-bonds 20 or 30 years (interest paid every 6 months)
  - Income exempt from state and local taxes
- Treasury Inflation Protected Securities (TIPS)
- Series I – inflation adjusted US government bond (only sold directly on TreasuryDirect.gov)
- Series EE – US government bond guaranteed to double in 20 years (sold same as Series I)
- Certificate of Deposits (CDs)
- Municipal Bonds (income exempt from both federal and state taxes)
- Mortgage-backed securities
- Corporate Bonds

# INVESTMENT TYPES – BONDS (CONT.)

- Interest Rate risk example:
  - You buy a 1-year Treasury for \$96 that will pay you \$100 at maturity (4% rate)
  - If interest rates jump to 6% right after you buy the bond, the bond value falls to \$94
  - If you sell the bond, you have a \$2 loss.
  - If you hold the bond to maturity, you still get the original \$100 promised (4% gain)
- Interest rate risk is not an issue if you can hold the bond to maturity
- The longer the term of the bond, the greater the interest rate risk



# INVESTMENT TYPES – STOCKS

- Ownership represented as shares of a company
- Either publicly traded (NYSE, NASDAQ) or private (company stock that has not gone public)
- Investment returns come from both dividends and price appreciation
- Price changes of stocks can come from many factors:
  - Overall economy (interest rates, inflation)
  - Company specific news (earnings, business expansion)
  - Sentiment / speculation
- Pros:
  - Stocks can outpace inflation
  - Ability for upside / growth
  - Dividends can provide income
- Cons:
  - Stock prices are volatile
  - You can lose 100% of investment
  - Growth may not come when you expect / need it to
- **Best Use:**
  - Long-term goals of 10+ years, legacy for heirs

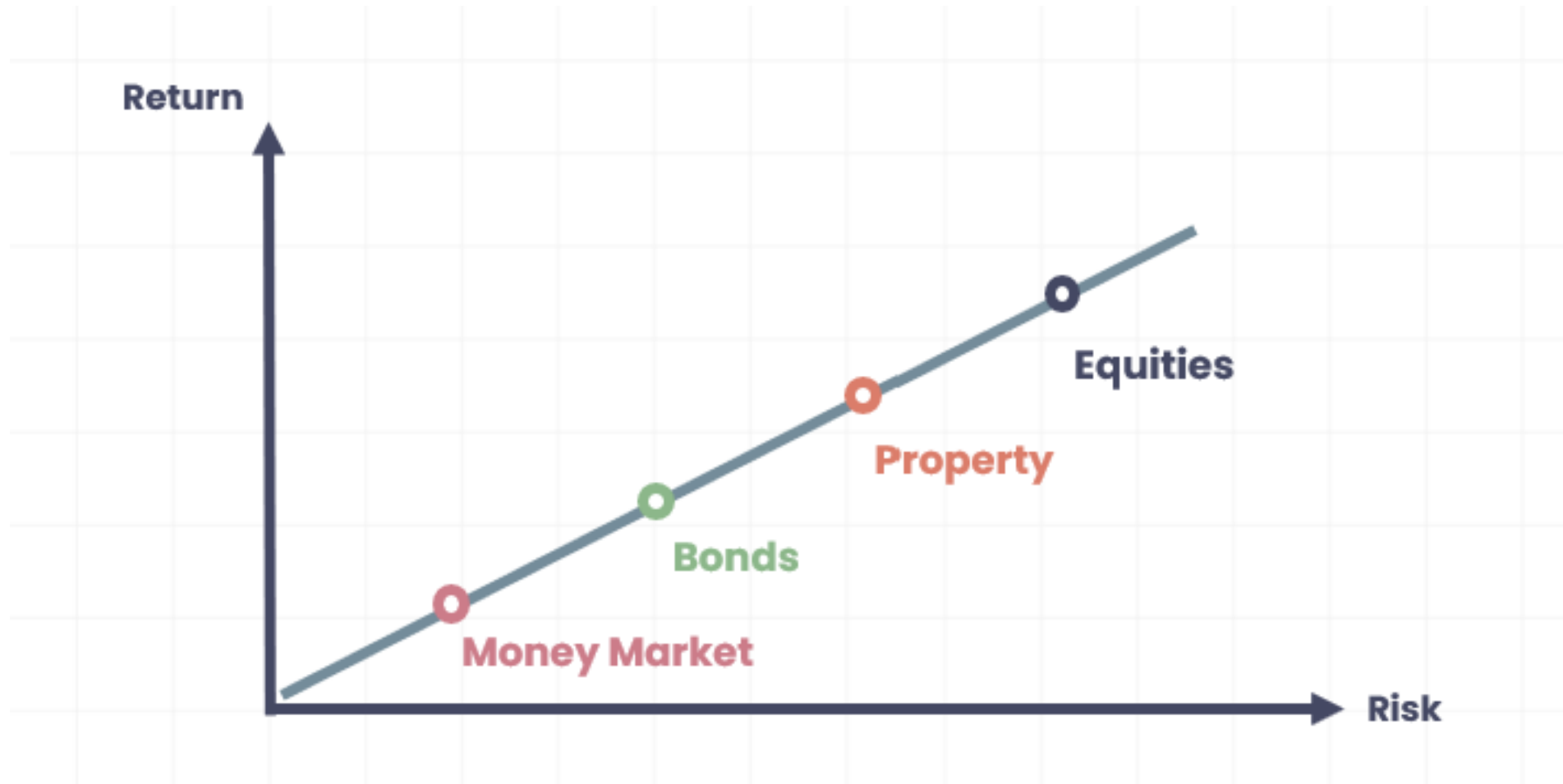
# INVESTMENT TYPES – STOCKS (CONT.)

- Individual company shares
  - Riskier since you take on the risks of the specific company
- Mutual Funds
  - Basket of stocks
  - Trades once a day
  - Can have front/back-end commission-based fees
- Exchange Traded Funds (ETFs)
  - Basket of stocks
  - Trades throughout the day like individual shares
  - More tax-efficient than mutual funds

# INVESTMENT TYPES – ALTERNATIVES

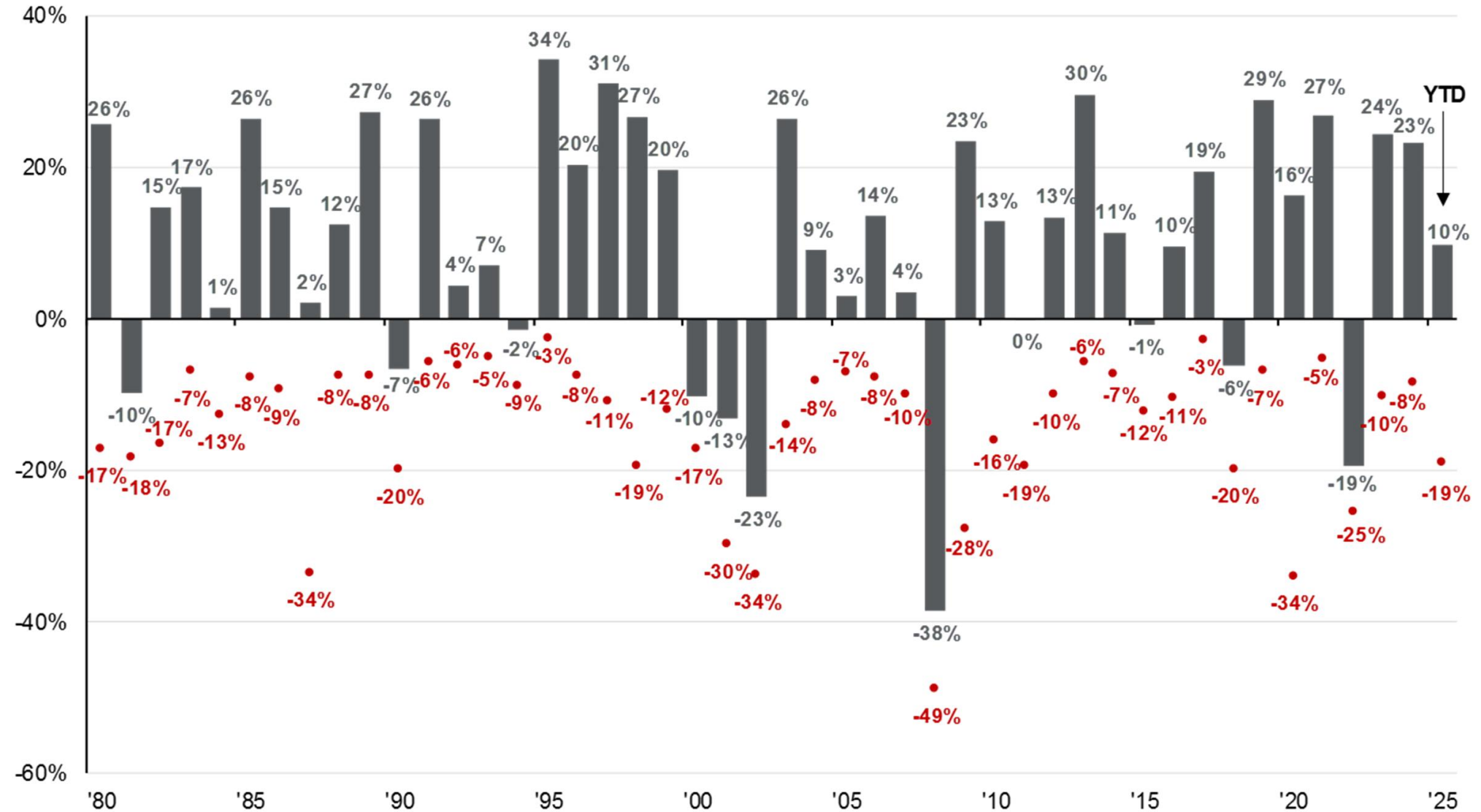
- Commodities / Precious metals
  - Sometimes useful for inflation protection
  - No interest or dividends only price appreciation
- Real Estate
  - Owning investment real estate (rental, commercial, REIT)
  - Do you want to be a landlord?
- Private Equity
  - Owning companies not listed on public exchange
  - Often have high fees to access private companies
- Pros
  - Diversification from stocks/bonds
  - For real estate and private equity, price smoothing
- Cons
  - More complexity
  - Typically higher fees
  - Not liquid
- **Best Use**
  - Small portion of portfolio that you don't need access to for a long period of time

# RISK AND RETURN



## S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.1%, annual returns were positive in 34 of 45 years





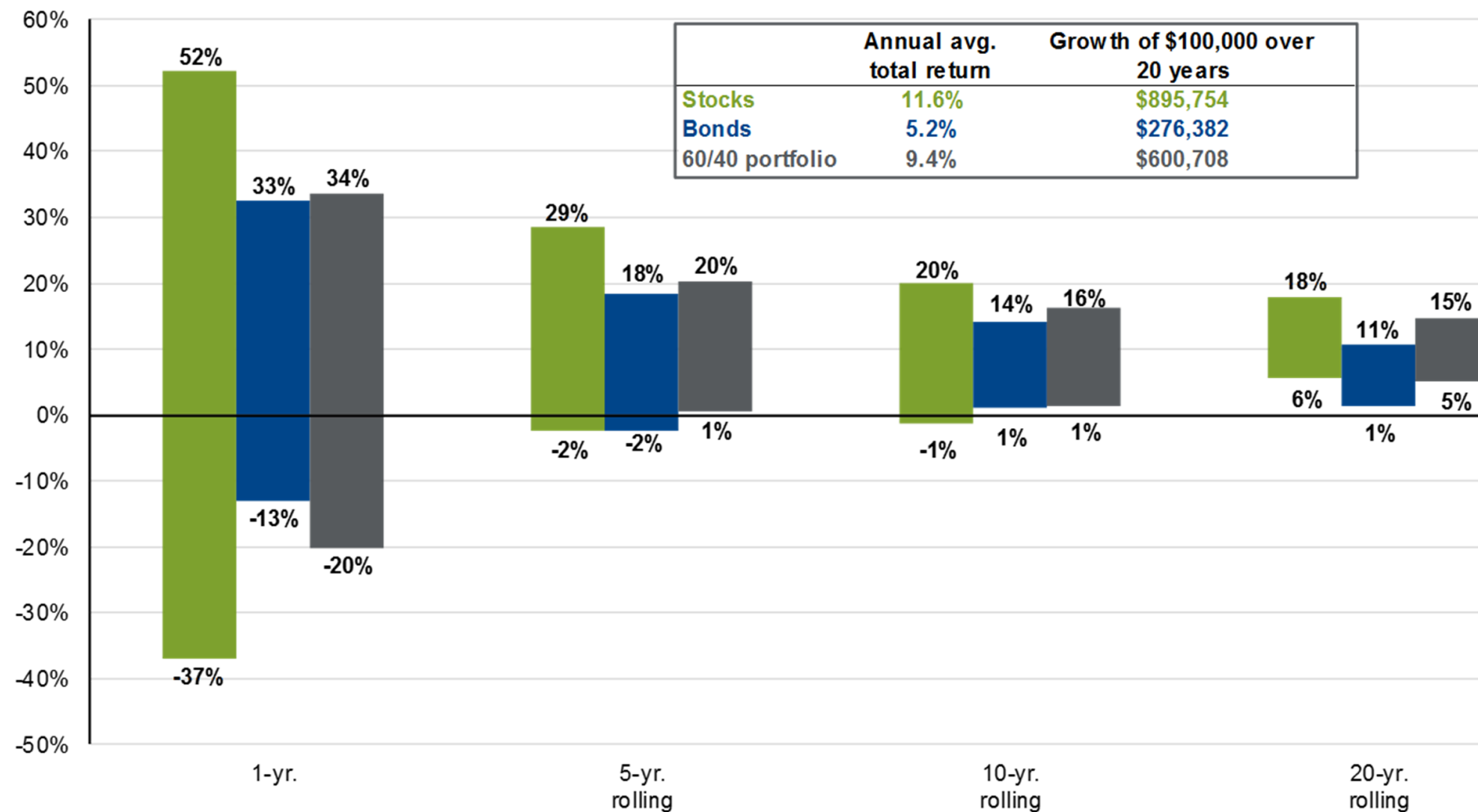
2010-2024

Ann.	Vol.	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	YTD
Large Cap 13.9%	Sm all Cap 20.6%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Sm all Cap 38.8%	REITs 28.0%	REITs 2.8%	Sm all Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Sm all Cap 20.0%	REITs 41.3%	Com dty. 16.1%	Large Cap 26.3%	Large Cap 25.0%	DM Equity 23.3%
Sm all Cap 10.3%	EM Equity 17.9%	Sm all Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Large Cap 28.7%	Cash 1.5%	DM Equity 18.9%	Sm all Cap 11.5%	EM Equity 19.6%
REITs 9.4%	REITs 16.8%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Sm all Cap 25.5%	Large Cap 18.4%	Com dty. 27.1%	High Yield -12.7%	Small Cap 16.9%	Asset Alloc. 10.0%	Large Cap 10.8%
Asset Alloc. 7.2%	DM Equity 16.5%	Com dty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Com dty. 11.8%	Sm all Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Small Cap 14.8%	Fixed Income -13.0%	Asset Alloc. 14.1%	High Yield 9.2%	Asset Alloc. 10.3%
High Yield 5.9%	Com dty. 16.1%	Large Cap 15.1%	Cash 0.1%	Sm all Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	Asset Alloc. 13.5%	Asset Alloc. -13.9%	High Yield 14.0%	EM Equity 8.1%	High Yield 8.9%
DM Equity 5.7%	Large Cap 15.1%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	DM Equity 11.8%	DM Equity -14.0%	REITs 11.4%	Com dty. 5.4%	Com dty. 7.1%
EM Equity 3.4%	Asset Alloc. 10.4%	Asset Alloc. 13.3%	Sm all Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Sm all Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	Large Cap -18.1%	EM Equity 10.3%	Cash 5.3%	Sm all Cap 7.1%
Fixed Income 2.4%	High Yield 9.4%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Com dty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	EM Equity -19.7%	Fixed Income 5.5%	REITs 4.9%	Fixed Income 5.0%
Cash 1.2%	Fixed Income 4.7%	Fixed Income 6.5%	Com dty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Com dty. 1.7%	DM Equity -13.4%	Com dty. 7.7%	Com dty. -3.1%	Fixed Income -1.5%	Small Cap -20.4%	Cash 5.1%	DM Equity 4.3%	REITs 4.1%
Com dty. -1.0%	Cash 0.9%	Cash 0.1%	EM Equity -18.2%	Com dty. -1.1%	Com dty. -9.5%	Com dty. -17.0%	Com dty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	EM Equity -2.2%	REITs -24.9%	Com dty. -7.9%	Fixed Income 1.3%	Cash 2.9%



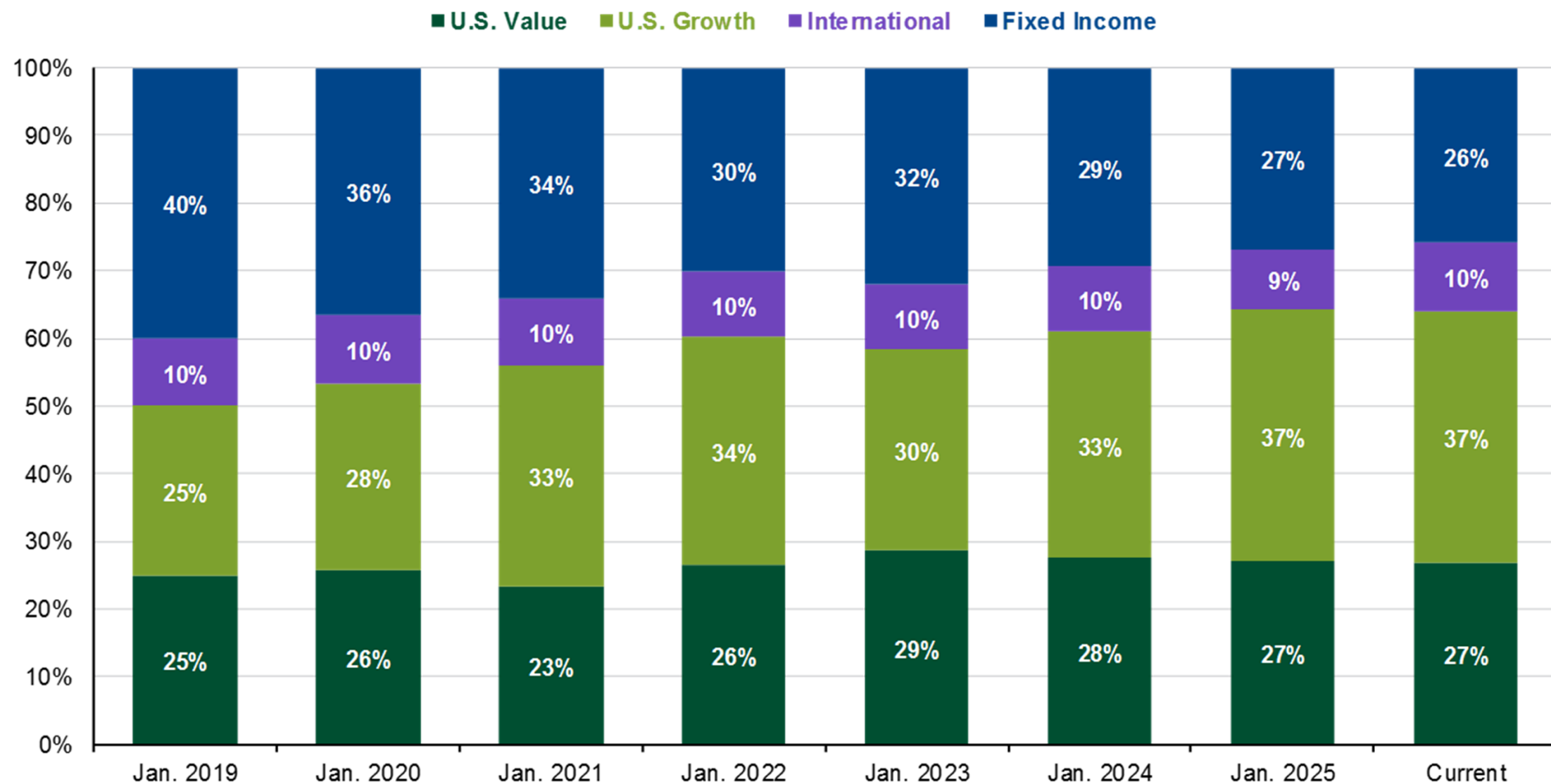
## Range of stock, bond and blended total returns

Annual total returns, 1950–2024



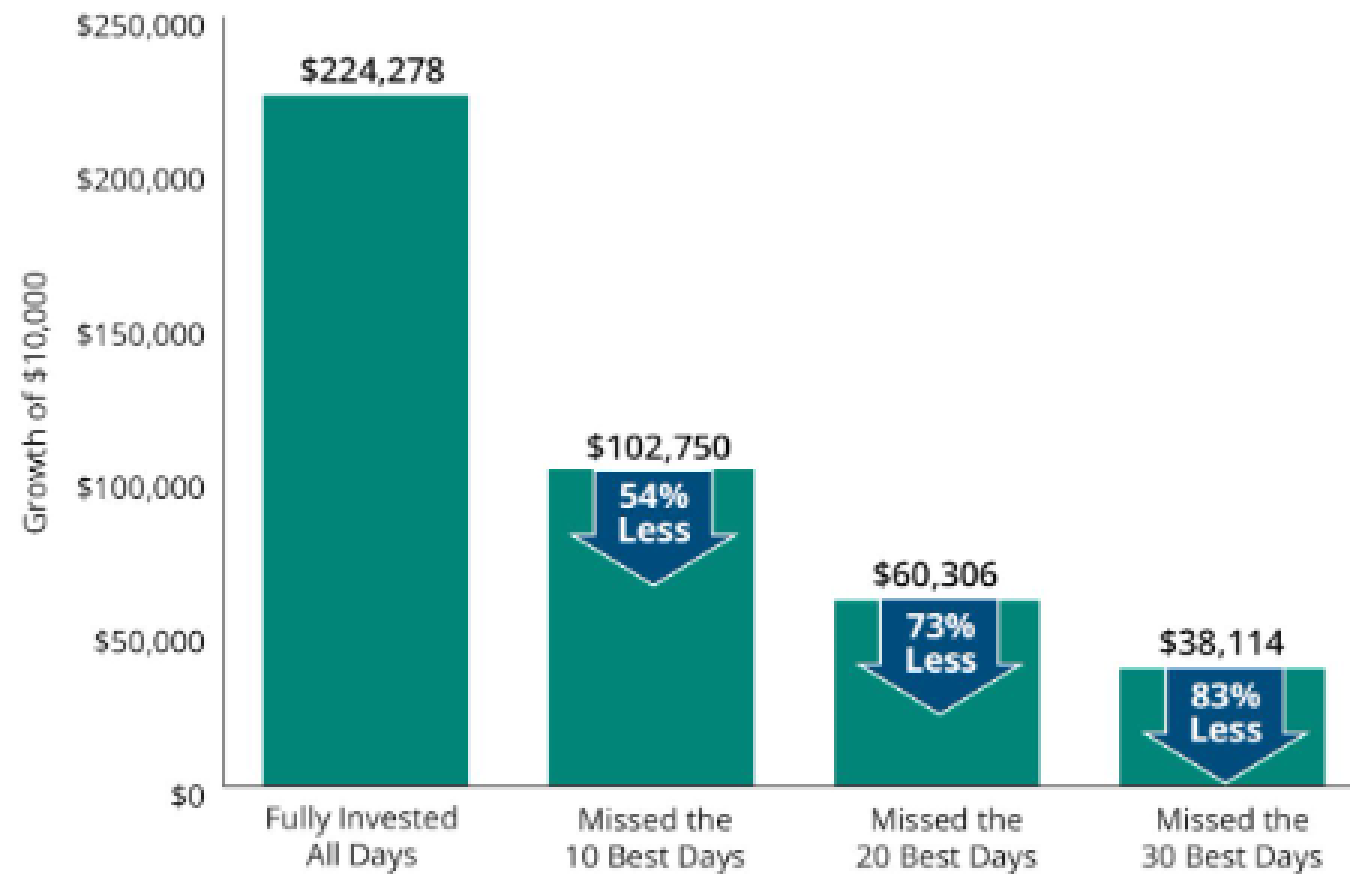
## 60/40 portfolio composition by asset class

Start of 2019 to current, no rebalancing



# Missing the Market's Best Days Has Been Costly

S&P 500 Index Average Annual Total Returns: 1995-2024



## Report 1a: Percentage of U.S. Equity Funds Underperforming Their Benchmarks (Based on Absolute Return)

Fund Category	Comparison Index	1-Year (%)	3-Year (%)	5-Year (%)	10-Year (%)	15-Year (%)	20-Year (%)
All Domestic Funds	S&P Composite 1500®	78.65	87.65	84.69	89.70	93.23	94.11
All Large-Cap Funds	S&P 500	65.24	84.96	76.26	84.34	89.50	91.99
All Mid-Cap Funds	S&P MidCap 400	62.00	74.64	80.00	77.32	87.50	90.93
All Small-Cap Funds	S&P SmallCap 600	29.69	53.03	60.37	82.22	90.68	90.80
All Multi-Cap Funds	S&P Composite 1500	78.45	86.13	82.93	87.44	91.52	93.41
Large-Cap Growth Funds	S&P 500 Growth	92.03	57.02	80.18	84.84	95.91	96.90
Large-Cap Core Funds	S&P 500	75.89	82.30	80.37	96.62	97.07	93.27
Large-Cap Value Funds	S&P 500 Value	38.58	89.89	78.91	89.61	95.08	87.78
Mid-Cap Growth Funds	S&P MidCap 400 Growth	63.08	85.95	74.26	65.12	82.49	88.30
Mid-Cap Core Funds	S&P MidCap 400	66.67	65.88	81.48	88.80	92.81	96.75
Mid-Cap Value Funds	S&P MidCap 400 Value	68.00	78.57	80.36	92.75	92.16	94.19
Small-Cap Growth Funds	S&P SmallCap 600 Growth	23.12	68.14	66.17	77.34	87.34	91.46
Small-Cap Core Funds	S&P SmallCap 600	33.22	39.58	56.49	86.54	94.10	92.48
Small-Cap Value Funds	S&P SmallCap 600 Value	42.55	35.82	48.05	81.15	93.38	92.78
Multi-Cap Growth Funds	S&P Composite 1500 Growth	78.08	75.28	83.25	90.00	91.24	92.50
Multi-Cap Core Funds	S&P Composite 1500	80.00	86.22	88.16	95.53	95.50	94.69
Multi-Cap Value Funds	S&P Composite 1500 Value	38.16	88.10	80.00	92.98	95.63	90.76
Real Estate Funds	S&P United States REIT	80.52	85.19	82.93	82.42	88.00	90.12

Source: S&P Dow Jones Indices LLC, CRSP. Data as of Dec. 31, 2024. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

# INVESTMENT POLICY STATEMENT

- Risk tolerance
- Time Horizon for financial goals
- Liquidity needs (how soon do you need access to funds)
- Diversification
- Active vs passive funds
- US vs International
- Market timing
- Asset Allocation
- Rebalancing frequency
- Write it down in an Investment Policy Statement!

# INVESTMENT POLICY STATEMENT

## MY OWN EXAMPLE

- I took a risk tolerance assessment and found I am very risk tolerant.
- My goal of buying a home is short-medium term and my goal for retirement is long-term
- My emergency fund savings and upcoming spending needs to be liquid, my home downpayment funds needs to be liquid, and my retirement savings can be illiquid
- I agree with the research that markets work and therefore I choose to invest in index funds rather than try to pick individual stocks. If I ever were to own an individual stock, I do not want it to be greater than 5% of my net worth.
- I agree with research that shows active managers on average after fees perform worse than passive managers. Therefore, I choose to invest in low-cost passively managed index funds

# INVESTMENT POLICY STATEMENT

## MY OWN EXAMPLE (CONT.)

- US stocks represent about 60% of the global market capitalization. I recognize there are diversification benefits to international stocks so I hold 60% of my stocks in US and 40% international.
- The research on market timing shows it is incredibly difficult. Also, it is emotionally toiling to time markets since you need to be ready for both getting in and out of the market. Instead, I choose to align my investments with the time horizon of my goals and not stress about market movements.
- Based on the above statements I will invest 100% of my emergency fund in cash/cash equivalents, 100% of my downpayment savings in a short-term bond fund, and 80% of my retirement savings in stock.
- I have chosen to revisit my investments quarterly to make sure my investments are still allocated in the percentages I originally selected

# INVESTING IN THE REAL WORLD

- Need to decide how many funds you want to use to create your portfolio. Less funds means less work but also less control
- If you purchase individual bonds, need to have a system to remember their maturity dates
- One fund portfolios worth considering:
  - Vanguard Target Date Funds (starts 90% stock then glides down to 50% stock at retirement, then 30% stock seven years later)
  - Vanguard Lifecycle funds (rebalancing done for you in the fund)
- What investment vehicles will you use?
  - 401(k) / IRA
  - Brokerage account
- Do you want to manage your investments yourself or consider hiring an advisor?



# REFERENCES

- [SPIVA 2024 Report](#)
- [Vanguard Target Date Fund](#)
- [JP Morgan Guide to the Markets](#)
- [TreasuryDirect Series EE Bonds](#)
- [TreasuryDirect Series I Bonds](#)