It’s **Your** Money

Investments

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Investment planning – identify issues and problems

- What is your investment philosophy?
- Investment portfolio not diversified?
- Investment losses, but still a tax liability?
- How to benchmark performance?
- Trouble keeping track?

Investment planning – basic asset classes

- Cash & Equivalents
- Bonds
- Stocks
- Alternatives

Investment planning – Cash and Equivalents

- What are they?
  - Deposits with a bank or financial institution
  - Contracts with an insurance company
  - U.S. 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-rate risk
  - Market risk
  - Company performance risk

Investment planning – Stocks

- What are they?
  - Units of equity ownership in a company
- What risks do they have?
  - Purchasing power or 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 – stocks, ETFs & mutual funds

- Individual stocks – Disney, Apple, etc.
- Exchange-traded funds – a security that trades like a stock on an exchange, and tracks a stock index, a commodity, bonds or a basket of investments
- Mutual funds – a managed portfolio of investments that pools investors' money to purchase a collection of stocks, bonds or other investments

“Active” and “Passive” Investing

- Active – ongoing buying and selling of investments
  - May involve higher costs (trading costs, management fees, capital gains)
  - May not perform better than an index of the same category of investments
- Passive – buy and hold, typically using index funds
  - “If you can’t beat the market, buy the market”
  - Usually lower-cost alternative, more tax-efficient

Investment planning – diversifying stocks

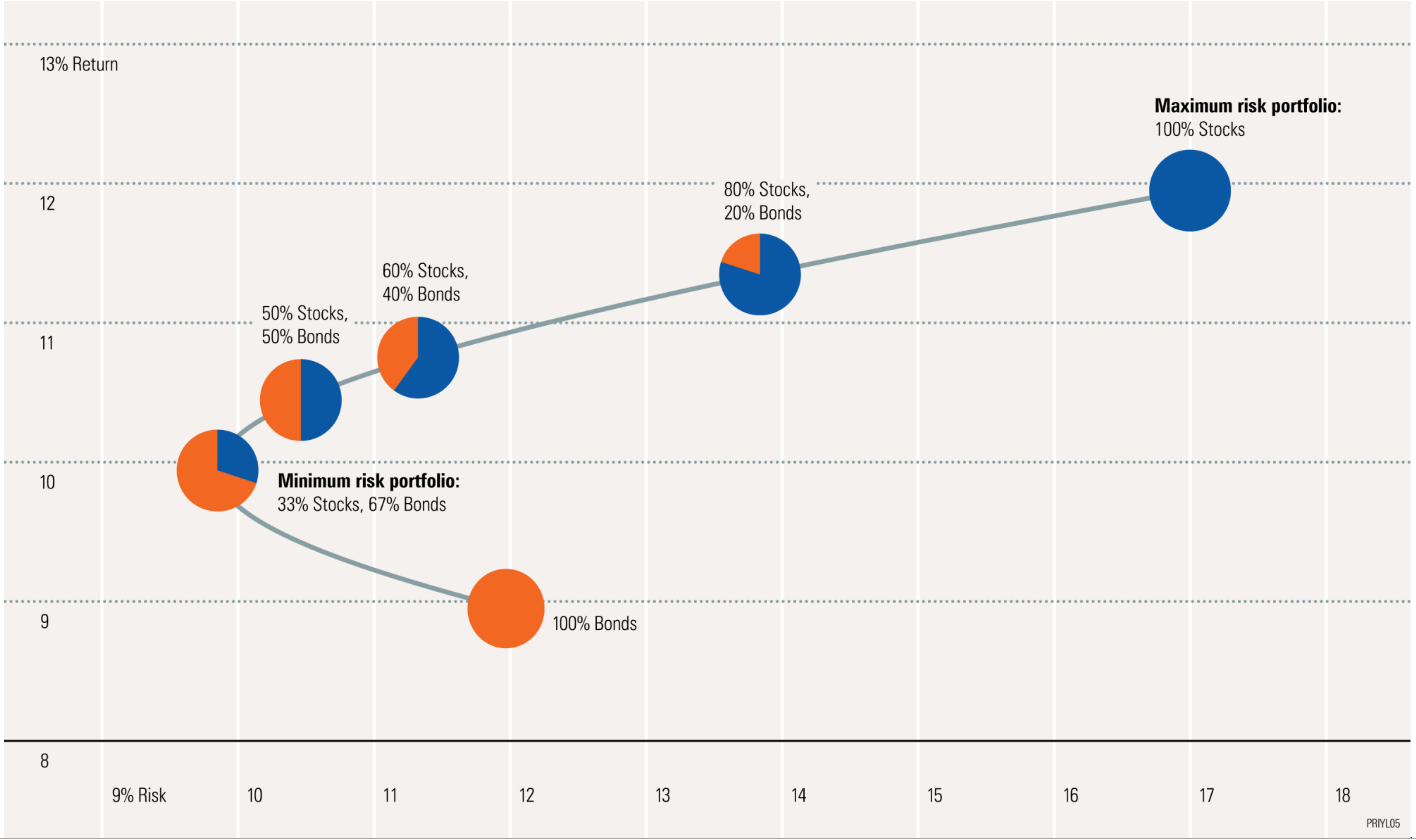
- Domestic vs. International funds
- Growth vs. Value Funds
  - Growth: high price/earnings ratio
  - Value: low price/earnings ratio
- Small Cap vs. Large Cap Funds
  - Market capitalization – number of shares outstanding multiplied by share price
    - Small Cap: generally less than $5 billion
   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

Investment planning – asset allocation process

- 1st step: determine asset classes to be used
- 2nd step: make a pie!
- 3rd step: implement, rebalance periodically, and evaluate performance

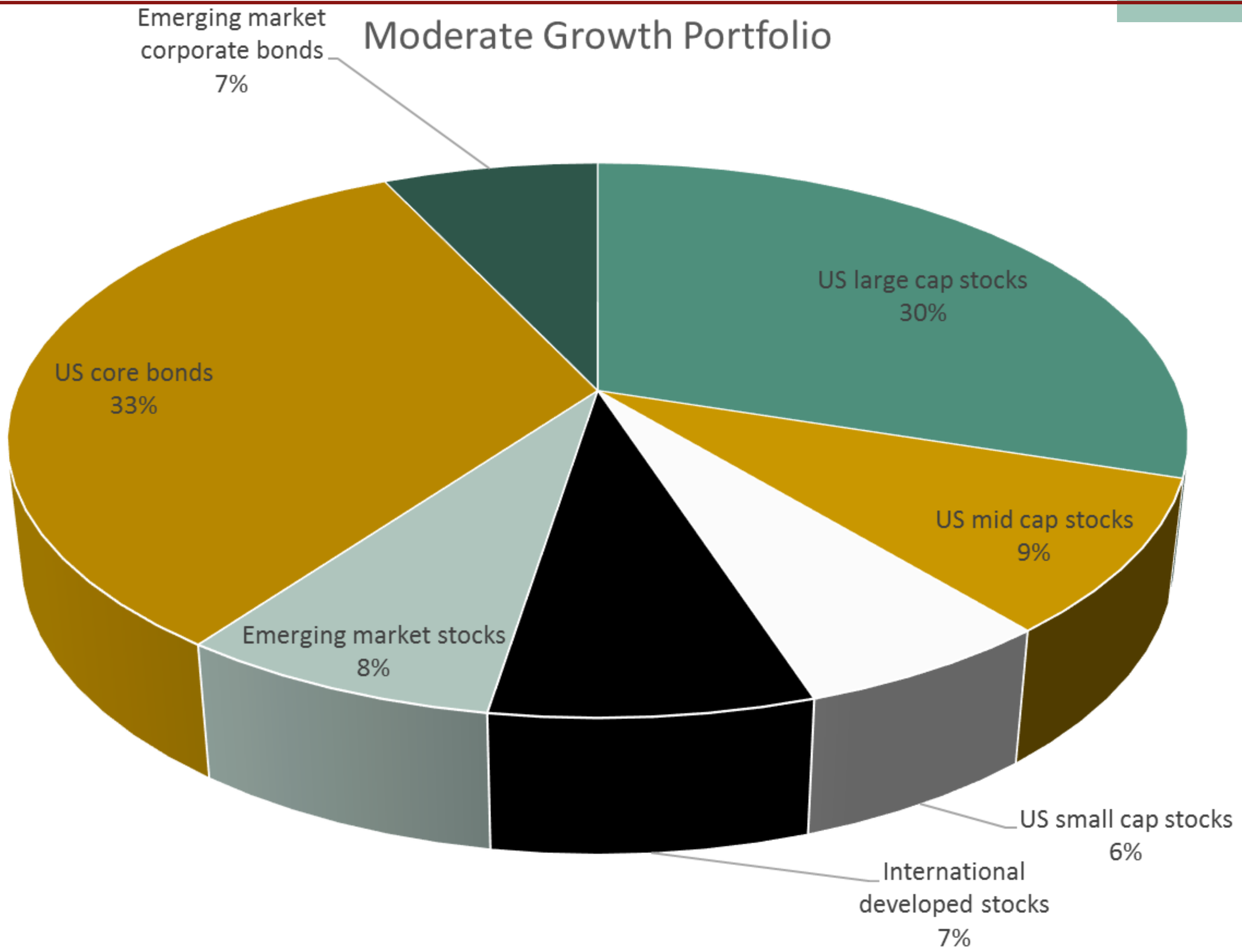
Stocks and Bonds: Risk Versus Return

1970–2018



Past performance is no guarantee of future results. Risk and return are measured by standard deviation and arithmetic mean, respectively. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

Asset allocation



Annuities

Insurance companies issue ALL annuities

- Sold by Insurance Agents, Brokerage Firms and Banks

An annuity is a contractual relationship

- Annuities are not subject to Security and Exchange rules (exempt security) and follow U.S. contract law

All Annuity Contracts have a thirty-day right to rescind by the consumer

- Unique feature of Annuities and Time Share Contracts

Earnings inside an Annuity are tax deferred (all payouts are taxed at the ordinary income tax rates)

- Different issues must be considered when buying an annuity within a tax-deferred plan

Types of Annuities

Deferred Annuity

- Allows money to compound tax free until you withdraw the money to an immediate annuity

Immediate Annuity

- Company guarantees to pay you a certain amount of money periodically as long as you live

Indexed Annuity

- Rate is fixed for six months up to two years, after which a new "fixed" rate is set

Variable Annuity

- You become your own advisor and pick among stock funds, bond funds, etc.

Annuity language

Fixed Annuity

Single Premium Annuity

Flexible Annuity

<u>Types of payouts</u>

1. Introductory or fixed
2. Regular rate
3. Guaranteed rate
4. Withdrawal rate
5. Annuitization rate

Annuities pros and cons

Advantages

Assured income for life

- Higher return than MMkts and CDs

Retirement investment

- When 401k or 403b are maxed out
- No annual contribution limit

Loan provisions for emergencies

- Beware of fees and penalties

Disadvantages

Low rate of return

- No inflation protections

Commissions and fees are high

- Surrender penalties

Insurance not an investment product

- Less regulation

Limited flexibility

Steps in buying a fixed annuity

- See insurer's renewal rate history
  - REMEMBER: fixed rate may only be good for 1-2 years.
- Make sure new buyers are getting similar rates to old buyers
- Look for companies that mirror shifts in interest rates
- Check the rating agencies
  - Moody, AM Best, Standard & Poor, Weiss Research, Duff and Phelps

Mutual Funds

- Mostly owned by investment companies wherein moneys are pooled and invested by the fund manager
- Investments range from gold to fertilizer and everything in between
- There are over 8,000 mutual funds from which to choose

Types of mutual funds

MUTUAL FUNDS

Stocks

Taxable bonds

Stocks and bonds

Municipal Bonds

FEES…

- Load
- No Load
- Back Load
- Other
  - 12(b) 1 fees
  - C shares
  - Investment management fees

BOTTOM LINE

You can always count on paying a commission if you buy a financial or insurance product from a broker or insurance agent.

They don't do it free of charge!

Mutual funds (continued)

Advantages

- **Diversification**
- **Professional stock selection**
- **Low cost entry**
- **Stock market over the long term has had the best return**

Disadvantages

- **The average actively managed mutual fund tends to under perform the market**
- **You still have to decide where to put your money**
- **The market does go down**

Deciding on a mutual fund family & company

Two main measurements

1. Performance

- review 3, 5 & 10-yr periods. Be sure to check the down periods

2. Expenses

- Listed in the PROSPECTUS

Before you buy, know..

- Fund family
- Your risk tolerance
- Fund’s performance relative to similar funds
- PROSPECTUS

Resources

- The Investor’s Guide to Low-Cost Mutual Funds
- Morningstar Mutual Funds (library). Check date. Can also go to www.Morningstar.com
- Lipper Mutual Fund Profiles
- The Value Line Mutual Fund Survey

Using a professional

My number 1 reason for using a professional is to prevent procrastination –

A financial planner will help you determine how much to save and run the numbers.

Remember…

- *It is difficult to identify and insurance agent AND that you are buying an insurance product*
- *Get assurance that what the planner is recommending is based on **your needs** and not on what is being pushed by his/her company or the need for a larger commission*
- *Know how your professional is being paid in percentage terms and in actual $$ amounts, including any continuing fees or commissions*

Full Disclosure

A financial advisor selling you a financial product (mutual fund, partnership, bonds, etc.) must disclose method of compensation. Most disclose through the PROSPECTUS.

DISCLOSURE IS THE ONLY MAJOR LEGAL REQUIREMENT

<u>Get to know your advisor</u>

Education, experience, compensation and references

NOT JUST, “he’s a nice guy”

Choose a fiduciary

- A fiduciary is a professional required to act in YOUR best interest

- If someone's trying to sell you something, will they pledge to you that they're a fiduciary???