

# It's Your Money!

## Equity & Fixed Income Investing



## Accepting Referrals



**Robert McDaniel**  
President, COO

As a principle owner of Lighthouse Financial, I know every facet of my firm's service offerings. My day-to-day duties include creating internal business efficiency, driving client servicing excellence, and being the go-to leader for every facet of the firm. I have created or expanded nearly every role in the organization. My knowledge in financial planning, portfolio construction, tax preparation, and business administration serve my clients well. I enjoy crunching the numbers to create easy-to-understand solutions for financial complexities. When I am not serving my firm, I enjoy Spartan races with my wife and guiding my adult children to thrive in this world.

## Specialized Services Offered



### Financial Planning Solutions

If you need answers to a laser-focused problem or a strategy to manage your complex financial plan, I build a road-map to meet your money goals through every stage of your life. Our ongoing holistic approach keeps you aligned to reality to support overall financial health.



### Investment Solutions

My in-house investment committee provides stock, bond, and fund portfolios to support wealth accumulation, income generation, and capital preservation. I personalize your total portfolio for maximum impact and efficiency.



### Tax Solutions

Having access to the firm's tax expertise may create the added savings you need. My team provides tax planning, preparation, and strategies for a variety of investment and personal needs. This service may help you keep more money in your pocket.

## Contact

**ROBERT MCDANIEL**  
PRESIDENT, COO

951-566-6042

Robert@lighthouselink.com

714-572-8900

www.lighthouselink.com

Lighthouse Financial Services, Inc. is a Registered Investment Advisor with the Securities and Exchange Commission. Registration does not imply a certain level of skill or training.



# Equity Investing 101

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# What Is An Equity



## Ownership in a company

- Packaged in a financial security
- Includes the right to vote on company management & strategy
- May or may not be publicly traded on an exchange

## Allows you to participate in the company's growth & success

- Profit growth is what drives stocks!

## Allows the company to raise money and spread risk

- $\text{Capital} = \text{equity} + \text{debt}$
- Management can "monetize" their ownership stakes
- In the event of bankruptcy, you lose your investment

# Why Invest in Equities?



## Strong returns over time

- Fastest way to make your wealth grow over time
- S&P 500 Total Return Index up 176% over the last 10 years!
- Dividend reinvestment plays a huge part in wealth creation
- Most popular way to “bet on America”

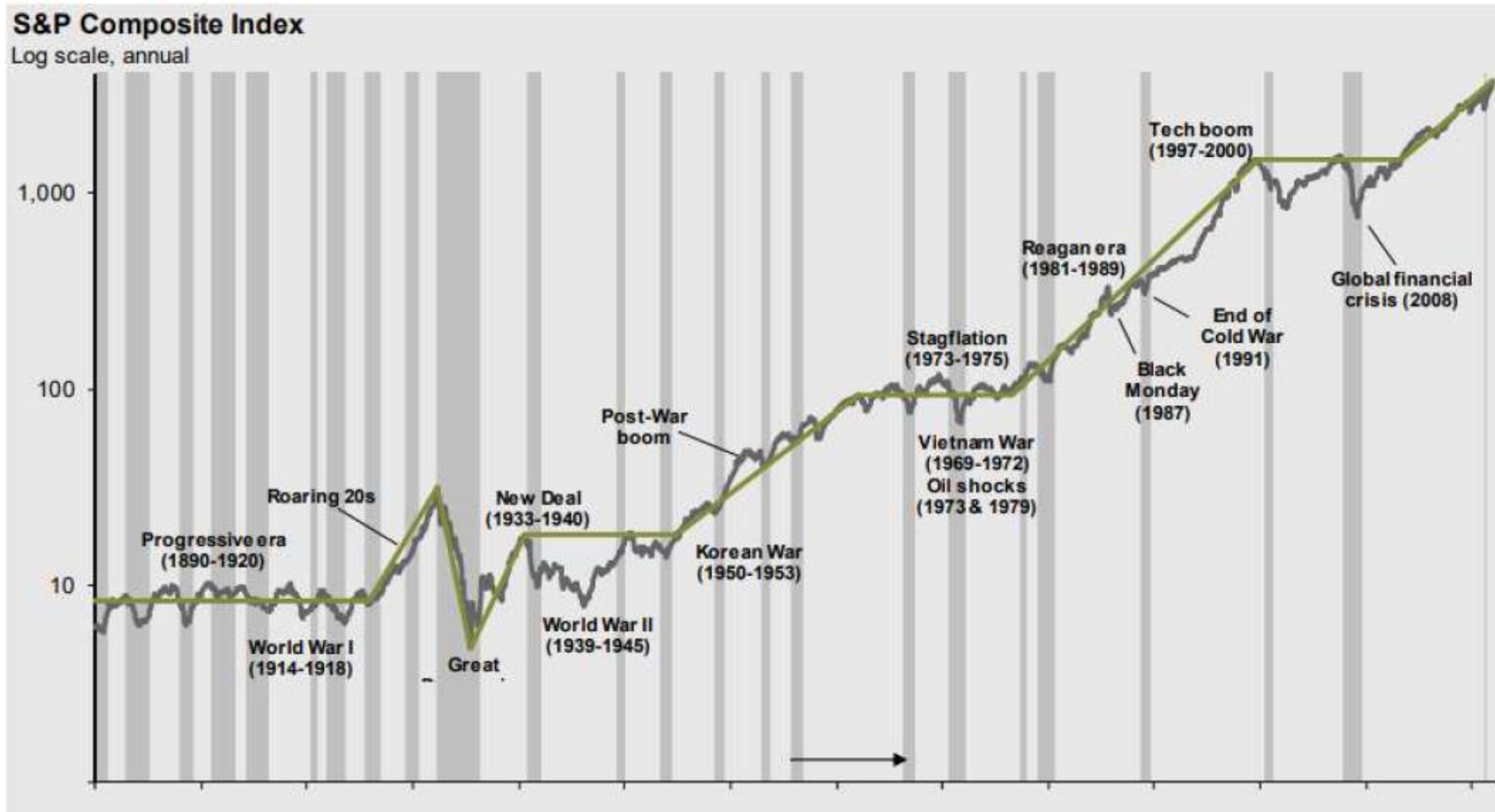
## Easy to buy & sell

- Wide array of stocks in different industries allows diversification
- Cost of investing very low (**\$0 at most custodians today**)

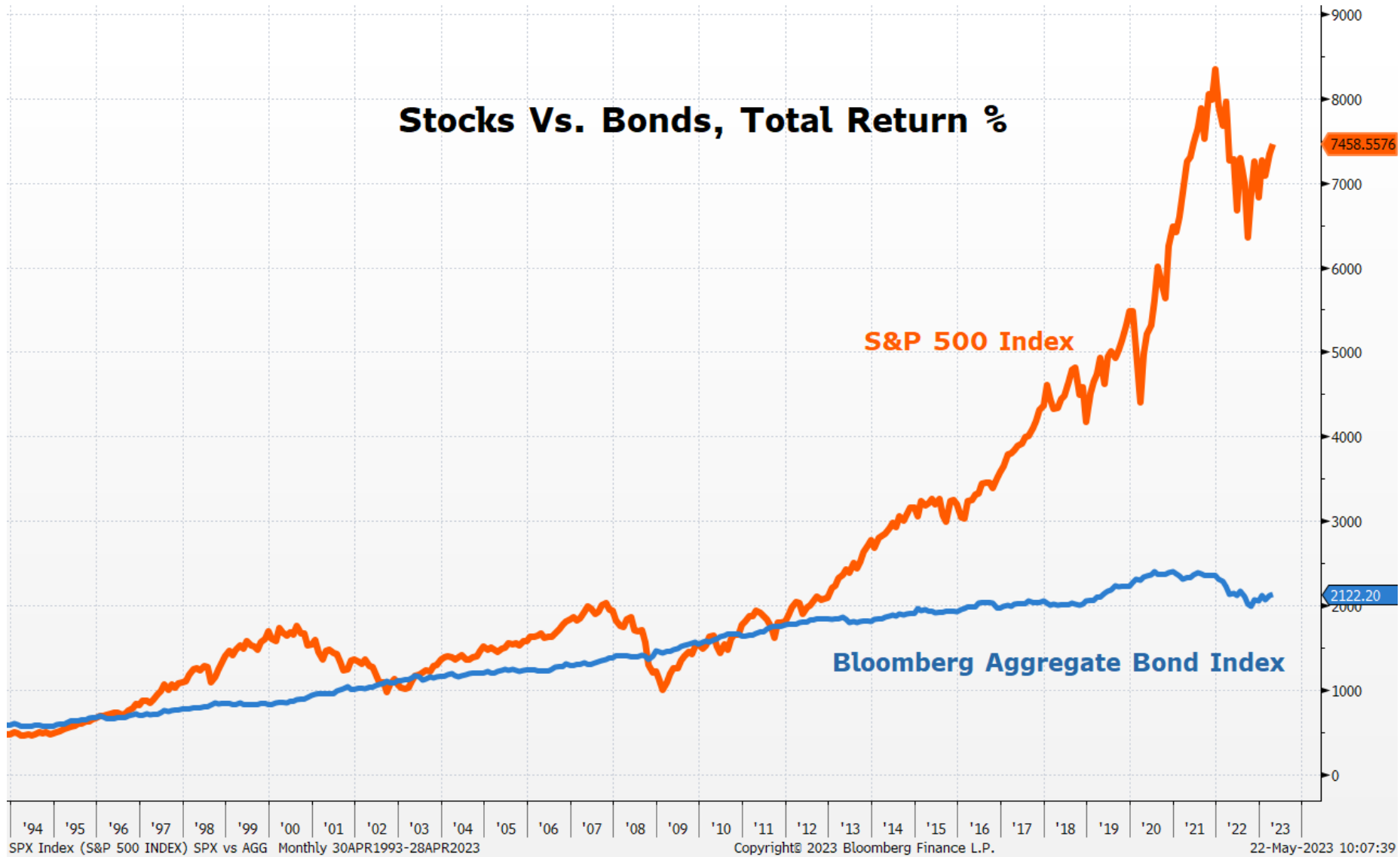
## Tax benefit

- Qualified dividends currently receive special tax treatment
- Capital gains tax rate is also advantaged

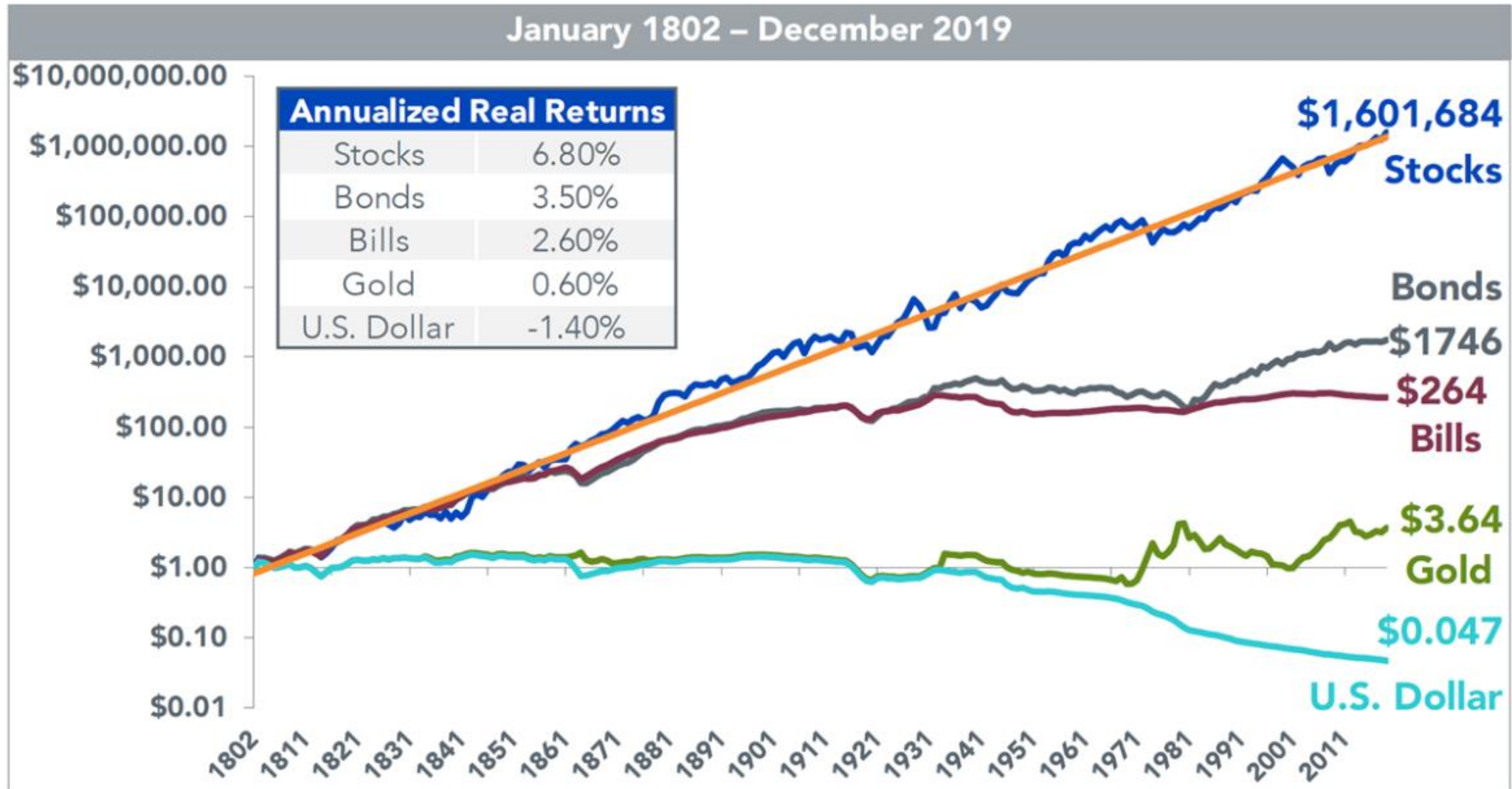
# Historically Stocks Have Overcome Shocks To Our Economy



# Stocks vs. Bonds



# Adjusting for Inflation





# How to Invest

## Individual “common” & “Preferred” stocks

- Pros: easiest, most straightforward way to invest; no ongoing fees
- Cons: you are responsible for diversification

## Exchange Traded Funds (ETFs)

- Pros: diversified basket of stocks; easy to trade; lots of funds to choose from
- Pros: Fees are very low; mostly passive index funds
  - Example: SPDR S&P 500 ETF (SPY)
- Cons: You don't have any control of the stock selection or management of the ETF

## Mutual funds

- Pros: instant diversification; actively managed by professionals
- Cons: fees vary widely and are usually higher than ETFs



# How to Invest

## Self Directed Brokerage Firms

- Pros: Low cost option for savvy investors
- Cons: Little or no professional advice

## Professional Wealth Managers / Investment Advisors

- Pros: Professional wealth management custom tailored to your needs
- Pros: Access to a team of experienced professionals
  - CFA, CFP, CPA, EA
- Cons: There is a management fee for these services



# Investing Terminology



## **Fundamental**

Economic Conditions  
Sector Analysis  
Industry Analysis  
Revenue Growth  
EPS Growth

## **Technical**

Trendlines  
Channels  
Moving Avg  
Momentum Indicators

## **Style Box**

Large Cap  
Mid Cap  
Small Cap  
Growth  
Blend  
Value



# What is Fundamental Analysis

Fundamental analysis is a method of evaluating the intrinsic value of an asset and analyzing the factors that could influence its price in the future. This form of analysis is based on external events and influences, as well as economic conditions, financial statements and industry trends.

*The primary focus of fundamental analysis to predict a companies earnings potential in the future and discount that to the present value*

# Example of Fundamental Analysis



## Intrinsic Value Concept:

The price of a stock should be equal to the sum of the companies future earnings discounted to the present value.

A simplified way to calculate Intrinsic Value is

$$\text{EPS} * (1+r) * \text{PE}$$

# Example of Fundamental Analysis

## XYZ Company

TTM EPS = \$5

Expected Growth Rate (r) = 10%

TTM Price to Earnings = 10

$$5 * (1+.10) * 10 = \$55$$

*If XYZ is trading above \$55 it is overvalued.*

*If it is trading under \$55 it is undervalued.*



# Other Methods Of Fundamental Analysis Include

Dividend Discount Model  
CAPM Model  
Discounted Cash Flow Model

*At the core of all these models is EARNINGS!*



# What is Technical Analysis

Technical analysis is a means of examining and predicting price movements in the financial markets, based on an asset's chart history.

*The primary focus of technical analysis to predict a stocks price action in the future.*

*Technical analysis ignores fundamentals and relies heavily on charts and patterns.*





# Example of Technical Analysis

Relative Strength Indicator (RSI)  
Moving Averages (50, 100, 200 day Avg.)  
Chart Patterns

*At the core of all these models is PRICE  
ACTION!*

# Example of RSI Analysis



# Example of Moving Average Analysis



# Example of Pattern Analysis



Wedge Formation



Head and Shoulders

# Fundamental Vs. Technical Analysis

Neither method is 100%!

In our opinion Technical Analysis doesn't work! It ignores the one key factor that drives all stock market returns. EARNINGS!

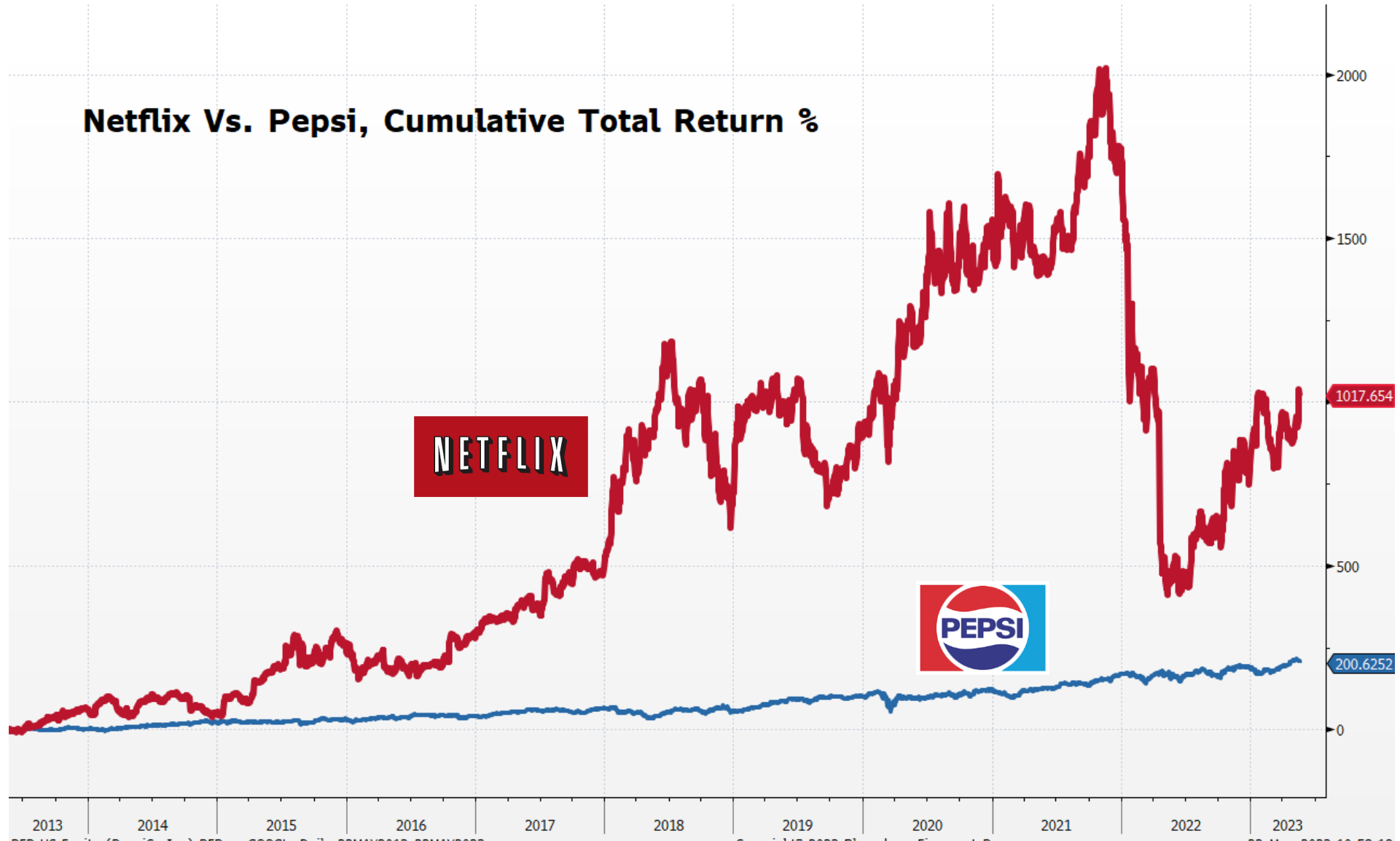
Although Fundamental Analysis doesn't work all of the time, it works most of the time. Keep in mind that market returns over time will generally follow corporate earnings.

# Risk vs. Return

There's no free lunch!

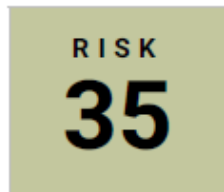
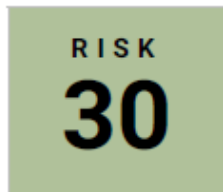
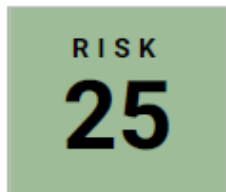
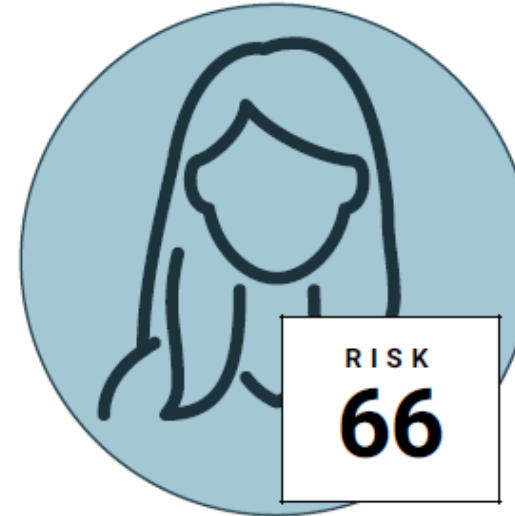


# Risk vs. Return



# Risk Tolerance

We combine our depth of investment knowledge, investment philosophy, and cutting-edge technologies to build smart investment strategies designed to help you succeed.

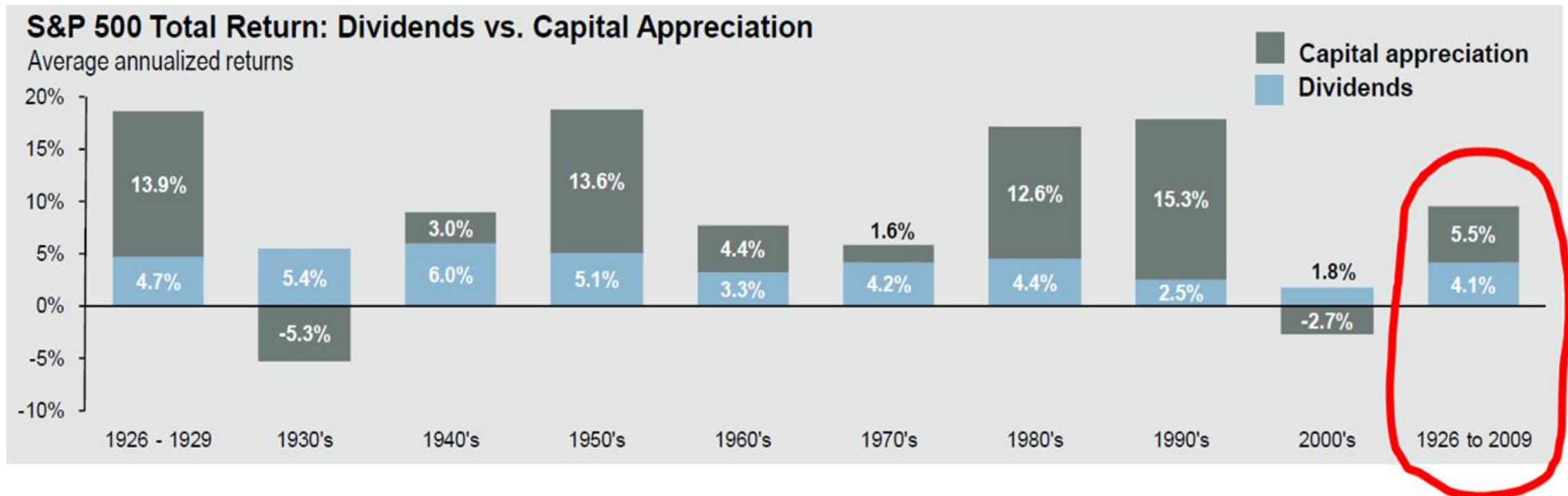


The old way of assessing risk, stereotyping investors and building investment strategies, simply doesn't work in today's markets.

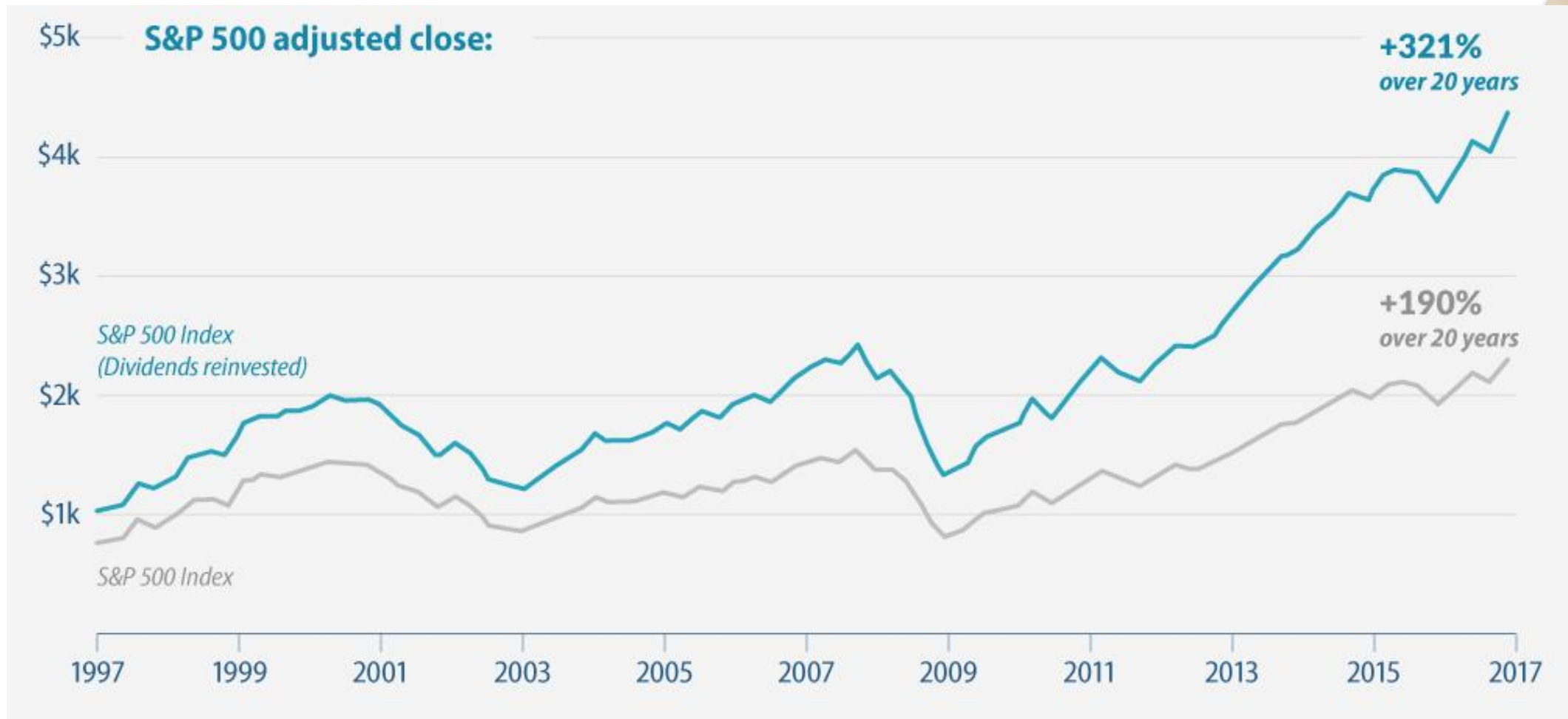


# Importance of Dividends

Collecting & reinvesting dividends accounts for over 40% of the S&P 500's total return since the 1920s



# Reinvesting Dividends





# Fixed Income Investing 101

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# What Is Fixed Income?

- Think about it as a loan...
  - To a company (corporate bond)
  - To a government (Treasury bond or municipal bond)
  - To a bank (CD)
- Set maturity date, and fixed interest payments
  - Interest rate is called “coupon”, usually paid semi-annually
  - The longer the maturity, the higher the coupon
  - The higher the risk, the higher the coupon



# Why Invest in Bonds?

Diversify your portfolio to limit risk over time



Bonds (especially Treasuries) are negatively correlated with stocks and tend to be less volatile

# Why Invest In Bonds?

Bond Type:	Yield:
10 –Yr AAA Corporate	5.0%
5 – Yr AAA Corporate	5.6%
10 – Yr US Treasury Note	4.6%
5 – Yr US Treasury Note	4.6%
10 – Yr AAA Muni Bond	4.9%
5 – Yr AAA Muni Bond	4.6%
1 – Yr CD	5.0%

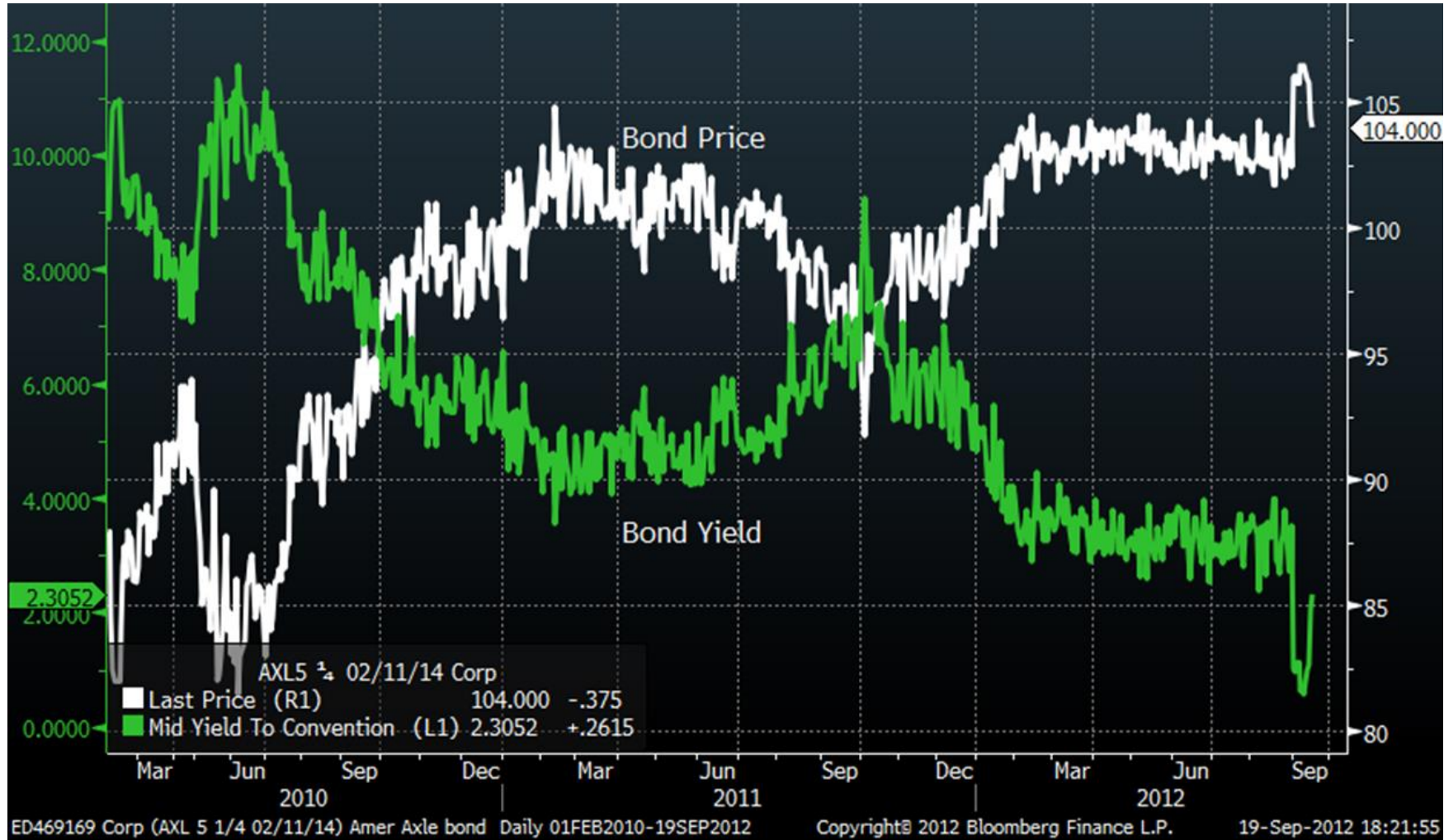


# How Does A Bond Work?

- **Bonds Issued in increments of \$1,000 (“par value”)**
  - Price of any bond moves over time until its maturity
  - Prices are listed as a % of that original \$1,000 (for example \$100 = 100%)
  - You can also think of it this way: \$100 = 100 cents on the dollar
- **Interest rates are the key driver of bond prices**
  - Inverse relationship between a bond’s yield and its price
  - What if you don’t invest in a bond at its beginning (“issue date”)?



# Bond Prices vs. Yield



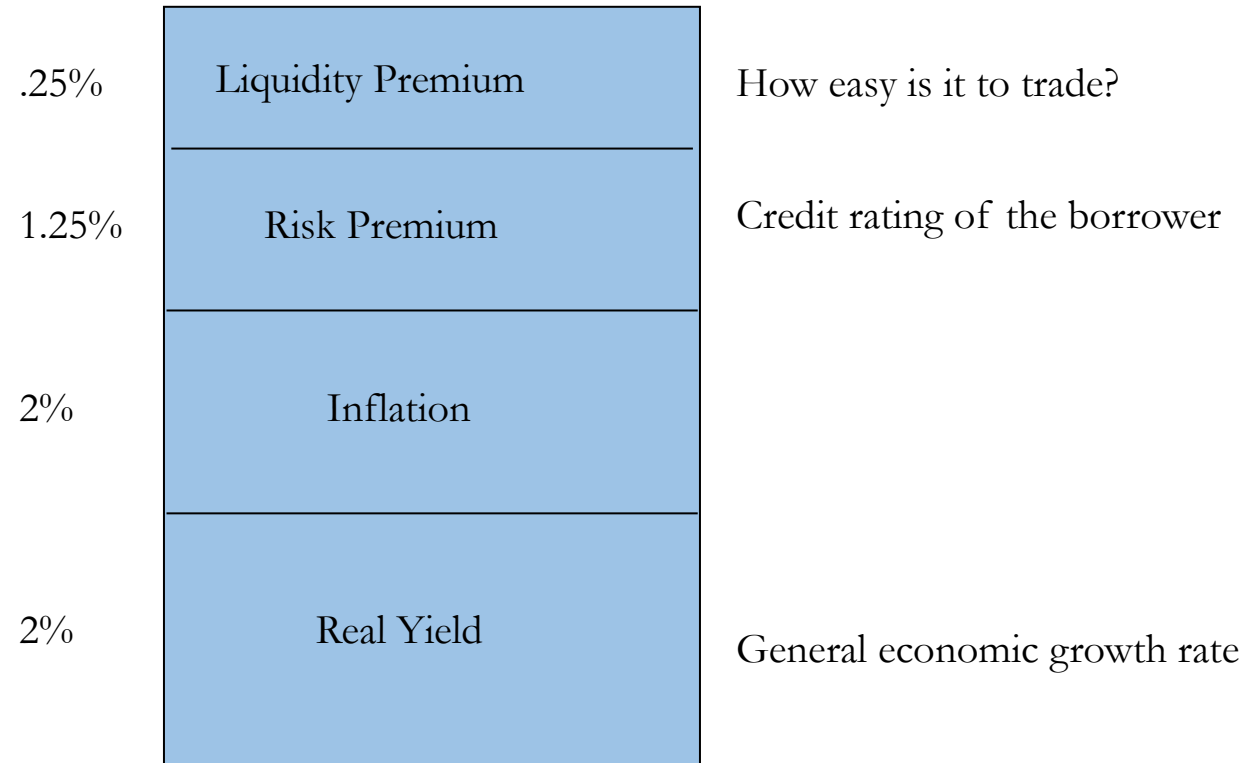


# Components Of A Bond Yield



5.5% = Bond Yield

These numbers are fluid...changing all time. And that creates risk.



# How To Invest in Bonds

- **Individual Bonds**
  - Corporates, Treasuries, Municipals, Sovereigns
  - Huge variance within each category (i.e. zero coupons, convertibles, asset-backed)
  - Maturity and yield preference, credit research
  - Do not trade on an exchange – prices negotiated with a broker
- **Exchange Traded Funds (ETFs)**
  - A bond fund, similar to a mutual fund
  - Mostly managed passively to an index
  - No maturity date
  - Low cost, well diversified
  - Trade like stocks on an exchange
  - Some pay monthly, some pay quarterly
  - Example: iShares iBoxx Investment Grade Corporate Bond Fund (LQD)
- **Mutual Funds**
  - Actively managed
  - No maturity date
  - Fees vary widely (fund classes A, B, C, I) and are usually on the high end
  - Some have early withdrawal penalties
  - Example: PIMCO Total Return Fund (PTTRX)



# Avoiding Pitfalls with Bonds

- **Buying a bond is like buying a used car – Beware!**
  - Valuing a bond is difficult unless you know all its characteristics
  - Everyone gets paid – what’s the “concession”?
- **Don’t fixate on Coupon**
  - Coupon is only useful information if the bond is trading at \$100
  - Yield to Maturity is the only yield you need to know
- **Know the going price for a used car**
  - FINRA Website: <http://finra-markets.morningstar.com/BondCenter/Default.jsp>
  - MSRB Website: <http://emma.msrb.org/MarketActivity/RecentTrades.aspx>



# Avoiding Pitfalls with Bonds

- Look for new issues and plan to hold to maturity
  - This gets around any interest rate risk
  - Avoid having to sell to a broker
- Size matters
  - Buying in bulk gets you a better price



# Avoiding Pitfalls with Bonds

Real World Example:

Client paid \$114.73 for a bond with a 6.625% coupon.

The actual yield he will receive over the life of the bond: 3.06%

YA  
Screen Printed

MS 6 <sup>5</sup>/<sub>8</sub> 04/01/18 Corp      90 Feedback      Yield and Spread Analysis

95 Buy      96 Sell      97 Settings

1) Yield & Spread    2) Graphs    3) Pricing    4) Descriptive    5) Custom

MS 6 <sup>5</sup>/<sub>8</sub> 04/01/18 ( 6174466Q7 )

Spread	164.42 bp vs 5yT 1 <sup>3</sup> / <sub>8</sub> 09/30/18	Risk	Workout	OAS
Price	114.73	Mod Duration	3.908	3.944
Yield	3.066492 Wst	Risk	4.493	4.535
Wkout	04/01/2018 @ 100.00 Yld 6 6	Convexity	0.183	0.186
Settle	10/15/13	DV 01 on 1MM	449	453
Trade	10/09/13 Retro (Using input price)	Benchmark Risk	4.778	4.846
		Risk Hedge	940 M	936 M
		Proceeds Hedge	1,152 M	

Spread	Yield Calculations
11) G-Sprd 183.1	Street Convention 3.066492
12) I-Sprd 168.6	Equiv 1 /Yr 3.090000
13) Basis -42.7	Mmkt (Act/ 360 )
Z-Sprd 173.9	True Yield 3.064515
ASW 183.3	Current Yield 5.774427
OAS 189.3	
TED -172.2	

After Tax (Inc 43.400 % CG 23.80 %)	1.123605
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Invoice	
Face	1,000 M
Principal	1,147,300.00
Accrued (14 Days)	2,576.39
Total (USD)	1,149,876.39

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