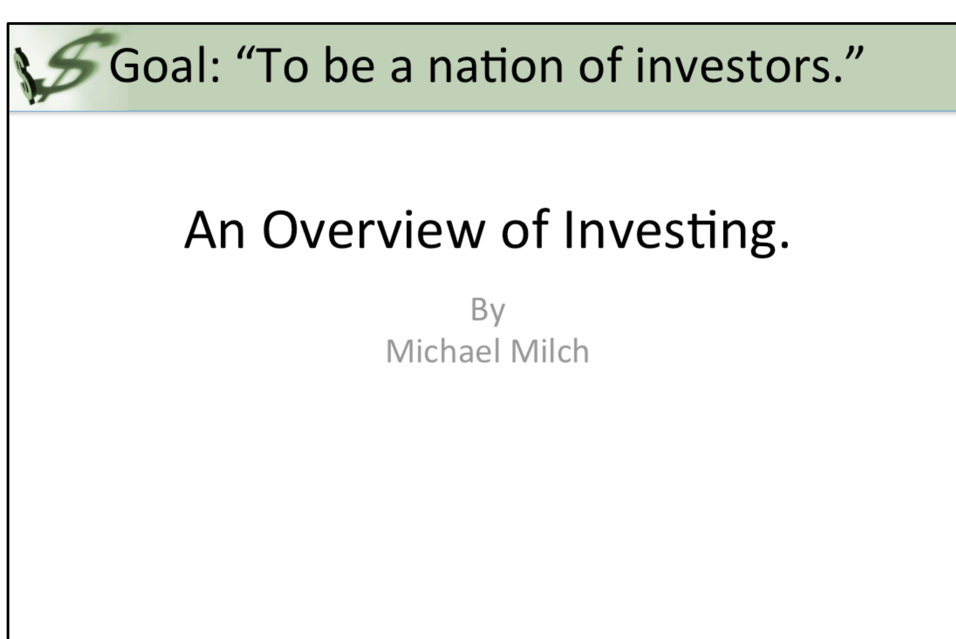


The goal of this presentation is to help you understand the basics of investing. My wish for all of us is become a nation of investors with a long term perspective.

I am an member of Better Investing **(BI**), This organization is also known as National Association of Investors Corporation**, (NAIC)**. The website is http://www.betterinvesting.org. BI has helped me with my personal goal of understanding how to better invest for the long term.

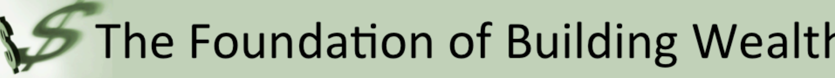
BetterInvesting's Mission is to provide a program of sound investment information, education, and support that helps create successful lifetime investors. By becoming confident, knowledgeable investors, our members are empowered to build better financial futures for themselves and their families.

Disclaimer

- The information in this presentation is general in nature and is not intended as specific, individualized tax, legal or investment planning advice. Where specific advice is necessary or appropriate, please consult with a qualified tax advisor, CPA or certified financial planner.
- The various investment type are in no way intended as a solicitation of any product or service offer through BetterInvesting, its affiliates, or any other investment firm.
- Investing involves risk, including possible loss of principal. Investment and insurance products are not deposits, not FDIC insured, not insured by any federal government agency, not guaranteed by a bank or any affiliate of a bank and may lose value.

Read, listen and learn, but judge for yourself. Always arrive at your own conclusions.

I first need to preface this presentation with the following disclaimer. Please note, I need everyone to thoughtfully listen, read, learn, but always judge for yourself. You need to arrive at your own conclusions.



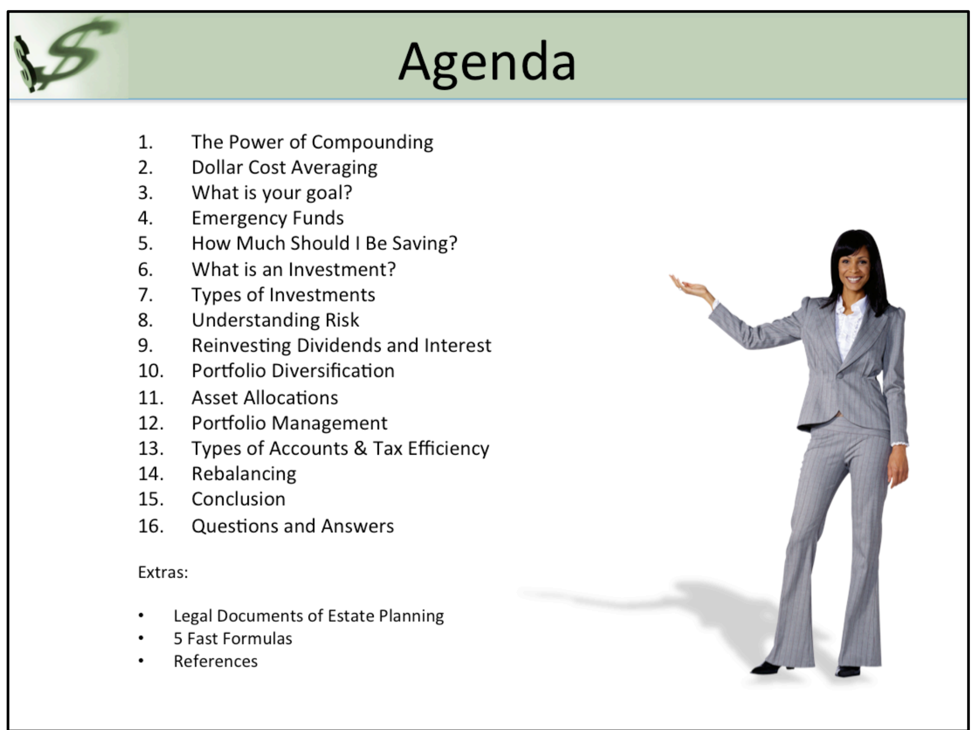
Enduring investment success is built on a strong foundation. Over time, BetterInvesting's (BI) four investing principles provide the foundation to achieve exceptional returns on investments given market fluctuations and economic changes.

BI's Four Principles

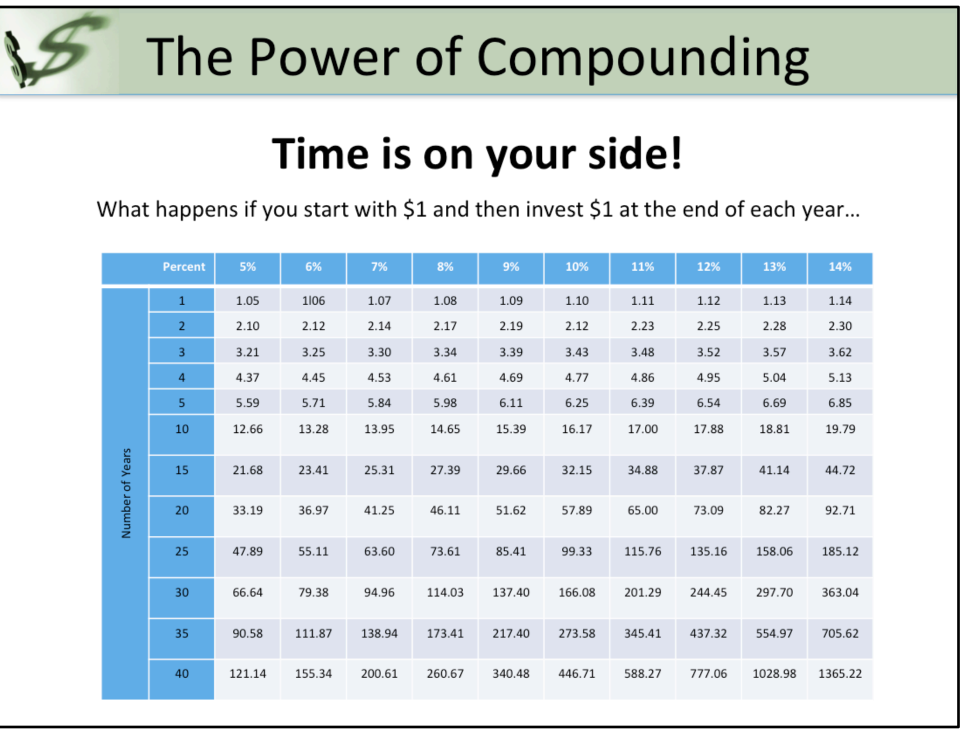
1. **Invest Regularly.**
2. **Reinvest Earnings, Dividends and Profits.**
3. **Invest in Quality Growth Stocks and Funds**.
4. **Diversify your Investments.**

The Four BI Principles:

1. **Invest Regularly.** Invest at least a small amount consistently over time.
2. **Reinvest Earnings,** Dividends and Profits. Put everything you make, including the proceeds from sales, back into your investments.
3. **Invest in Quality Growth Stocks and Funds**. Seek high-quality investments at a reasonable price that have the best opportunity to grow faster than the overall market.
4. **Diversify your Investments.** Maintain a balanced portfolio including companies of various sizes from different industry segments and mutual funds from various categories.



These are the topics of the presentation that I hope to touch upon. Please remember that this presentation will introduce you to these concepts. This presentation is not intended as a deep dive. There is a bibliography and a list of websites at the end of this presentation that I hope will help you continue down the path of investing for the long-term.



Number of Years \ Percent	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%
1	1.05	1I06	1.07	1.08	1.09	1.10	1.11	1.12	1.13	1.14
2	2.10	2.12	2.14	2.17	2.19	2.12	2.23	2.25	2.28	2.30
3	3.21	3.25	3.30	3.34	3.39	3.43	3.48	3.52	3.57	3.62
4	4.37	4.45	4.53	4.61	4.69	4.77	4.86	4.95	5.04	5.13
5	5.59	5.71	5.84	5.98	6.11	6.25	6.39	6.54	6.69	6.85
10	12.66	13.28	13.95	14.65	15.39	16.17	17.00	17.88	18.81	19.79
15	21.68	23.41	25.31	27.39	29.66	32.15	34.88	37.87	41.14	44.72
20	33.19	36.97	41.25	46.11	51.62	57.89	65.00	73.09	82.27	92.71
25	47.89	55.11	63.60	73.61	85.41	99.33	115.76	135.16	158.06	185.12
30	66.64	79.38	94.96	114.03	137.40	166.08	201.29	244.45	297.70	363.04
35	90.58	111.87	138.94	173.41	217.40	273.58	345.41	437.32	554.97	705.62
40	121.14	155.34	200.61	260.67	340.48	446.71	588.27	777.06	1028.98	1365.22

This chart shows what happens with the annual contribution compound growth if you start with $1 and then invest $1 at the end of each year for a selected number of years at a given rate of return.

The formula for annual compound interest is **A = P (1 + r/n) ^ nt**

Where:

A = the future value of the investment/loan, including interest.
P = the principal investment amount (the initial deposit or loan amount).
r = the annual interest rate (decimal).
n = the number of times that interest is compounded per year.
t = the number of years the money is invested.

Dollar Cost Averaging

This is where investing the same dollar amount in securities at schedule intervals over the long term, with the aim to lower the average cost per share over time. Stop worrying about timing the market.

Regular Investment	Share Price at time of purchase.	Shares Acquired	Value of total investment after purchase.
$400	$10	40	$400 (0)
$400	$8	50	$720 (-$80)
$400	$5	80	$850 (-$350)
$400	$8	50	$1760 (+$160)
$400	$10	40	$2600 (+$600)
Total: $2000	$10	260	$2600

Only an example.

Dollar Cost Averaging is an example of investing a fixed amount with a given cycle (e.g., monthly). This is counter to timing the market. In the example the market goes up and down. At the end, the stock price is back to its start point. In this example with dollar cost averaging... you could achieve a $600 gain. Morale ... don't waste your energy timing the market, understand and believe in your investments and plan, and invest regularly.

The example's end result was with a total investment was $2000, the stock price at the end was $10 and we owned 260 shares. The average cost per share ($2000/260 shares) is $7.6. If all the shares were sold then there would be a $260 gain.

Please remember that a periodic investment plan neither assures a profit nor provides protection against loss in a declining market.

Emergency Fund

"Your Guaranteed Money"

Goal: To provide a cushion of liquidity in the event of unexpected expenses. The funds are set aside and they are not part of retirement or any other investments.

How Much?: 6 months to 1 year worth of normal expenses.

Where?: Emergency funds should be highly liquid and in very low risk assets.

The assets value should be accessible within 24 hours! If an emergency occurs, you won't have to go to your long term investments to get the cash. Depending on the business cycle, it may not be the best time to take any actions on the investments you have (i.e., US economy of 2009).

Goal: To provide a cushion of liquidity in the event of unexpected expenses. The funds are set aside and they are not part of retirement or any other investment.

How Much?: 6 months to 1 year worth of normal expenses.

Where?: Emergency funds should be highly liquid and very low risk assets (e.g., cash, checking, bank saving account, money market).

Note: You may want to consider a "multi-tiered" emergency fund where not all the funds are available at once and not needed for several months. These funds can be placed in short-term assets (i.e., CDs, short-term bonds, etc) in an effort to earn higher yields. This does require more work and coordination.

Once you've established and funded your emergency fund… then you can start to invest. This emergency fund will prevent you from having to making investment decisions that are not in your best interest or financial plan.

What is your goal?

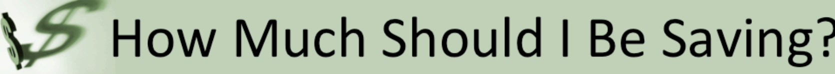
Why are you investing?

- House?
- College?
- Retirement?
- Security?

How much and timeframe?

- Set you goal.
- Write it down.
- Read it when you need to remember.

Why are you investing?! What is motivating you?



Age you start saving.	% salary you need to save.
20s	10% – 15%
30s	15% - 25%
40s	25%-40%
50s	40% or more.

- Once you start to save, the percentage doesn't change even as you get older.
- Starting early has a huge advantage. (ref., Power of Compounding)… therefore **START NOW**!

What is an Investment?

An **investment** is an **asset** bought at a given **price** with a presumed **return** and **risk**.

An **asset** is what is acquired and owned.

The **price** is the cost of acquiring the asset. Both direct and opportunity cost need to be considered.

The **return** is the future expected benefit, return-on-investment (ROI) or reward.

The **risk** is the uncertainty of the gain or loss.

Note: Mutual Funds are comprised of a wide range of different investments. Please review the fund prospectus prior to any investment decision you do.

Basic Types of Investments

- Cash: Money! *(available in 24 hours)*
- Bonds: Debt.
- Stocks: Company equity, a share of ownership.
- Real Estate *(excluding primary residence)*: Commercial, Residential, REITs.
- Commodities: Raw Materials *(i.e., gold, oil, etc.)*.

Please note: You primary residency is **NOT** an asset that you should count in your investment portfolio. You need to live somewhere.

Risk – The opportunity for gain or loss.

There is no such thing as a "Risk-Free" investment.

- **Cash** – "No market or default risk".
- **Savings & CDs** – "No market risk".
- **Treasury bonds** – "No default risk".
- **Stocks** – "Higher returns".

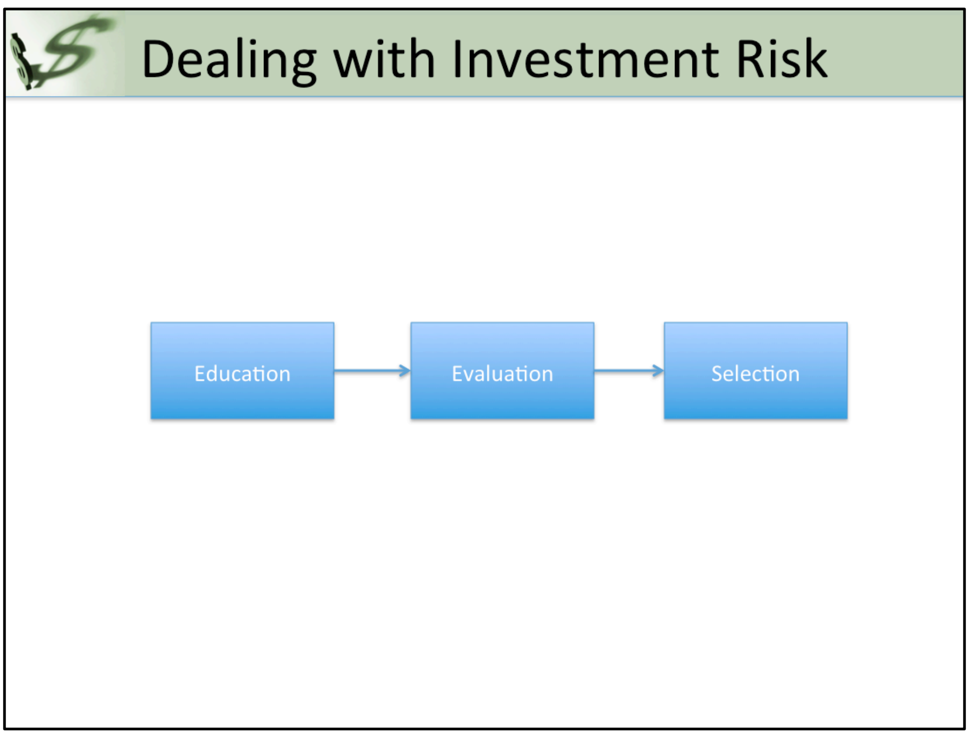
Risks

Cash – "No market or default risk" but you can lose value with inflation. This is when each year your money purchases less.

Savings & CDs – "no market risk". You earn interest, but you could lose some value with inflation, or yearly taxes.

Treasury bonds – "no default risk". You earn interest, but you could have inflation risk, market risk, or taxes.

Stocks – offer higher returns via dividends and gains, but you have market risk or yearly taxes.



Education - Educate yourself to become more objective and less afraid.

Evaluation - Once you understand the risk, evaluate the real risk, not the perceived risk, and judge how much risk you want to tolerate.

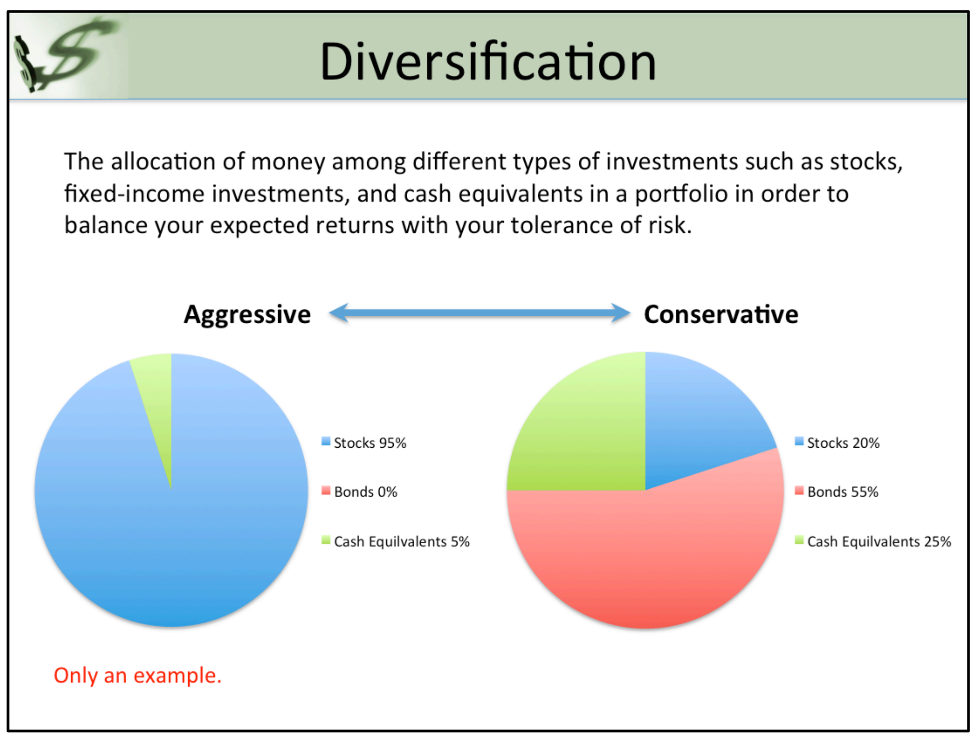
Selection - When you understand you risk level then choose your investments and create a balanced portfolio by investment diversification.

Reinvesting Dividends and Interest

Reinvest your earned dividends and interest thereby maximizing your profits through compounding.

Reinvest your earned dividends and interest. Once you spend it; you can no longer invest it. Put your money to work.

By putting your investment earnings back into your investments you will maximize your profits through compounding and you to earn more than you would have just by keeping your original capital at work.



Please try to understand your level of risk tolerance. Once you believe you understand your risk tolerance then you can start on the type of investing you will want to do.

Asset Allocations

It is the process of deciding how to divide your money among the different types of asset classes: stocks, bonds, cash, etc.. You make your decisions base upon your tolerance for risk and your time horizon.

One rule that you could use is to take your age and subtract that from 100. That is the percentage you should have in Stocks. There are many other rules that people use. Find one to suite you and use it if that helps you to start.

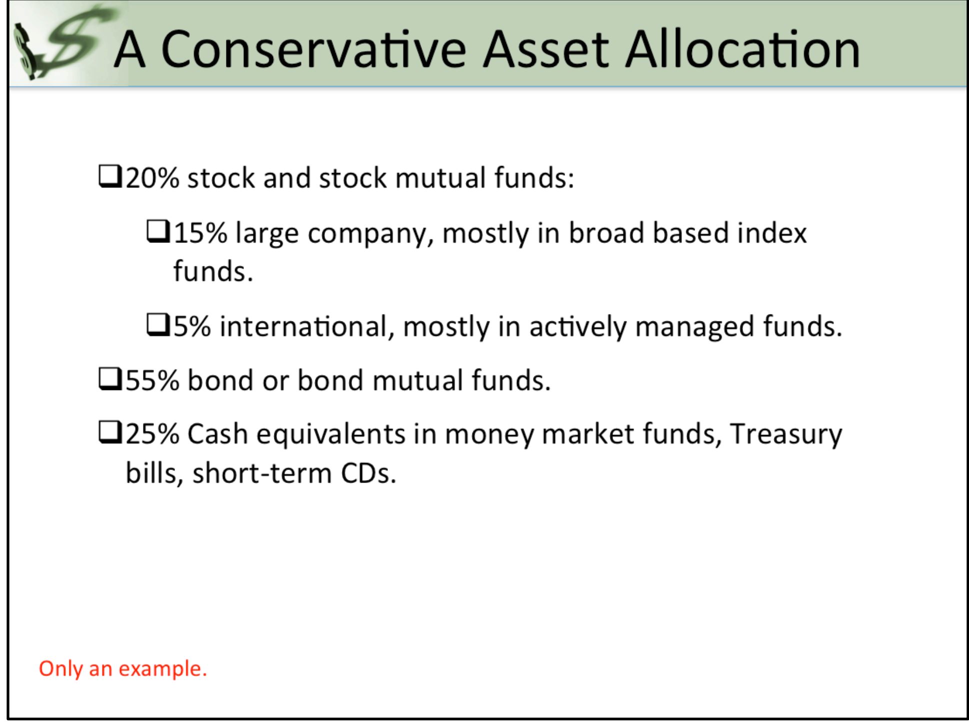
Please remember… you're likely to live long and time is your friend when investing.

An Aggressive Asset Allocation

- ❑95% stock and stock mutual funds:
  - ❑40% large company, mostly in broad based index funds.
  - ❑25% small company, index or actively managed funds.
  - ❑30% international, mostly in actively managed funds.
- ❑0% bond or bond mutual funds.
- ❑5% Cash equivalents in money market funds. When you see a good opportunity present itself.

Only an example.

If you are too aggressive, you could lose a portion of your investments and then take the wrong action to correct (e.g., buy high – sell low). Not a good idea!



If you are too conservative, you may not achieve your goals due to lost opportunity.

An Investment Plan *(An example)*

Investment	Example using Vanguard Mutual Funds	Goal Target (% of Total)
Cash (mutual money fund)	VMMXX	4%
Stocks		65%
U.S. Large-Cap	VFINX	30%
Value	VIVAX	15%
Growth	VIGRX	15%
U.S. Medium-Cap	VIMSX	10%
U.S. Small-Cap	NAESX	10%
International	VGTSX	15%
Developed	VDMIX	7.5%
Europe	VEURX	-
Emerging	VEIEX	7.5%
Bonds		35%
TIPS	VIPSX	10%
Short Term	VBISX	15%
Intermediate	VBMFX	5%

Guidelines:

1. All dividends, interest and outside cash goes into the money market fund.
2. If asset is 20% off target, take appropriate actions to bring back into balance.
3. Never go over 10% of target. Be aware once a target allocation goes over by 5%.
4. Do not go more than 10% in non-mutual funds.
5. Review annually the Asset Allocation targets.

Here is an example of a moderate-risk investment plan.

Please note that the Vanguard funds listed could be any fund provided by any solid company (i.e., T. Rowe Price, Schwab, Fidelity, etc.,).

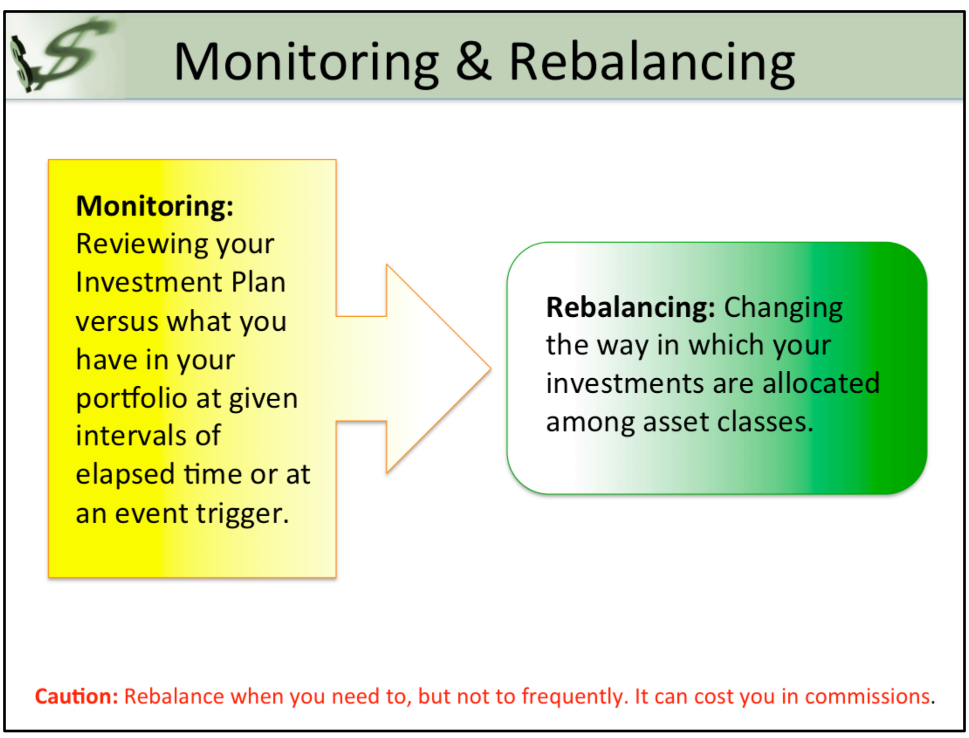
Please read the fund's perspective to make sure that the particular fund aligns with your requirements.

Once you invest, validate the fund's perspective periodically to make sure that it hasn't changed its investment goals or its management.

Portfolio Management

- Once investments have been acquired, there should be periodically reviews these assets.
- You need to understand if you should continue to hold those investments, or sell and reinvest in other assets?

Once investments have been acquired, we need to periodically review these assets. Over time, your portfolio will stray from that asset allocation model that you so carefully selected. There is also a chance that you may want to update your asset allocation model. You need to understand if we should continue to hold those investments or do we need to sell? When you change the way your investments are allocated among asset classes, you are rebalancing your portfolio.



We know that we need to monitor our portfolio periodically. When we decided to make changes, we then rebalance our portfolio to conform to our allocation.

Some reasons to rebalance:

- ✓ Your investment goals have changed.
- ✓ Your risk tolerance has changed (Not typical).
- ✓ Your portfolio no longer matches your allocation model.
- ✓ You have changed you asset allocation goals.
- ✓ You want to modify a concentrated asset in your portfolio.
- ✓ You want to improve the performance of your portfolio.
- ✓ Etcetera.

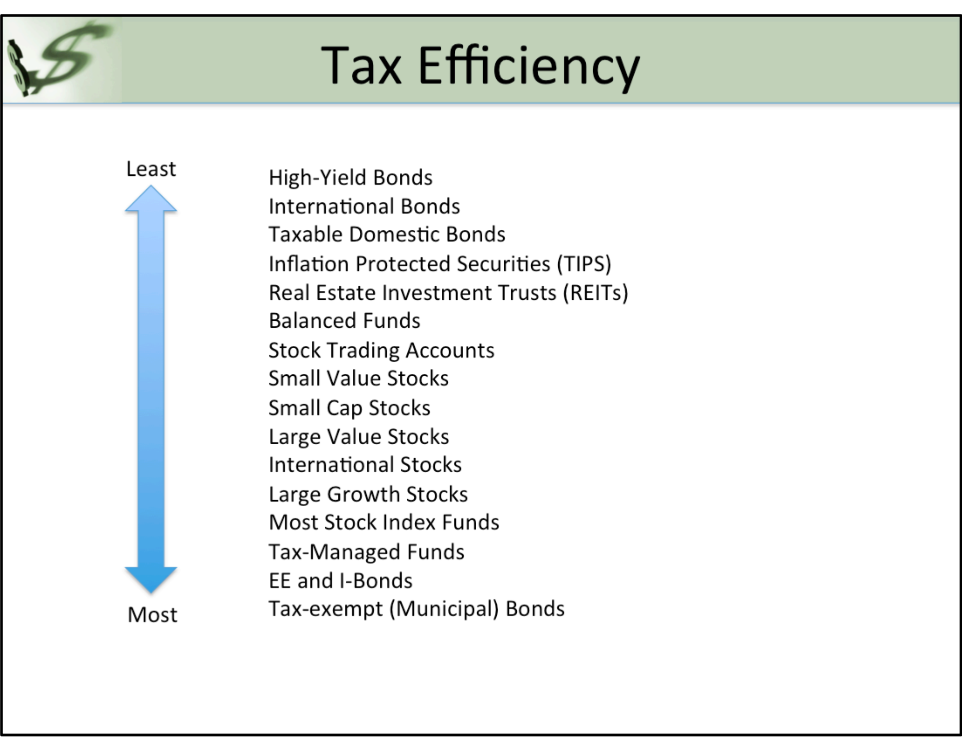
Once you have built your plan, follow your plan! Only change it if you found an assumption to be wrong.

Only buy and sell when needed. Rebalancing to often may cost you transaction fees that you will need to make up.

Basic Types of Accounts

- Checking,
- Savings,
- Individual *(broker, mutual fund, etc.)*,
- IRA,
- ROTH IRA,
- Rollover IRA,
- 401K,
- 529 *(college savings) ,*
- Etc. …

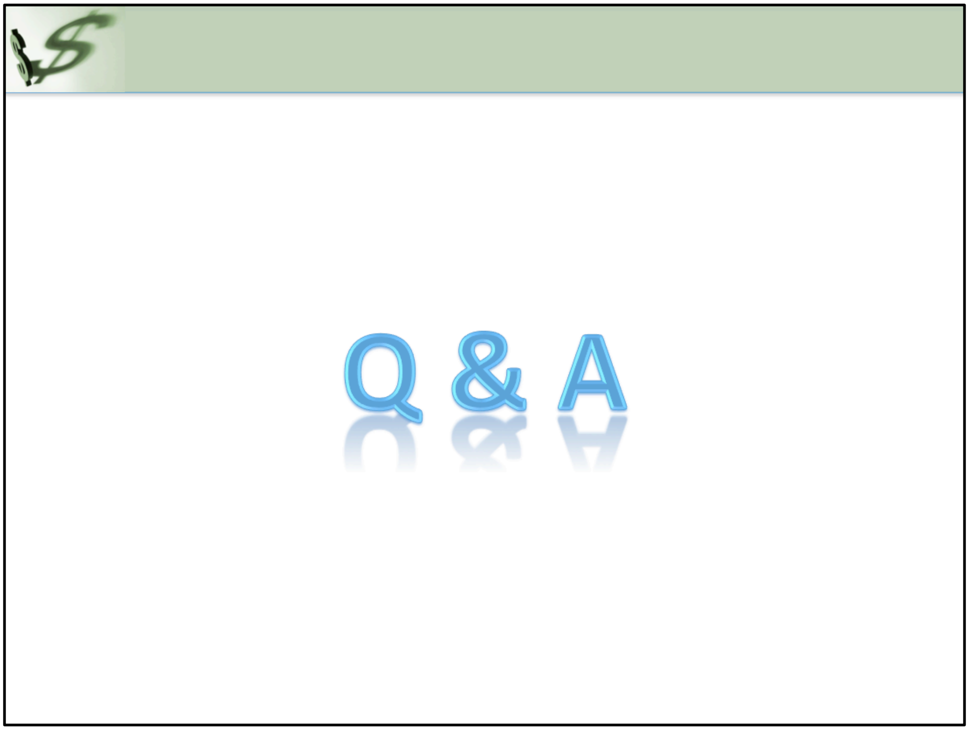
There are many type of financial accounts and the account details can vary given the State you live in, the State the account is in and the Financial Institution. Always ask questions until **YOU** feel comfortable.



When possible, place the most tax-inefficient funds into tax-deferred accounts. That way the taxes you pay can be managed.

Conclusion

- Invest in the things that you understand and feel comfortable with. Believe in yourself and remember that no one knows you better than yourself.
- If you don't know something then ask! Learn from people you trust, but always decide what is best for you. Also, share with others whenever possible.
- Once you have built your plan, follow your plan! Only change it if you found an assumption to be wrong.
- When you enjoy what you are doing … anything is possible!



Please let me know if you have any Questions about the presentation?

Thank you for time and interest. I hope you all become very successful Long-Term Investor.

Legal Documents *of Estate Planning*

1. A Will
2. A Durable Financial Power of Attorney
3. A Durable Health-Care Power of Attorney, Living Will or Executive Directives.
4. An Irrevocable Trust

(must be in place 5 years for Medicaid look back).

For more information please go to [**Medicaid.gov**](Medicaid.gov) *and visit your states' Medcaid page.*

Medicaid.gov: To get to the states' web page… on the tab click Medicaid then in the menu select "by State".

Please verify with an attorney for your state's statues.

5 Fast Formulas

1. **How many years will it take to double my money?** Divide the number by 72 by your annual investment return. If you're making 8%, you'll double your stake in 9 years (72÷8 = 9).
2. **What am I giving up in retirement savings when I spend money today?** Add a zero to the price tag. That's what you'll have in 30 years. If you invested the money and earned 8% a year. So a $40K expense trims the nest egg by $400K.
3. **How much do I need to earn, before taxes, to buy what I want?** Multiple the cost by 1.4 (That assumes a 28% federal tax rate). To pay to a $10K purchase you must earn $14K.
4. **Does my fund manager do well enough to justify his/her fee?** Multiple your fund expense by 10. The result is the percentage by which it need to outperform a low-cost index fund to cover the extra fee. A fund with an expense ratio of 1.5%, for example, needs to to 15% better than the index fund.
5. **What am I worth by the hour?** Divide your annual pay in half, drop the last 3 zeros. Therefore, if you make $100K a year, you make $50/hour (based upon a 40 hour work week).

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Financial Information

- Vanguard: https://personal.vanguard.com
- T. Rowe Price: https://individual.troweprice.com
- Better Investing: http://www.betterinvesting.org
- Wikinvest: https://www.wikinvest.com
- Investopedia: http://www.investopedia.com
- Social Security: http://www.ssa.gov
- Medicaid: http://www.medicaid.gov

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