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# Financial Goals

Investing  
*Tips to Get Started*

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# Talkin'bout Basics

Investing

“The Market”

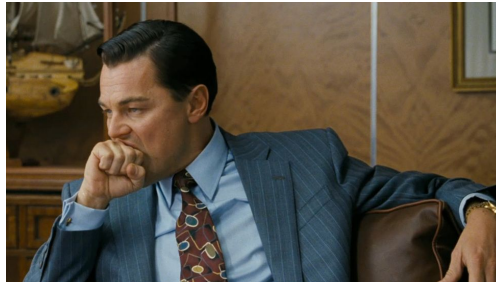
Stock Exchange

How to Participate

# What is Investing?

The act of committing capital to an endeavor (a fund, business, real estate, etc), with the expectation of generating an income or profit over a period of time. **Investing is methodical, strategic and based on value qualities.**

Investing is NOT Hollywood depictions like *The Wolf of Wall Street*, which represents **high-risk speculation** (essentially gambling) on market movements.



# What is “The Market”?

We commonly hear “the market” in reference to what is actually a **benchmark** or index. **S&P 500** and **Dow Jones** are common US market references. These are measurements in performance of a specific grouping of investment products.

**Bull Market** - prices are rising for several months



(charging forward)

**Bear Market** - prices are declining 20%+ over several months



(running scared)

**S&P 500** - the most commonly used benchmark in the US domestic stock market representing 500 US-based companies that cover 75%-80% of the US equity market.



# Where is The Market?

A **Stock Exchange** is the (actual) marketplace for the trade of stocks, commodities and other financial instruments. Exchanges allow investors to buy and sell shares of a company on a regulated platform.

To buy or sell on a US stock exchange, one must be a registered broker, therefore the rest of us must hire a broker or use an online brokerage firm.

There are ~15 major stock exchanges across the world. The US holds 2!

- **NYSE** - New York Stock Exchange (better known as Wall Street)
- **NASDAQ** - National Association of Securities Dealers Automated Quotation

# How do I participate?

## Active Investors:

Hire a **Personal Financial Advisor**.

Open a **Brokerage Account** to purchase individual stocks, bonds, funds and other securities (examples include Fidelity, Vanguard, e\*trade).

Open an IRA through a **brokerage account** or a bank.

## Passive Investors:

Hire a **Personal Financial Advisor**.

Sign-up with a **Robo-Advisor** to set a risk profile and let the algorithms take control. Examples include Wealthfront or Betterment.

Contribute to an employer sponsored **retirement account**. **Service providers** such as T.Rowe Price, Fidelity, ADP. Providers are determined by your employer.

Open an IRA through a **brokerage account** or a bank.

# Popular Investment Products

Ownership Investments

Stocks

Lending Investments

Bonds

Pooled Investment Vehicles

Mutual Funds

ETF

REIT

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# Stocks

We own equity in a company.

We care about how the company performs because we purchased rights to share in the profits and if they lose money, we lose money.

**Value Creation** - from cash dividend payments and increases in stock price (unrealized/realized capital gains).

**Risk Profile** - No promise of returns of the original investment and dividends are not mandatory. Both income and capital returns are variable. Check to ensure the company maintains investment grade credit ratings.

## Terms to Know

- **Common stock** - voting rights, dividends are variable, share in profit/loss
- **Preferred stock** - no voting rights, dividends can be fixed, no share in profit/loss, paid in priority
- **Unrealized** capital - current market value
- **Realized** capital - actual value at sale
- **EPS** - Earnings Per Share is the total company profit divided by the total # of common stock shares outstanding
- **P/E Ratio** - Share price/Earnings Per Share (**EPS**)
- **Short-term holding** - owned for less than 1 year
- **Long-term holding** - owned for more than 1 year
- **Credit rating** - a company's likelihood of default on their obligations (bankruptcy)
- **Credit rating agencies** - S&P, Moody's, Fitch



# Bonds

We are a lender of debt to a corporation or municipality, earning interest, over a specified period of time.

**Value Creation** - Interest is earned on the par value and paid on a fixed schedule over time. On the maturity date, the par value of the bond is paid back to the bond holder.

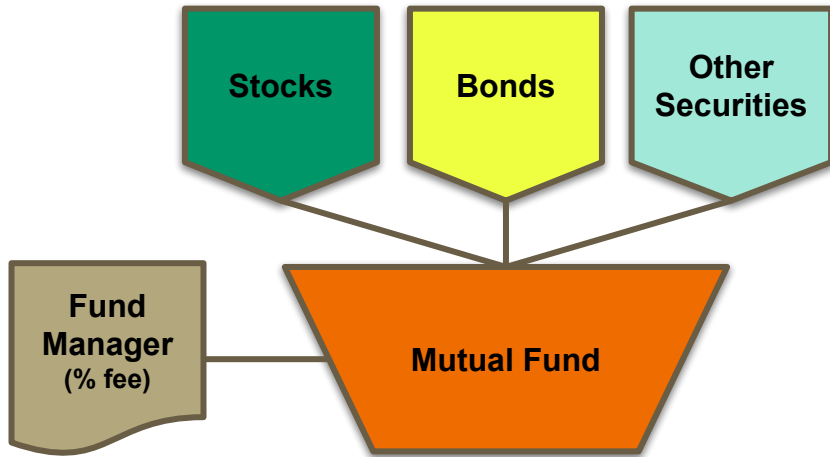
**Risk profile** - Exposed to inflating interest rates and credit risks of the bond issuer.

## Terms to Know:

- **Par value** the amount the bond issuer promises to repay the bond holder upon maturity (often \$1,000 per bond issue)
- **Price** does not always equal the par value, bonds may be sold at a discount from their par value to entice investment
- **Coupon rate** - the interest rate paid on the par value of the bond
- **Bond maturity date** - repayment date, end of bond term
- **Call Provision** - some bonds can be repaid early by the issuer
- **Municipal (Muni) Bonds** - bonds issued by municipalities (cities/counties) have favorable tax treatment to entice investment.

# Mutual Funds

An actively managed portfolio combining several investments into one pool.



## Value Creation

From cash dividend payments and increases in the **net asset value** of the fund (unrealized / realized gains)

## Risk Profile

Both income and returns are variable but **Diversification** is a significant risk mitigator

**Net Asset Value (NAV)** - The price of a mutual fund is determined by the market value of its components.

# Exchange Traded Fund (ETF)

A collection of traded securities **similar to a mutual fund** -but-

ETFs are **traded on the market** throughout the day. Mutual funds are not traded on the market, only their components are.

Active investors may prefer ETFs over Mutual Funds since ETFs provide more control to buy/sell throughout the day.

**Value Creation** - Increases in value of the underlying products + additional market value of the ETF itself.

**Risk Profile** - The added complexity of trading ETFs in the market increases the risk profile slightly over a Mutual Fund but the value differences are not often material.

# REIT (Real Estate Investment Trust)

Investing in the value of a portfolio/pool of real estate assets.

Actual property is owned by a trust and shares in that trust are bought and sold.

If we think the real estate market has value to gain but don't want the responsibility of owning and managing a physical asset, REIT is an option.

**Value Creation** - Portfolio management leases space and collects rents on the properties, then distributes that income as **dividends** to shareholders.

**Risk Profile** - exposed to swings in the real estate market.

## Term to Know

**FFO** - Funds From Operations is a REIT performance metric that represents the cash flow generated from operating activities. FFO per share is the equivalent of a stock Earnings Per Share (EPS)

Now What?

# Key Principles

1. Set your **objectives** & forecast. Define what major life, fun and purpose goals fit your dreams! (Work with Fawn!)
2. Assess your **risk tolerances**. Short time horizons = low risk tolerance. Long time horizons = higher risk tolerance. There's more time to recover from a downturn.
3. Identify what type of investor you plan to be - **Active or Passive?**
4. Understand your **tax positions** and when it makes sense to pay later (defer) or pay now - aim to pay when your income is in low tax brackets.
5. Choose products that fit your specific needs and **diversify**. Find an advisor that can help tailor and mix your portfolio. (Call Paige!)
6. Understand your **benchmarks** and **monitor** your investment performance. Periodically make smart adjustments that keep the portfolio balanced for optimal goal achievement.
7. **Control your expenses** by selecting funds with low expense ratios (<1%) and vetting your advisors to ensure you're getting as much value as possible.

# Additional Resources

## Helpful Websites for Beginners

[www.thebalance.com](http://www.thebalance.com)

[investopedia.com](http://investopedia.com)

## Reddit

r/personalfinance

## Advisors

A registered CFA in your home state (state tax advice)

## Stock Research

[Morningstar.com](http://Morningstar.com) - market price data

EDGAR [sec.gov\edgar](http://sec.gov/edgar) - public company annual & quarterly reports

[Fidelity.com](http://Fidelity.com) or [Vanguard.com](http://Vanguard.com) - investment prospectus

[Moody.com](http://Moody.com) - credit ratings

**Questions?**

**Discussion Requests?**