

# Investing 101

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# Let's Talk About ...

- Saving
- Investing
- Investment Types
- Account Types
- Financial Apps



# Saving or Investing?

- How can you tell the difference?



# Saving or Investing?

## Saving

- For an Emergency Fund
  - 3 to 6 months of expenses
- For Near-Term Goal
  - Vacation
  - Car Purchase
  - Home Down Payment

## Investing

- For Long-Term Goal
  - College Expenses
  - Retirement



# Ways to Save

- **Bank or Credit Union  
Checking/Savings Account**

Research current interest rates at <https://www.bankrate.com/banking/money-market/rates/> for savings vehicles available in your area.

- **High Yield Online Money  
Market Account**

- It's a Bank Product
- Accessible
- FDIC Insurance
- 'High Yield' is relative to current interest rates!

Examples:

ABC Bank Online Savings Account\*

- .90% APY
- Minimum balance \$0

123 Bank Online Savings Account\*

- .90%
- Minimum balance \$100

\*For reference only, as of 5/15/22



# Saving Is

- The first step in investing
- **Helps develop a pattern for investing by living below your means**
  - Free up money for saving by plugging leaks in your budget.
  - Find \$5/day and you can save \$1,825/year! It's often easy to find much more than that by working through your regular expenses like your phone plan, car insurance, eating out, internet and cable.



# Investing for Long-Term Goals

To accomplish long term goals like a comfortable retirement

- You need **TIME**
- You need **RETURN**
- You must accept **RISK (volatility)**

More reward typically means more risk



# Consider the Effect of Time

*It's more important than you think!*





# Compound Interest



@ 5% Interest Rate



# Make Time Work for You

Age	Annual Contribution	Investment Return	Total Value at Retirement (Age 65)
20	\$5,000.00	8.00%	\$2,087,130.33
21	\$5,000.00	8.00%	\$1,927,528.09
22	\$5,000.00	8.00%	\$1,779,748.23
23	\$5,000.00	8.00%	\$1,642,915.03
24	\$5,000.00	8.00%	\$1,516,217.62
25	\$5,000.00	8.00%	\$1,398,905.20
26	\$5,000.00	8.00%	\$1,290,282.59
27	\$5,000.00	8.00%	\$1,189,706.11
28	\$5,000.00	8.00%	\$1,096,579.73
29	\$5,000.00	8.00%	\$1,010,351.60
30	\$5,000.00	8.00%	\$930,510.74
31	\$5,000.00	8.00%	\$856,584.02
32	\$5,000.00	8.00%	\$788,133.35
33	\$5,000.00	8.00%	\$724,753.10
34	\$5,000.00	8.00%	\$666,067.69
35	\$5,000.00	8.00%	\$611,729.34

Waiting just 5 years costs you \$688,225.13...ouch!

Invest Now,  
Invest Regularly



# Major Types of Investments or Asset Classes

- Bonds
- Stocks
- Real Estate
- Cryptocurrency
- Commodities

Can be purchased:

Individually

OR

Collectively in

- Mutual Funds
- Exchange Traded Funds (ETFs)



# What are Bonds?

Loaning your money to a company or government entity for a specified period of time in exchange for regular interest payments and the return of your principal at bond maturity

- **Corporate bonds**
  - Consider credit quality
  - Consider maturity – Short, Intermediate, Long
- **Government bonds**
  - Treasury bills (T-bills): 4, 13, and, 26 week maturity
  - Treasury notes: 2 to 10 years maturity
  - Treasury bonds: 30-year maturity
  - U.S. savings bonds can be purchased online at [www.treasurydirect.gov](http://www.treasurydirect.gov)
- **Municipal bonds**
  - Consider credit quality
  - Tax-free interest – but yields are often lower than corporate bonds or CDs
    - Need to evaluate Federal and State/local tax savings vs. yield
    - Consider if you are in a high tax bracket and are buying in a taxable brokerage account






# What are Stocks?

Buying a part of a publicly traded company

- Highest potential rate of return/highest risk (volatility)
- Within stocks, so many choices
- Return comes from **appreciation** of the price of the stock from when you bought it, and **dividends** paid out by the company to shareholders
- Diversification is necessary – For example, we suggest 9 different stock asset classes for investment portfolios



# Morningstar Style Box

Level of Risk	Investment Style			Average Market Capitalization
	<i>Value</i>	<i>Blend</i>	<i>Growth</i>	
Low 	Large-Cap Value	Large-Cap Blend	Large-Cap Growth	Large
Moderate 	Mid-Cap Value	Mid-Cap Blend	Mid-Cap Growth	Medium
High 	Small-Cap Value	Small-Cap Blend	Small-Cap Growth	Small



# Market Capitalization

A company's **capitalization** is the total value of all its stock—that is, the price of a company's stock times the number of shares outstanding

## Large Cap

Vanguard S&P 500 ETF

Symbol: VOO

### Top 10 Holdings:

Apple Inc

Microsoft Corp

Amazon.com Inc

Tesla Inc

Alphabet Inc Class A

Alphabet Inc Class C

NVIDIA Corp

Berkshire Hathaway Inc Class B

Meta Platforms Inc Class A

UnitedHealth Group Inc

## Mid Cap

Vanguard Mid Cap ETF

VO

### Top 10 Holdings:

Synopsys Inc

Occidental Petroleum Corp

DexCom Inc

Cadence Design Systems Inc

Amphenol Corp Class A

IQVIZ Holdings Inc

Welltower Inc

Nucor Corp

Mircrochip Technology Inc

## Small Cap

Vanguard Small Cap ETF

VB

### Top 10 Holdings:

Molina Healthcare Inc

Quanta Services

Marathon Oil Corp

Constellation Energy Corp

Entegris Inc

Targa Resources Corp

Bio-Techne Corp

Alcoa Corp

Brown & Brown

Atmos Energy Corp

### Avg Market Cap of all companies in ETF

**\$ 191 Billion**

**\$ 23.4 Billion**

**\$ 5.3 Billion**

These examples are for illustrative and discussion purposes only and may not be relied on in any manner as tax or investment advice or as a recommendation. Past performance is not a guarantee of future results.



# Other Asset Classes

- Real Estate
  - Commercial , Residential, Industrial
- Cryptocurrency
  - Bitcoin, Ethereum, Tether
- Commodities
  - Oil, silver, gold





# Types of Investment Risk

## **STOCKS**

- General Market Risk
- Specific Business Risk
- Liquidity Risk
- Concentration Risk
- Foreign Investment Risk

## **BONDS**

- Interest Rate Risk
- Credit Risk
- Liquidity Risk
- Reinvestment Risk
- Foreign Investment Risk



# Risk / Return Measures

Technical Definition and in Plain English

- Standard Deviation
- Beta
- Alpha



# Risk Measure – Standard Deviation

Name	Annualized Std.Deviation 3-year
Prime Money Market Cat. Avg	0.24
Muni Single State Short Cat. Avg	2.66
Corporate Bond Cat. Avg	7.93
Foreign Large Blend Cat. Avg	17.36
S&P 500 TR USD	18.66
Diversified Emerging Mkts Cat. Avg	18.85
Large Value Cat. Avg	19.11
Real Estate Cat. Avg	19.52
Large Growth Cat. Avg	20.47
Mid-Cap Growth Cat. Avg	22.38
Mid-Cap Value Cat. Avg	22.87
Small Growth Cat. Avg	24.03
Small Value Cat. Avg	25.58

- **Standard Deviation** is a statistical measure of the dispersion of the returns from the average return.
- **OR In plain English** – How wild is the ride

Source: Steele Mutual Fund Expert 4/30/2022



# Risk Measure - Beta

Name	Beta 3-year
Prime Money Market Cat. Avg	0.00
Muni Single State Short Cat. Avg	0.05
Corporate Bond Cat. Avg	0.27
Diversified Emerging Mkts Cat. Avg	0.82
Foreign Large Blend Cat. Avg	0.85
Real Estate Cat. Avg	0.89
Large Value Cat. Avg	0.96
S&P 500 TR USD	1.00
Large Growth Cat. Avg	1.05
Mid-Cap Growth Cat. Avg	1.09
Mid-Cap Value Cat. Avg	1.10
Small Growth Cat. Avg	1.14
Small Value Cat. Avg	1.17

- **Beta** is a measure of the volatility of a security in comparison to the market as a whole.
- **OR In Plain English** is your security more volatile than the S&P 500, which has a beta of 1.00?

Source: Steele Mutual Fund Expert 4/30/2022



# Return Measure - Alpha

Name	Alpha 3-year
Diversified Emerging Mkts Cat. Avg	-0.64
Foreign Large Blend Cat. Avg	-0.57
Small Growth Cat. Avg	-0.51
Small Value Cat. Avg	-0.40
Mid-Cap Growth Cat. Avg	-0.37
Mid-Cap Value Cat. Avg	-0.31
Corporate Bond Cat. Avg	-0.21
Large Value Cat. Avg	-0.19
Real Estate Cat. Avg	-0.15
Large Growth Cat. Avg	-0.14
Muni Single State Short Cat. Avg	-0.05
S&P 500 TR USD	0.00
Prime Money Market Cat. Avg	0.05

Source: Steele Mutual Fund Expert 4/30/2022

- **Alpha** is the excess return of a security relative to the return of a benchmark index.
- **OR In Plain English** alpha is an investment's strategy's ability to beat the market, or it's "edge." Alpha means excess return because markets are efficient, and so there should be no way to systematically earn returns that exceed the broad market as a whole. We are all looking for alpha. The benchmark is neutral, we are looking for  $> 0$ .



# Investing Collectively

Why use Mutual Funds and Exchange Traded Funds?

- Easy way to invest in a variety of stocks and bonds -- diversify
- Can begin investing with relatively small amounts



# Investing Collectively

## Mutual Fund

- Collection of Individual Investments, i.e. Stocks, Bonds
- Has Investment Manager/Team That Selects Investments
- Pays Dividends and Capital Gains Distributions
- Price Determined at the End of Each Day
- Varied Internal Expense Ratios (cost)

## Exchange Traded Fund

- Collection of Individual Investments, i.e. Stocks, Bonds
- Usually Has a Passive Strategy or Filter(s) for Investment Selection Criteria
- Usually Pays Dividends Only
- Trades Intraday on the Exchanges
- Generally Lower Internal Expense Ratios (cost)



# Investing First Steps

A B C





# First Steps A

- Get Educated
- Have a Plan
- Think Long-Term
- Understand Risk and Your Time Frame



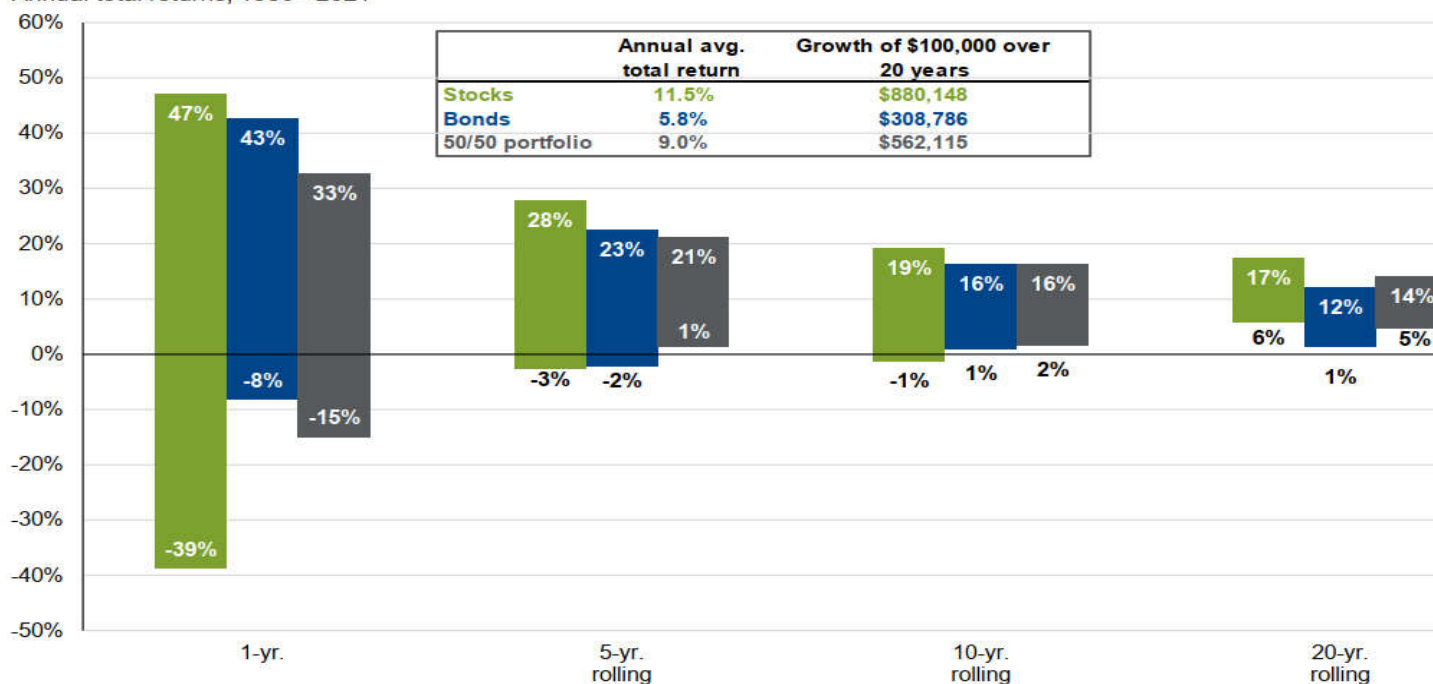
# Risk and Your Time Frame

## Time, diversification and the volatility of returns

GTM U.S. 62

### Range of stock, bond and blended total returns

Annual total returns, 1950 - 2021



Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management. Returns shown are based on calendar year returns from 1950 to 2021. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Aggregate thereafter. Growth of \$100,000 is based on annual average total returns from 1950 to 2021. Guide to the Markets – U.S. Data are as of March 31, 2022.

J.P.Morgan  
ASSET MANAGEMENT



# First Steps B

- Determine Your Allocation

Extensive research has shown that, if you have a diversified portfolio, an incredible 88% of your experience (the volatility you encounter and the returns you earn) can be traced back to your asset allocation.\*

- Choose Your Assets

- Diversify

\* Source: Vanguard, The Global Case for Strategic Asset Allocation (Wallick et al., 2012).



# First Steps C

- Don't Try to Beat the Market
- Plan to Achieve Your Goals with Market Returns
- Expect and Embrace Volatility
- Minimize Fees when Possible



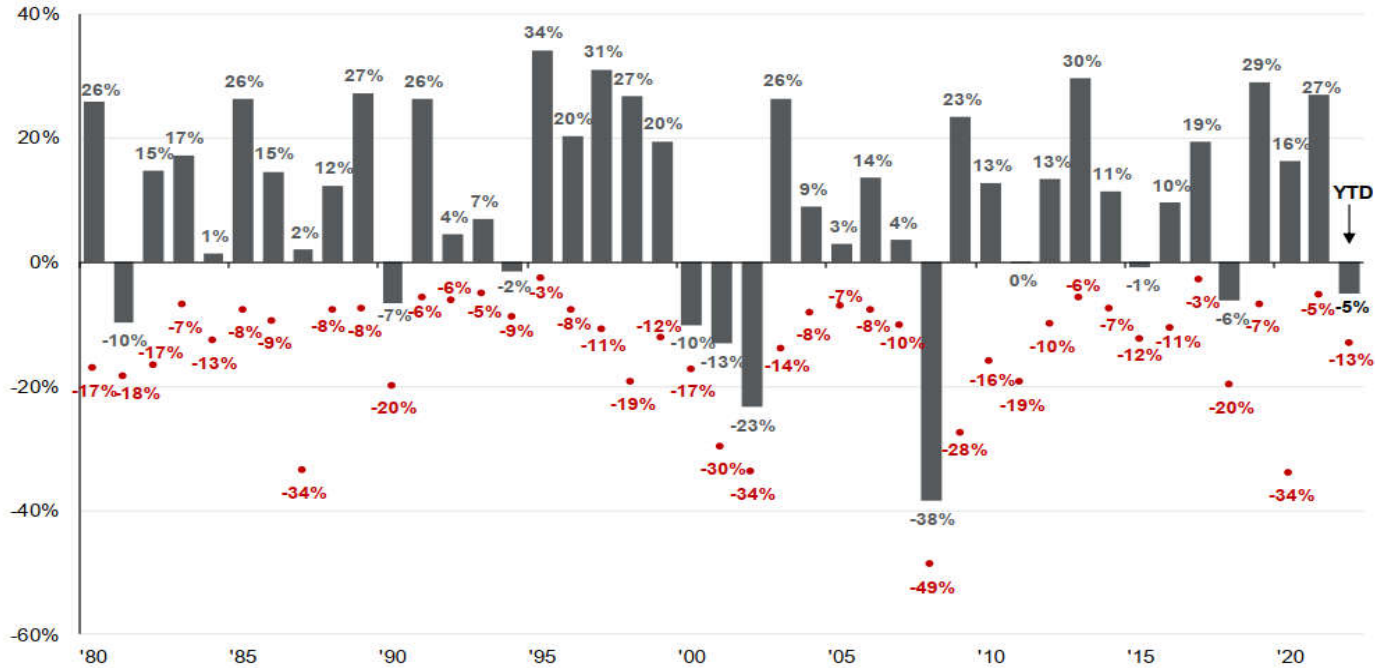
# Expect Volatility

## Annual returns and intra-year declines

GTM U.S. 16

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

Despite average intra-year drops of 14.0%, annual returns were positive in 32 of 42 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2021, over which time period the average annual return was 9.4%.

Guide to the Markets – U.S. Data are as of March 31, 2022.

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ASSET MANAGEMENT



# What Types of Accounts to Use

- For Children's College:
  - 529 Plan
  - Custodial account (ie. UTMA, UGMA)
  - Roth IRA – Your Own, must have wages  
( $\$6,000/\text{year for 18 years} = \$108,000$ )
  
- For Retirement:
  - Company Sponsored Retirement Plans (ie. 401(k), 403(b))
  - Traditional IRA
  - Roth IRA
  - Taxable Account



# Tips for Your Company Sponsored Retirement Plan

For many employees, it's their first and most powerful investment!



# Company Sponsored Retirement Plans

- Contribute at least enough to get any company matching contributions
- Increase your contribution every year with raises
- Take advantage of the company provided financial adviser and any financial tools
- Choose your funds from the roster
  - Retirement Year Funds are already allocated for your age. They are on a glide path to become more conservative as you approach retirement.
  - OR Lifecycle Funds (Conservative, Moderate, Aggressive).
  - OR choose both stock and bond funds in the right mix for your time horizon.





# Company Sponsored Retirement Plans

- Rebalance
- Limit Company Stock
- No loans or withdrawals unless absolutely necessary
- Don't abandon your 401k when you change employment
  - Rollover to an IRA or into your new company plan
- If you are 401(k) poor, you may be retirement rich!



# Where to Open Accounts

Open Traditional IRAs, Roth IRAs and taxable accounts at an investment management company like:

- Vanguard
- Fidelity Investments
- Schwab
- E-Trade
- TD Ameritrade



# Financial Apps

## Apps

- PayPal, Venmo, CashApp
  - Send money to friends, family, and some businesses
  - Connect with bank account
- Mint, EveryDollar, Personal Capital
  - Budgeting and monitoring accounts
  - Track spending and wealth
- Credit Karma
  - Monitor credit score
  - Tips to improve credit score
- Your bank
  - Check for an app from your bank or credit union
  - Quick access to your account balance, transactions, ability to “lock” your bank debit card, and more

This is a partial list of available apps. This list should not be construed as a recommendation or endorsement.



# Financial Resources

## Resources

- [Investopedia.com](https://www.investopedia.com)
- [NerdWallet.com](https://www.nerdwallet.com)
- [MarketWatch.com](https://www.marketwatch.com)
- [ThePennyHoarder.com](https://www.thepennyhoarder.com)
- [Rodgers-Associates.com](https://www.rodgersassociates.com)



# Look for our survey

You can help us make our seminars even better!

Please complete the short, anonymous survey  
arriving shortly in your email.

Thank you!



# Upcoming Seminars

**Bring a Friend to Lunch (Location- Lancaster Country Club)**

**Thursday, June 16, 2022**

**12:00 PM**

**Pulse of the Market: Where Are We Now?  
(Virtual Seminar)**

**Tuesday, August 23, 2022**

**1:00 PM**

