Investing Concepts

WORKBOOK



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Your Investment Assessment

This assessment will provide you with a good indication of where you stand with your investing and asset allocation decisions. No matter where your score falls, you can use the other resource materials to help you make smart asset allocation and investment choices.

Check all that apply

- [ ] I've set investment goals and time horizons for each.
- [ ] I've taken a risk tolerance questionnaire.
- [ ] I am confident that my investments are allocated appropriately between stocks, bonds, and cash based on my risk tolerance and time horizon.
- [ ] I have at least a general understanding of stocks, bonds, and cash investments.
- [ ] I have taken steps to minimize taxes on my investments.
- [ ] I know what my mutual funds invest in and what they cost before purchasing them.
- [ ] I rebalance my investment accounts to keep my asset allocation plans on track.

Scoring Your Assessment:

Give yourself one point for each box you checked	
Score 5-7	You have already made smart investment decisions. Keep up the good work, and be sure to monitor your investment accounts regularly. Review your mutual funds in terms of costs, performance, management, and overlap.
Score 3-4	You should take steps to make sure your current investments match your goals. Use the available resources to help you make good choices.
Score 0-2	It's not too late to learn about investing! Use the available resources to get started.

Start With Your Goals

- What are your financial goals?
- How many years until your goal will begin?
- How many years will you need the money to last once your goal starts?
- How many total years will the money be invested?

Determine Your Time Horizon For Each Goal

Goal Checklist	Years Until Goal	Years Money Will Be Needed	Years Money Will Be Invested
☐ Establish an Emergency Fund			
☐ Purchase a car			
☐ Purchase a home			
☐ Fund children's education			
☐ Retire financially secure			
☐ Other			
☐ Other			
☐ Other			

Match the Risk Level to the Time Horizon

Determine the appropriate risk level for each goal based on its time horizon

1. Short term (less than 5 years)

Conservative: Loss of principal not an option.

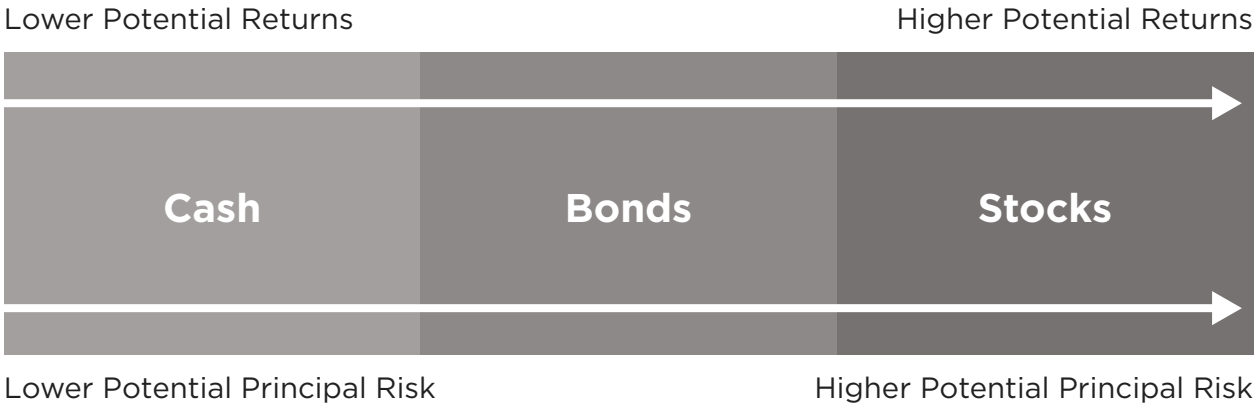
2. Intermediate term (5-10 years)

Moderate: May accept some risk for a higher return.

3. Long term (Over 10 years)

Aggressive: Risk is probably worth taking to stay ahead of inflation.

Investment Timeline



What's your time horizon?
(check all that apply)

☐ Short ☐ Intermediate ☐ Long

Actual number of years until your goal.

In general, the following asset classes may be appropriate for your goal:
(check all that apply)

☐ Cash ☐ Bonds ☐ Stocks

Understanding Each Asset Class

Stock Classification	Lower Risk	Medium Risk	Higher Risk
Geography	U.S.	Global	International
Market Capitalization (Total market value of all shares)	Large Cap ($10B+)	Mid Cap ($2-$10B)	Small Cap (under $2B)
Investment Style (Price relative to book value, sales, cash flow, earnings, or dividends)	Value	Blend	Growth

Bond Classification	Lower Risk	Higher Risk
Issuer	U.S. Treasury	Corporate
Credit Rating	Investment Grade (Rated BBB or above)	High Yield/Junk (Rated below BBB)
Duration	Short Term (e.g., 3-month T-bill)	Long Term (e.g., 30-year bond)

Types of Cash	Pros	Cons
Savings and Checking Accounts	Insured	Generally lowest interest rate
Money Market Mutual Funds	Higher interest rate	Not Insured
Stable Value Funds	Highest interest rate	Only available in retirement plans

Tip

5-10% of stock allocation can be in real assets such as real estate, precious metals, and commodities to hedge against rising inflation.

Bottom-up Investing

Ranked from **LEAST** risky to **MOST** risky

Rank	Type of Fund	% Allocated
1	Money Market (Cash Equivalent)	**%**
2	Bond	**%**
3	U.S. Large Cap Value	**%**
4	U.S. Large Cap Growth	**%**
5	U.S. Small Cap Value	**%**
6	U.S. Small Cap Growth	**%**
7	International	**%**
		100%

From the **BOTTOM-UP** assign a percentage that you feel comfortable with. The total percentage should add up to 100%.

Minimize Taxes

Take Advantage of Tax Sheltered Accounts

Goal	Tax Deferred	Tax Free
Emergency Fund	NA	Roth IRA (contributions only)
Retirement	Pretax 401(k) and Traditional IRA	Roth 401(k) and Roth IRA (after age 59 ½ and 5 years)
Buying a Home (up to $10k for first time home purchase)	Traditional IRA	Roth IRA (contributions and up to $10K of earnings)
Education Expenses	Traditional IRA	529 Savings Plan Coverdell Education Savings Account EE Savings Bonds Roth IRA (contributions only)

Account	2023 Contribution Limit
401(k) / 403(b)	$22,500 plus $7,500 if age 50+
IRA	$6,500 plus $1,000 if age 50+
Coverdell Education Savings Account	$2,000

IRA Income Limits

You may be able to contribute to either a traditional IRA or a Roth IRA (or both), depending on your modified adjusted gross income (MAGI). In order for your traditional IRA contributions to be tax deductible, you need to meet the following MAGI limitations if you are also covered by an employer's retirement plan. If you are not covered by an employer's retirement plan, your contributions are usually fully deductible regardless of your income.

Deductible IRA Eligibility for 2023
(For individuals covered by an employer's retirement plan)

Filing Status	Full Deduction	Reduced Deduction	No Deduction
Single/Head of Household	$73,000 or less	$73,001 – $82,999	$83,000 or more
Joint Return	$116,000 or less	$116,001 – $135,999	$136,000 or more
Married-Separate Return	Not available	$0 – $9,999	$10,000 or more

Contributing to a Roth IRA does not depend on your participation in an employer-sponsored retirement plan. Use the chart below to see if you are able to contribute to a Roth IRA based on your income.

Roth IRA Eligibility for 2023			
Filing Status	Full Contribution	Reduced Contribution	No Contribution
Single/Head of Household	Below $138,000	$138,000 – $152,999	$153,000 or more
Joint Return	Below $218,000	$218,000 – $227,999	$228,000 or more
Married-Separate Return	Not available	$0 – $9,999	$10,000 or more

Tip

If you earn too much to contribute to a Roth IRA, you can avoid the limit by contributing to a traditional IRA and then converting it into a Roth IRA. However, if you have other pretax IRAs, you will have to pay tax on part of the conversion. You can avoid this too by first rolling those other IRAs into your 401(k).

Remember!

If you can contribute to both types of IRAs, your total contribution between the two cannot exceed the annual limit of $6,500 (or $7,500 for those ages 50 and over) in 2023.

Shelter the Most Tax Inefficient Investments First

Prioritize the most tax inefficient investments in your tax sheltered accounts. For example, stocks are taxed at lower capital gains rates if held for 12 months or more while the interest on cash and certain bonds is taxed at higher ordinary income tax rates. Tax free municipal bonds should never be held in tax sheltered accounts.

You can also use losses on more volatile investments like stocks to offset other taxes, including up to $3k per year from regular income taxes (the rest can be carried forward to be used in future tax years).

Investments ranked from **LEAST** to **MOST** tax efficient.

Investment	Tax Features
Cash and Corporate Bonds	Interest fully taxed as ordinary income
Treasury Bonds	Interest subject to federal ordinary income tax but not state
Real Estate Commodities	REITs pay high dividends; Commodities may be taxed at higher capital gains rates
Domestic Stocks	Qualified Dividends and capital gains taxed at lower rates if held at least 12 months
International Stocks	Same as above but eligible for foreign tax credit outside of tax sheltered accounts
Municipal Bonds	Tax free and should never be held in a tax sheltered account

Decide How You Will Invest

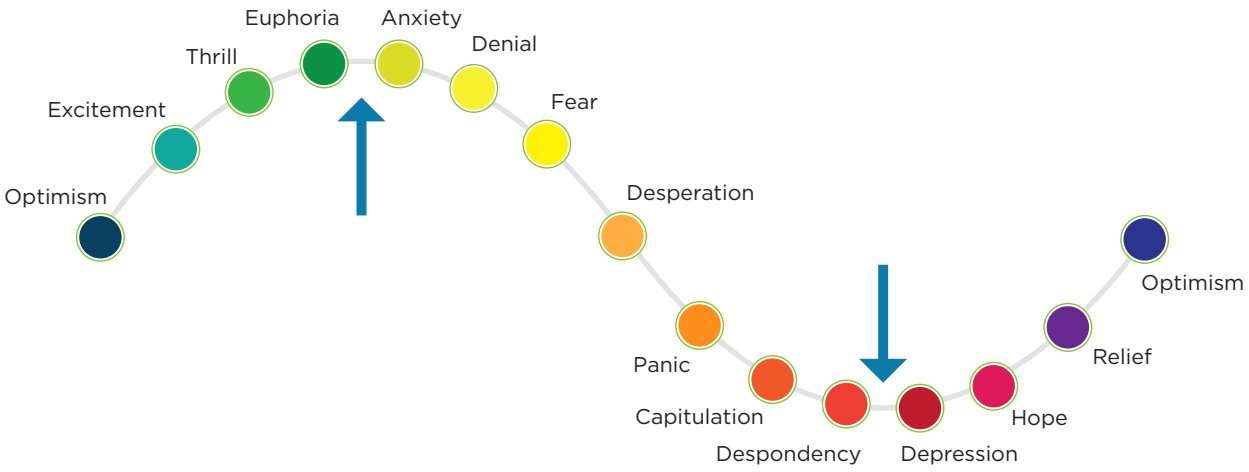
Method	Features	Availability in 401(k)
Individual Stocks, Bonds, and ETFs	Maximum Control Lowest Cost for Large Accounts Requires Time and Knowledge	Company stocks and ETFs (if offered)
Single Asset Class Mutual Funds	Instant Diversification Within Asset Class Professional Management Lack of Control Fund Expenses	Bonds Large Cap Stocks Mid Cap Stocks Small Cap Stocks International Stocks
Asset Allocation Mutual Funds	"One-Stop Shop" Diversification Lower Cost Than Investment Advisor Lack of Control Over Asset Allocation Generally Additional Fund Expenses	Target Date Funds

Investment Vehicles

Option	Features	Best if...
Target Date Fund	• "One-stop shop" diversification • "Set it and forget it." Fund automatically re-balances and becomes more conservative as you get closer to the target date	• You're looking for a simple solution • You're comfortable with the fund's asset allocation and how it changes over time • Most of your investments are in retirement accounts
Personal Online Advisor	• Personalized investment recommendations based on your goals, risk tolerance, and outside assets • "One-click" implementation in 401(k) • Sends notifications when changes are needed	• You want a more customized portfolio based on your personal risk tolerance • You have retirement investments outside your 401(k)
Personal Asset Manager	• Personalized investment management by company • Additional asset based fee	• You want ongoing investment management

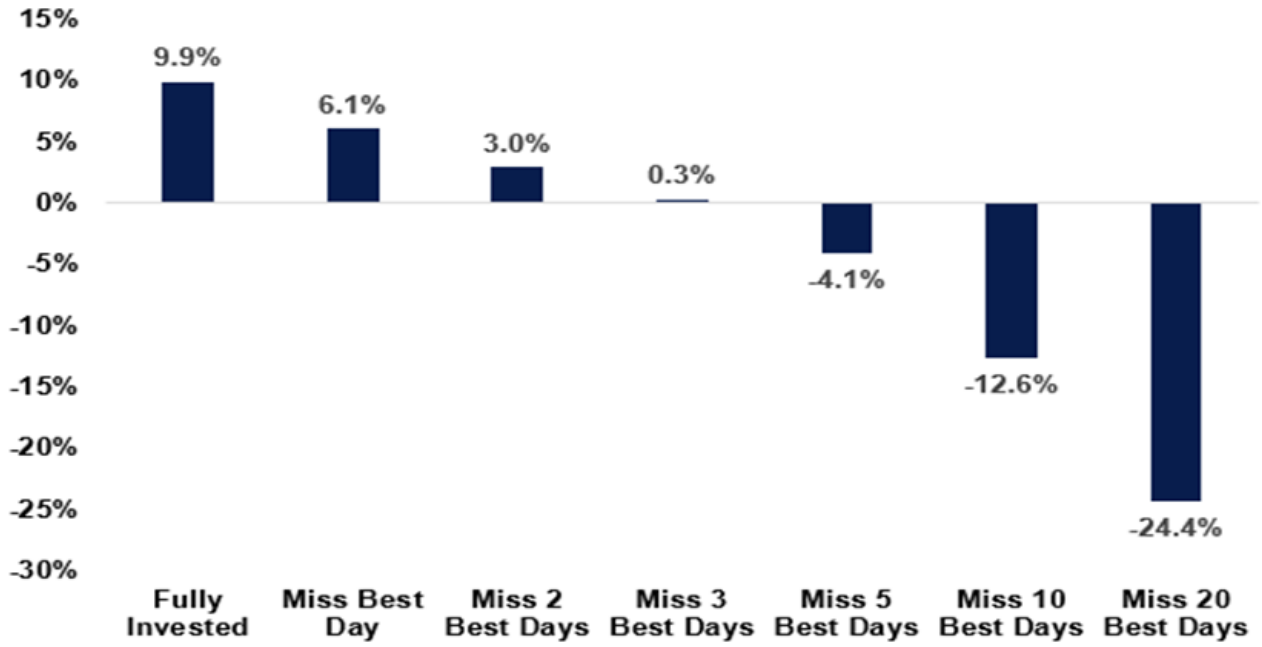
Make Market Volatility Work For You

Cycle of Market Emotions



Timing the market is very difficult and if you miss some of the best days, it can drastically reduce your performance.

S&P 500 Index Annualized Performance (1990-2021)



Dollar-Cost Averaging

The beauty of dollar-cost averaging is its simplicity

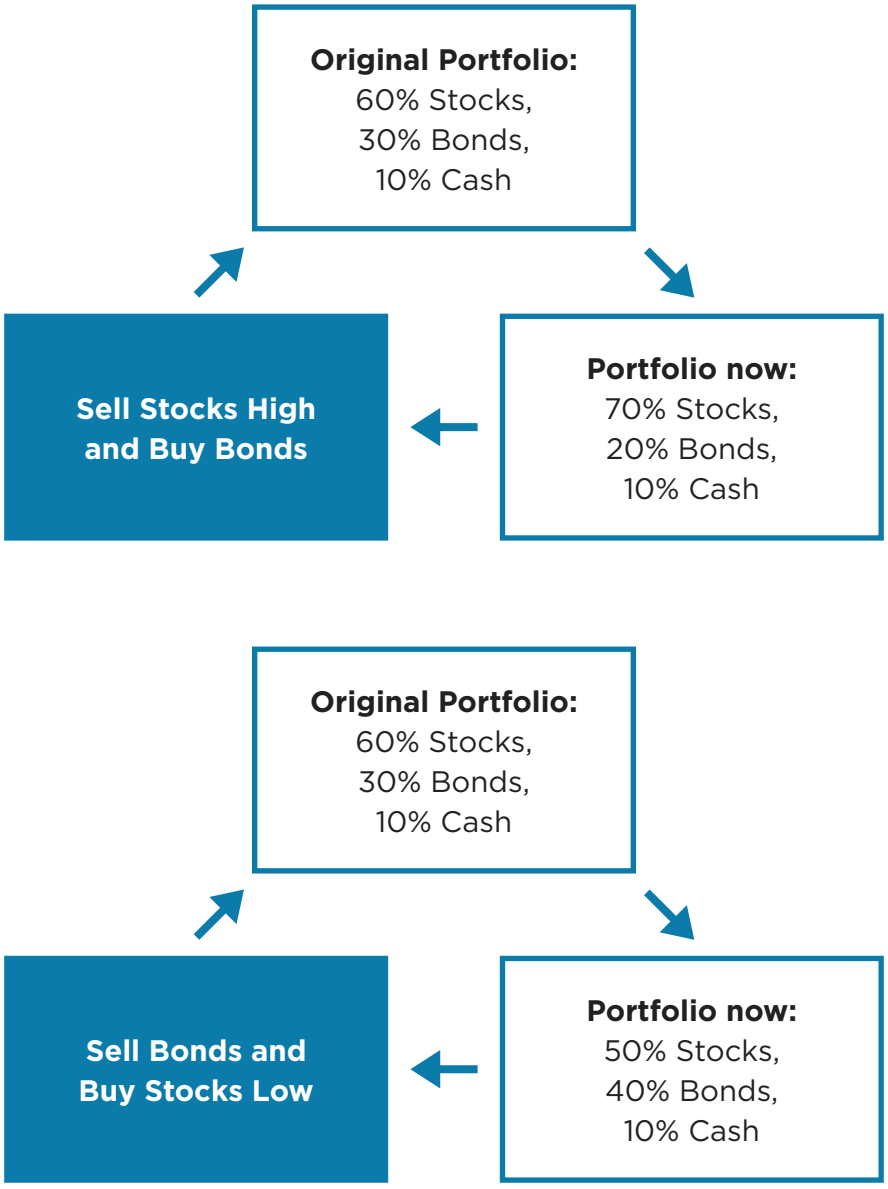
- When the share price is high, you will buy fewer shares.
- When the share price goes down, you will buy more shares for your money.
- Eventually, the greater number of shares you buy when the share price is down will reduce your overall cost and potentially increases your average per-share return.

Example of dollar cost averaging:

	Investment Amount	Share Price	Shares Purchased
Month 1	$100	$10	10
Month 2	$100	$5	20
Month 3	$100	$10	10
Total	$300	$7.50	40

Current Market Price: $10
Current Value of Shares: $400
Total rate of return: 33%

Rebalancing



"Be fearful when others are greedy. Be greedy when others are fearful."

– Warren Buffett

Have an Exit Strategy

Know When to Hold 'Em and When to Fold 'Em

Hold	Sell
The value is down	Your portfolio is too conservative or aggressive for your goals (May want to become more conservative as you get closer to retirement)
The "investment expert" on the tv or radio says it's time to get out of the market	There is a similar mutual fund option with lower costs
It's no longer the top performing fund	You want to take a tax loss to offset other taxes
Your brother-in-law told you to sell it	The value is up, and you need to rebalance your portfolio

"After buying a farm, would a rational owner … start selling off pieces of it whenever a neighboring property was sold at a lower price? Or would you sell your house to whatever bidder was available at 9:31 on some morning merely because at 9:30 a similar house sold for less than it would have brought on the previous day?"

– Warren Buffett

Key Questions to Ask an Investment Advisor

- **What services do you provide?**
  Some only provide investment management, while others provide more comprehensive financial planning services.
- **What is your investment style?**
  Do they manage portfolios of individual securities or just pick mutual funds? The former is typically less expensive but puts more weight on the advisor's expertise.
- **What are your credentials?**
  Many "credentials" are essentially worthless marketing gimmicks. Some well respected designations are the CFP®, CFA®, ChFC®, and CPA/PFS.
- **How are you compensated?**
  Be wary of advisors who are compensated based on products they sell because this can present a conflict of interest. "Fee-based" advisors generally charge a fee AND collect commissions, so look for a fee-only advisor.
- **Have you had any disciplinary actions filed against you?**
  You can verify at brokercheck.finra.org or CFP.net
- **Do you have any clients in my situation?**
  If so, see if they would be willing to provide any as references.
- **What questions do you have for me?**
  Are they interested in getting to know you and your goals or just the size of your account?

> "The first question you should ask of anybody selling you securities is, 'How are you getting paid and how much are you getting paid?'"
>
> **– Warren Buffett**

Case Studies

Rachel is a 25-yr old new employee and is just starting to save after paying off some credit card debt. She doesn't have an emergency fund but would want to start saving for retirement and a down payment on a home in 2-3 years. She is very conservative and doesn't like to take the risk, but she heard that she should be aggressive when she's young, so she's started buying a few stocks of technology companies like Apple and Google. She doesn't know much about investing, so she left her 401(k) money in the default target date 2050 fund.

Chandler is a 35-yr old busy professional and father. His main goals are saving for retirement and his young children's college education. All of his retirement money is in his current 401(k), old 401(k), and a Roth IRA. He moved all of his current 401(k) into the stable value fund after it lost value in 2020, and he hasn't had a chance to move it back. His old 401(k) is invested in mutual funds that a friend helped him select many years ago, but he hasn't had the time to look at them since. His Roth IRA is invested in funds he buys through a broker since he's confused about all the investment options and doesn't have time to manage them even with online tools. He's willing to be fairly aggressive with his investments now but would like to gradually be more conservative as he gets older.

Monica is a 45-yr old highly compensated executive and is particularly worried about taxes at her income level. She has about 25% of her retirement assets in company stock from options and other stock incentive plans but she's afraid to sell them because of the taxes. She's comfortable selecting her own investments and keeps the 401(k) invested in a target date fund, the IRA in individual stocks, and the brokerage account in a diversified mix of stock and bond funds.

Ross is 55 years old and planning to retire in the next couple of years. Since he's close to retirement, he's moved investments in his 401(k) into the stable value fund, his IRA into a money market fund, and his brokerage account into CDs at the bank. He would like customized advice on what to do next.

Next Steps

I will

- [ ] set specific investment goals
- [ ] take the risk tolerance questionnaire and follow the guidelines to determine how to split my money between stocks, bonds, and cash
- [ ] contribute more to my 401(k)
- [ ] open an IRA and/or education savings account
- [ ] reposition my assets to minimize taxes
- [ ] manage my own investment portfolio of low cost investments and rebalance it periodically
- [ ] select a target date fund in my 401(k)
- [ ] use a Personal Online Advisor tool for investment advice
- [ ] hire a fiduciary investment advisor