11th Annual Financial Literacy Leadership Conference
Investor Education Seminar

Presented by
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The Society for Financial Education and Professional Development, Inc.
Changes in the Age Distribution of Wealth, 1989-2013

Source: Federal Reserve Board, Survey of Consumer Finances
How Is Wealth Created?

- Stocks and Bonds
- Homeownership
- Inheritance
History of the Stock Market

- The first stock exchange was founded in Philadelphia, Pennsylvania in 1790.

- In March 1792, twenty-four of New York City’s leading merchants met secretly at Cove’s Hotel to bring order to the securities business.

- Two months later on May 17, 1792, a document was signed by the name of the Buttonwood Agreement which eventually led to the creation of the New York Stock Exchange.
History of the Stock Market

- NYSE was formally organized on March 8, 1817.

- The early 1900’s saw the rise of fortunes made on the New York Stock Exchange – Wall Street.
A panic began on October 23, 1929 and continued until it crashed on October 28, 1929.


Over the years, the stock market has fluctuated and gone through many changes, but over time stocks have outperformed over investment vehicles.
What are Stocks?

Stocks are equity investments which represent an ownership interest in a company.

Types of Stocks:
- Common Stocks
- Preferred Stocks
Common Stocks

- **Blue Chip Stocks**
  - Long History: 25 years or more
  - Consistent dividend payments and relatively stable value; and

- **Growth Stock**
  - Short History
  - Bought for their potential increase in share price as the company’s market value increases.
Preferred Stocks

- A class of stocks that has a claim on the company’s earning before payments may be made to common stockholders, if the company pays dividends or is consolidated.

- Hybrid of common stocks and bonds

Why Stocks?

- Long-term growth
- Capital appreciation
- Dividend income
When Should Stocks Be Used?

- To Achieve Long-Term Goals
  - Retirement Funds
  - Child’s Education

- To Stay Ahead of Inflation
What are Bonds?

- Bonds are IOU’s
- An investment that promises to pay a predictable income.

Types of Bonds:
- Corporate Bonds
- Federal Government Bonds
- Municipal Bonds
- Other Entities
How are Bonds Issued?

- Fixed Interest Rates
- Face Value
- Established Maturity
Bond Values Change?

- Interest Rate Risk
- Market Risk
- Rating Decline
- Default Credit
- Call Risk
How Do You Buy Stocks?

- Purchase Through Stockbroker or Financial Advisor
- Mutual Funds
- Thrift Savings Plan
- 401 (k) or 403 (b) Retirement Plan
How Do You Choose a Stock?

- Fundamental Analysis
- Technical Analysis
- Stockbroker Research
- Independent Research: Value Line
- Financial Publications: Barrons, Investor Business Daily
Economic Cycles
Economic Cycles and Stock Market Reaction

Source: S&P Dow Jones Indices LLC

2014 research.stlouisfed.org
Risk and Reward

Lower Risk/Lower Reward Potential
- CDs, Saving Accounts, Money Markets
- Growth & Income Funds
- Individual Stocks

Higher Risk/Higher Reward Potential

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What Are Some Investment Strategies?

Buy and Hold

<table>
<thead>
<tr>
<th>Holding Period</th>
<th>Odd of losing $</th>
<th>0-10%</th>
<th>10-20%</th>
<th>20+%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>22%</td>
<td>17%</td>
<td>26%</td>
<td>35%</td>
</tr>
<tr>
<td>3 years</td>
<td>10%</td>
<td>24%</td>
<td>47%</td>
<td>20%</td>
</tr>
<tr>
<td>5 years</td>
<td>2%</td>
<td>25%</td>
<td>57%</td>
<td>16%</td>
</tr>
<tr>
<td>10 years</td>
<td>0%</td>
<td>17%</td>
<td>83%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Odds of annualized return per year*

*SOURCE: Standard & Poor’s 500-stock average, rolling monthly returns since 01/1970 through 12/2002
What Are Some Investment Strategies?

- **Timing the Market**
  - Bear Market/Bull Market

- **Growth vs. Value**
  - **Value Investing:**
    Identifying Low-Priced Stocks with Sound Fundamentals
  - **Growth Investing:**
    Identifying companies that are growing fast and will continue to grow at above average growth rates
Steps to Purchase Stocks

1. Select a Stockbroker/Financial Advisor.

2. Review financial information about the company you are familiar with or the broker’s recommendation.

3. Request the stockbroker/financial advisor to purchase a certain number of shares of the stock you have chosen at:
   - Market Order
   - Limit Order

4. Payment is due three days after transaction.

5. Stock certificates are normally held in street name (electronically).

6. Margin (loan) accounts may be used to purchase stocks.

7. Direct purchase from company (DRIP).

8. Online
Can You Purchase Shares of a Number of Companies at One Time?

Mutual Funds can be used to obtain a portfolio of individual securities.

- Gain Indirect Ownership In Bonds or Stocks
  - Realize Capital Gains
  - Receive Dividend Income
- Realize Diversification of Invested Funds

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Benefits of Mutual Funds

- Diversification
- Professional Management
- Liquidity
- Simplicity

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How Funds Make Money for You

- Dividend payments
- Capital gains distributions
- Increase in NAV (value of the fund)
Mutual Fund Prospectus

- Investment objective of the fund, e.g. current income, capital appreciation, and long-term growth;
- Holdings and type of investments in the fund;
- History of fund’s performance;
- Fees and sales charges you pay to invest in the fund;
- Share classes offered, e.g. Class A, Class B, Class C and more
- Investment Advisor
How Do You Choose a Mutual Fund?

- Establish Financial Goals.
- Time Horizon and Risk Tolerance
- Investment Objective(s)
  
  For example: accumulate retirement fund-equity mutual fund; generate retirement income-bond fund.
What Types of Mutual Funds Are Available?

- Open-End
- Closed-End
- Load (sales charges)
- No Load (no sales charge)
What Are the Mutual Fund Categories?

- Stock or Equity Funds
  - Bond Funds
  - Hybrid Funds
- Money Market Funds
Mutual Fund Types and Objectives

- **Balanced Fund**: Made up of bonds, preferred stocks and common stocks.

- **Aggressive Growth Fund**: Investments are generally made in common stocks of higher growth potential risk.

- **Growth Fund**: Long-term growth of capital. Investments are generally made in common stock with growth potential with moderate risk.

- **Growth – Income Fund**: Investments are generally made in stocks and bonds normally paying higher dividends and interest.
Mutual Fund Types and Objectives

- **Bond Fund**: Income rather than growth. Investments are made in bonds and other fixed income securities.

- **Municipal Bond Fund**: Tax free current income. Made in a broad range of tax exempt securities issued by states, cities and other governmental authorities.

- **Money Market Fund**: Current income. Investments are made in short term debt instruments.

- **Specialty Fund**: This type of fund specializes in the securities of certain industries, special types of securities or in regional investments.

- **Index Fund**: A mutual fund whose holdings match that of a broad-based measure of a market – Standard and Poor’s 500 Index.
Classes of Mutual Funds

- Class A Shares-upfront sales charge
- Class B Shares-impose a contingent deferred sales charge
- Class C Shares-Annual fee charged, based on value of account
Impact of Fees

Portfolio Value From Investing $100,000 Over 20 Years

In 20 years, 0.50% annual fees reduce the portfolio (red line) by $10,000 compared to a portfolio with a 0.25% annual fee (blue line).

In 20 years, 1.00% annual fees reduce the portfolio (green line) by nearly $30,000, compared to a portfolio with a 0.25% annual fee (blue line).

- 4% annual return less 0.25% annual fee
- 4% annual return less 0.50% annual fee
- 4% annual return less 1.00% annual fee
FINRA Fund Analyzer

www.FINRA.org/fundanalyzer
How Do I Buy a Mutual Fund?

- Company 401(k) 403 (b) Retirement Plan
- Thrift Savings Plan
- Stockbrokers/Financial Advisor
- Direct from Mutual Fund Company
Is There a Minimum Investment?

- Some require minimum investment
- Thrift Savings Plan
- No minimum

- Automatic investment plan - $25 or more

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How Do You Judge the Performance of Your Mutual Fund?

INDICES:
Compare the fund against the index.
- Standard & Poor’s 500
- Russell 2000
- Foreign Stock Indices
- Compare against other funds in its category.
- Other Sources: Morningstar, Lipper, Analytical Services
How to Reduce Investment Risk?

- Diversify each category of investment.

- Diversify among categories of investments (stocks, bonds, cash, real estate, CD’s and other investment vehicles).
**Dollar-Cost Averaging**

**Example: Dollar-cost averaging $100 a month**

At time of purchase you buy

<table>
<thead>
<tr>
<th>Month</th>
<th>Investment</th>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan.</td>
<td>$5</td>
<td>20</td>
</tr>
<tr>
<td>Feb.</td>
<td>$10</td>
<td>10</td>
</tr>
<tr>
<td>Mar.</td>
<td>$15</td>
<td>6.67</td>
</tr>
<tr>
<td>Apr.</td>
<td>$10</td>
<td>10</td>
</tr>
</tbody>
</table>

**Total Investment = $400  Number of Shares = 46.67**

**Market Average Price = $10  Your average price = $8.57**

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How Do I Use What I Have Learned to Create Wealth?

1. Create an investment portfolio of stock, bonds and mutual funds.
2. Invest in company's 401(k) or 403(b).
3. Invest in individual retirement account (Traditional or ROTH).
4. Invest in mutual funds to cover costs of child's education (529 plan).
5. Create an emergency fund.
6. Accumulate funds to establish a business.
7. Accumulate funds for home purchase.

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IRA Investment Options:

- Mutual funds
- Stocks
- Bonds
- Money market funds
- Certificate of deposits
- Annuities
### Impact of Compounding and Delaying Your Invest

**Early Joe and Catch-up Late Jim**

**Hypothetical Illustration**

<table>
<thead>
<tr>
<th><strong>Early Joe</strong></th>
<th><strong>Catch-up Late Jim</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Starts investing at age 25</strong></td>
<td><strong>Starts investing at age 33</strong></td>
</tr>
<tr>
<td><strong>Ends investing at age 33</strong></td>
<td><strong>Ends investing at age 65</strong></td>
</tr>
<tr>
<td>Invest $3,000 each year in Individual Retirement Account for 8 years</td>
<td>Invest $3,000 each year in Individual Retirement Account for 32 years</td>
</tr>
<tr>
<td>Total Amount Invested $24,000</td>
<td>Total Amount Invested $99,000</td>
</tr>
<tr>
<td>Total Value of Investment As of 12/31/04: $1,640,081</td>
<td>Total Value of Investment As of 12/31/04: $1,467,059</td>
</tr>
</tbody>
</table>

(All dividends and capital gains were re-invested; and sales charges for mutual funds were deducted.)

**Source:** American Funds, Svs.
How long will savings last?
The rate of withdrawal will determine how long savings last

- 9% of original balance withdrawn yearly allows savings to last for 14 years
- 7% of original balance withdrawn yearly allows savings to last for approx 20 years
- 5% of original balance withdrawn yearly allows savings to last for 34 years
- 4% of original balance withdrawn yearly allows savings to last for over 50 years

*This model assumes interest on savings compounds monthly at APR of 3.5%
Potential Investment Gain

By Age Group

Here is an illustration of how much money you can have by age 65 with a $2,000 annual investment at various interest rates.

<table>
<thead>
<tr>
<th>Age</th>
<th>8%</th>
<th>10%</th>
<th>12%</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>$500,000</td>
<td>$974,000</td>
<td>$1.72 million</td>
</tr>
<tr>
<td>30</td>
<td>$372,000</td>
<td>$596,000</td>
<td>$967,000</td>
</tr>
<tr>
<td>35</td>
<td>$245,000</td>
<td>$362,000</td>
<td>$541,000</td>
</tr>
<tr>
<td>40</td>
<td>$158,000</td>
<td>$216,000</td>
<td>$299,000</td>
</tr>
<tr>
<td>45</td>
<td>$ 98,000</td>
<td>$126,000</td>
<td>$161,000</td>
</tr>
<tr>
<td>50</td>
<td>$ 58,000</td>
<td>$ 69,000</td>
<td>$ 83,000</td>
</tr>
<tr>
<td>55</td>
<td>$ 31,000</td>
<td>$ 35,000</td>
<td>$ 39,000</td>
</tr>
<tr>
<td>60</td>
<td>$ 12,000</td>
<td>$ 13,000</td>
<td>$ 14,000</td>
</tr>
</tbody>
</table>
Automatic Investment Plans Make a Difference

- Monthly $50 → $45,752
- Monthly $100 → $91,484
- Monthly $250 → $228,710
- Monthly $500 → $457,420

Assumes regular monthly investments over 25 years and 8% annual return
* SOURCE: Ariel Mutual Funds
Growth of $5,000 over 5, 15 and 25 years

Growth rate over 5 years
- Initial Investment $5,000
- Growth $2,347
- Total Value $7,347

Growth rate over 15 years
- Initial Investment $5,000
- Growth $10,861
- Total Value $15,861

Growth rate over 25 years
- Initial Investment $5,000
- Growth $29,242
- Total Value $34,242

Assumes growth rate of 8%, compounded annually

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Where Should You Invest Your Money?

Depends on:
Time Horizon & Risk Tolerance

<table>
<thead>
<tr>
<th>Short-term goals</th>
<th>Medium-term goals</th>
<th>Long-term goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money market fund</td>
<td>Bonds</td>
<td>Stocks</td>
</tr>
<tr>
<td>CDs</td>
<td>Stocks</td>
<td>Real estate</td>
</tr>
<tr>
<td>Savings account</td>
<td>Mutual funds</td>
<td>Mutual funds</td>
</tr>
<tr>
<td>U. S. Treasury obligations</td>
<td>Money Market</td>
<td></td>
</tr>
</tbody>
</table>
Investment Allocation Models

Higher Risk Younger Investor
- Stocks: 70%
- Bonds: 25%
- Cash: 5%

Medium Risk Near Retirement Investor
- Stocks: 60%
- Bonds: 30%
- Cash: 10%

Low Risk Retired Investor
- Stocks: 67%
- Bonds: 22%
- Cash: 11%

These models are samples and are not intended to serve as investment portfolio recommendations.
Why Invest!

- To Achieve Goals
- To Have Feeling of Security
- To Maintain Self-Esteem
- To Have Control Over Your Financial Future
Should I Change My Investment Strategy from Time to Time?

- Life Stages
- Achieved Financial Goals
- Close to Reaching Goals
- Your Financial Situation Changed
- Your Risk Tolerance Changed
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