

### INVESTING

- Investing and saving are **not** the same.
- **Saving** holds money at the same level.
- **Investing** makes your money work for you by growing in value.

### INVESTING – Outlining Goals

As you outline your financial goals, ask yourself these 6 questions:

1. How do I want to spend my money?
2. How much money do I need to satisfy my goals?

### INVESTING – Outlining Goals

3. How long will it take to save the money?
4. How much risk am I willing to take when I invest?
5. Am I willing to make sacrifices to save?

### INVESTING – Outlining Goals

6. What will happen if I do not meet my goals?
- Once these questions are answered, you then have to think about where to invest it.

### INVESTMENT DECISIONS

To make that decision, you need to:

1. Understand the different risk factors.
2. Consider each investment's potential for income and growth as well as its liquidity.

### INVESTMENT DECISIONS

Income means the investment often has a regular payout, and growth means the focus is on the growth of an investor's capital.

**Liquidity** – a specified amount Beyond which a customer may not Borrow or purchase on credit.

### INVESTMENT DECISIONS

You can select investments that are:

1. Very Safe
2. Very Risky

Or

3. Somewhere in between
- This decision will effect the **“Return on Investment”**

### INVESTMENT DECISIONS

#### What is return on investment (ROI)?

ROI is the rate of revenues received for every dollar on invested in an item or activity.

ROI rates vary with each investment.

## INVESTING – Risk v. Reward

- Generally, if you choose a safe investment, your ROI will be low.
- With a high risk or **speculative investment**, you may:
  - Earn a large profit in a short time or lose everything.

## INVESTING – Risk v. Reward

What factors determine the degree of risk investors take?

- Age
- Risk tolerance
- Investment goals

## INVESTING – Investor Profiles

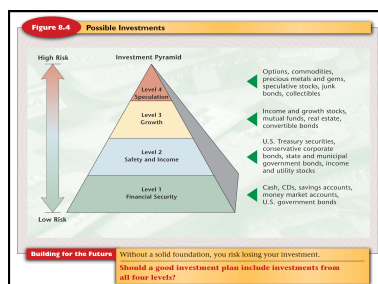
**Very Conservative** – seeks to maintain the original value of the investments and is prepared to accept lower returns for lower risk.

**Conservative** – seeks relatively stable returns and accepts some risk through a diversified portfolio.

**Moderate** – seeks higher medium-term returns and accepts the possibility of negative returns over short periods.

**Aggressive** – seeks high long-term returns and accepts the higher possibility of sustained negative returns over short periods.

**Very Aggressive** – seeks to maximize long-term returns and accepts the possibility of greater volatility and short-term capital losses.



## TYPES OF INVESTMENTS - Stocks

## INVESTMENTS - STOCKS

What are stocks?

**Stock** – is an instrument that signifies ownership in a corporation and represents claim on a share of a corporation's assets and profits.

Stocks are typically riskier and long-term investments.

## INVESTMENTS - STOCKS

- All stocks are one of two types:

**1. Common stock:** a certificate issued by a firm to raise funds that represents partial ownership in the firm.

## INVESTMENTS - STOCKS

**2. Preferred stock:** a certificate issued by a firm to raise funds that entitles share-holders to first priority to receive dividends.

## INVESTMENTS - STOCKS

At some point, just about every company needs to raise money.

In each case, they have two choices:

- 1) Borrow the money,
- or

**INVESTMENTS - STOCKS**

2) Raise it from investors by selling them a stake (issuing shares of stock) in the company.

**INVESTMENTS - STOCKS**

- **Stock Markets**

- **Primary market**: a market where newly issued securities are traded. These securities are called:

- **Initial public offering (IPO)**: the first offering of a firm's stock to the public.

**INVESTMENTS - STOCKS**

- **Stock Markets (USA)**

- **Secondary market**: a market where existing stocks are traded.

1. **New York Stock Exchange**
2. **American Stock Exchange**
3. **NASDAQ**

**INVESTMENTS - STOCKS**

- **Stock Markets (World)**

- **FTSE 100** – United Kingdom
  - **DAX** – Germany
  - **Shanghai Composite** – China
  - **Nikkei** – Japan
  - **Hang Seng** – Hong Kong

**INVESTMENTS - STOCKS**

Analyst view the market place as:  
Bear Markets vs. Bull Markets

**INVESTMENTS - STOCKS**

- **A Bull Market**

This is when the market is showing confidence. Indicators of confidence are prices going up, number of shares traded is also high.

- Technically though a bull market is a rise in value of the market of at least 20%.

**INVESTMENTS - STOCKS**

- **A Bear Market**

A bear market is the opposite to a bull. If the markets fall by more than 20% then we have entered a bear market. A bear market is a market showing a lack of confidence.

**INVESTMENTS - STOCKS**

- There are thousands of stocks to choose from, so investors usually like to put stocks into different categories:

- ① size,
- ② style
- ③ and sector.

**INVESTMENTS - STOCKS**

- **1. Size**

- A company's size refers to its:

**Market Capitalization** – is the current share price times the total number of shares outstanding.

- It's how much investors think the whole company is worth.

**INVESTMENTS - STOCKS**

- **Ex:** XYZ Corp, may have 2 billion shares outstanding, and a stock price of \$10. So the company's total market capitalization is \$20 billion.

$$\text{Market Capitalization} = \text{Market Price of share} \times \text{No. of Common Shares outstanding}$$

**INVESTMENTS - STOCKS**

- **LARGE CAP** vs. **SMALL CAP**
- **Large-cap** companies tend to be established and stable, but because of their size, they have lower growth potential than small caps.
- **Small-cap** companies over the long run, tended to rise at a faster pace.

**INVESTMENTS - STOCKS**

- **2. Style** (Growth vs. Value)
- Proponents of "**growth**" seek companies they expect (on average) to increase earnings by 15% to 25%

**INVESTMENTS - STOCKS**

- **Style**
- The opposite of growth is "**value**." Value investors look for bargains — cheap stocks that are often out of favor, such as cyclical stocks that are at the low end of their business cycle.

**INVESTMENTS - STOCKS**

- **3. Sector**
- A sector is an area of the economy in which businesses share the same or a related product or service.
- In most cases, financial, health care and technology tend to be the fastest growing sectors.

**INVESTMENTS - STOCKS**

- There are 2 ways stockholders profit:
  - 1. Dividends** - a distribution from the net profits of a company to its shareholders.
  - 2. Price Appreciation** – an increase in the the stock price from the purchase price.

**INVESTMENTS - STOCKS**

- Measuring the return on your investment

$$R = \frac{P_t - P_{t-1}}{P_{t-1}}$$

R = return

P<sub>t</sub> = price when sold

P<sub>t-1</sub> = price when purchased

**INVESTMENTS - STOCKS**

- Your return would be even higher if you also earned dividend or coupon payments

$$R = \frac{P_t - P_{t-1} + D}{P_{t-1}}$$

- D = dividends earned while you owned the investment.

**INVESTMENTS - STOCKS**

- The most dangerous form of stock trading is:
  - > **Day traders:** investors who buy & sell stocks on a daily basis.

### TYPES OF INVESTMENTS - Bonds

### INVESTMENTS - BONDS

#### What are bonds?

**Bonds** – are interest-bearing certificates used as a way for government or business to raise money. The investor is purchasing a part of that entities debt.

### INVESTMENTS - BONDS

- If you own stock in a company, you are a part owner of the company. As a bondholder, you are a creditor.

### INVESTMENTS - BONDS

- Returns from bonds are generally lower than stocks; however, they're a much safer investment.
- Bonds' safety and stability act as a counter to the fluctuations common to stocks.

### INVESTMENTS - BONDS

- **Types of Bonds:**
  1. **US Government Bonds (Treasuries)**
  2. **Agency Bonds (Agencies)**
  3. **Municipal Bonds (Munis)**
  4. **Corporate Bonds (Corporates)**

### INVESTMENTS - BONDS

- **Types of Bonds:**
  1. **US Government Bonds (Treasuries)** - Treasuries are different from all other types of bonds, because they are issued by the US government, and are therefore considered stable in value.

### INVESTMENTS - BONDS

- **Types of Bonds:**
  2. **Agency Bonds (Agencies)** - Agency bonds are bonds issued by institutions that were originally created by the US Government to perform important functions such as fostering home ownership, and providing student loans.

### INVESTMENTS - BONDS

- **Types of Bonds:**
  3. **Municipal Bonds (Munis)** - Municipal bonds fund a wide variety of projects and government functions ranging from police and fire departments to bridges and toll roads.

### INVESTMENTS - BONDS

- **Types of Bonds:**
  4. **Corporate Bonds (Corporates)** - A corporation can issue bonds for many reasons, including paying dividends to shareholders, purchasing another company, funding an operating loss, or expansion.

### INVESTMENTS - BONDS

#### ■ Types of Savings Bonds:

1. Series EE Bonds
2. Series I Bonds
3. Series H/HH Bonds

### INVESTMENTS - BONDS

#### ■ Types of Savings Bonds:

1. **Series EE Bonds** - are a low risk savings product that are often used toward education costs, retirement savings, and gifts for special events.

### INVESTMENTS - BONDS

#### ■ Types of Savings Bonds:

2. **Series I Bonds** – are low risk savings. What makes them different from EE Bonds is the rate of interest they earn. The interest rate is made up of two components, a fixed and variable rate, which is set to reflect current inflation rates.

### INVESTMENTS - BONDS

#### ■ Types of Savings Bonds:

3. **Series H/HH Bonds** - Also called Current Interest Bonds, a holder of these bonds earns interest payments every six months from the date of issue. They do not increase in value and are worth exactly what you paid for them at the time of maturity.

### INVESTMENTS - BONDS

#### ■ Who Issues Bonds?

1. Corporations issue bonds as a way to borrow large sums of money.

### INVESTMENTS - BONDS

#### ■ Who Issues Bonds?

2. Governments and governmental agencies also use bonds to raise money. U.S. Treasury Bonds are the most secure investments in the world.

### INVESTMENTS - BONDS

#### ■ Basic Bond Concepts

**Par Value** – also known a face or principal value, is how much the bondholder will receive at maturity. a \$1,000 par value bond will be worth \$1,000 when it matures.

### INVESTMENTS - BONDS

#### ■ Basic Bond Concepts

**Coupon** – is the interest rate the bond pays. It is called the coupon rate because bonds once came with a book of coupons, which the holder had to clip and send in to receive an interest payment.

### INVESTMENTS - BONDS

#### ■ Basic Bond Concepts

**Maturity** – refers to the length of time before the par value is returned to the bondholder. It may be as short as a few months, 50 years, or more. At maturity, the bondholder receives the par value of the bond.

## TYPES OF INVESTMENTS – MUTUAL FUNDS

## INVESTMENTS – Mutual Funds

What are mutual funds?

**Mutual Funds** – pools money together from thousands of small investors and then its manager buys stocks, bonds or other securities with it.

## INVESTMENTS – Mutual Funds

- 6 primary types of Mutual Funds:
- **1. Value Funds**
- Value fund managers look for stocks that they think are cheap on the basis of earnings power.

## INVESTMENTS – Mutual Funds

- **2. Growth Funds**
- Some growth fund managers are content to buy shares in companies with mildly above-average revenue and earnings growth, while others, shooting for monster returns, try to catch the fastest growers before they crash.

## INVESTMENTS – Mutual Funds

- **3. Growth-and-income, equity-income, and balanced funds**
- These 3 types of funds have a common goal: Providing steady long-term growth while simultaneously throwing off reliable income. They all hold some combination of dividend-paying securities.

## INVESTMENTS – Mutual Funds

- **4. U.S. Government Bond Funds**
- These funds invest primarily in bonds issued by the U.S. Treasury or federal government agencies, which means you don't have to worry about credit risk. But because of their higher level of safety, their yields and total returns tend to be slightly lower.

## INVESTMENTS – Mutual Funds

- **5. Corporate Bond Funds**
- Funds in this category buy the bonds issued by corporations that may range from well-known household names to obscure widget makers most of us have never heard of.

## INVESTMENTS – Mutual Funds

- **6. Municipal Bond Funds**
- Tax-exempt bond funds - also known as muni bond funds - invest in the bonds issued by cities, states, and other local government entities. As a result, they generate dividends that are free from federal income taxes.

## TYPES OF INVESTMENTS – Real Estate

**INVESTMENTS – REAL ESTATE****What is real estate?**

**Real Estate** – is a piece of land and any buildings or structures on it.

- Real estate is a long-term investment.

**INVESTMENTS – REAL ESTATE**

- There are many types of property investment.
- First, you will need to think about the kind of profits you want to make. This will help determine the kind of properties you would want to buy or sell.

**INVESTMENTS – REAL ESTATE**

- Do you want to sell million-dollar homes or little affordable units for small families?
- How about the idea of flipping old houses needing renovations, and sell them later on for a quick turnaround?

**INVESTMENTS – REAL ESTATE**

- Returns are almost always uncertain.
- Future values of investments are dependent on demand by investors.

**TYPES OF INVESTMENTS – COLLECTIBLES****TYPES OF INVESTMENTS – COLLECTIBLES****What are collectibles?**

**Collectibles** – are items which have value due to its rarity and desirability, such as antiques, coins, cars, and art.

**TYPES OF INVESTMENTS – PRECIOUS METALS****TYPES OF INVESTMENTS – PRECIOUS METALS****What are precious metals?**

**Precious Metals** – are natural metals that have value, such as gold, silver, platinum, and palladium.

**INVESTMENTS – RETURNS**

**Returns** – are the profits made on an investment.

- For tax reasons the profits are referred to as:

**Capital Gains** – are the profits from the sale of stocks, bonds, real estate, etc.



**INVESTMENTS – RETURNS**

- Capital Gains are taxed as either “Short-Term” or “Long Term”
- Short-Term means the investment was sold before the investor had it for 1 year. This results in paying your current tax rate.
- Long-Term was sold after 1 year resulting in a 15% tax for most.

**INVESTMENTS – RETURNS**

- Many investors try to avoid or at least delay paying capital gains taxes.
- **Tax Exempt Income** – is income from an investment that is not taxed.
- **Tax Deferred Income** - is income from an investment that is taxed at a later date.

**INVESTMENTS – RETIREMENT****Writing Prompt**

- Write one paragraph about the kind of lifestyle you would like to have when you retire.
- Include ideas on how much you think it will cost to maintain this lifestyle.
- Are you willing to make the sacrifices necessary.

**How much money will you need when you retire?**

- Many people stay healthy and active for years after they retire.
- If you start planning and investing soon enough, you can spend those years enjoying yourself instead of worrying.

**How much money will you need when you retire?**

- One of the basic sources of supplemental retirement income is **Social Security**.

**How much money will you need when you retire?**

**Question:** Could you live comfortably on Social Security benefits only?

**Answer:** NO! Social Security was designed to be a supplement to retirement.

**Planning for retirement is your responsibility!**

- Social Security benefits may not insure a comfortable lifestyle.
- Without a retirement plan, you could face a future of financial uncertainties and hardships.

**INVESTMENTS – RETIREMENT**

- **What is a 401(k)?**
- A 401k is a type of retirement account that is set up by your employer. The term 401k refers to the section of the IRS code which sets the rules for these types of retirement plans.

**INVESTMENTS – RETIREMENT**

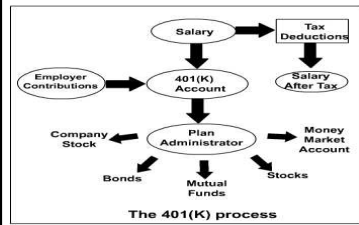
- The employer takes the money out of your paycheck and puts the funds into the 401k prior to calculating income taxes for your income.

**INVESTMENTS – RETIREMENT**

- In other words, 401k contributions reduce your taxable income. The money in the 401k is tax deferred, not tax exempt.

**INVESTMENTS – RETIREMENT**

- Some employers will also match a portion of your 401k contribution.
- The IRS sets rules for how much the employer can contribute.
- Employers also have rules for how much their willing to contribute.

**INVESTMENTS – RETIREMENT****INVESTMENTS – RETIREMENT**

- **Can You Withdraw Money from a 401k Plan?**
- If you withdraw money from a 401k before the age of 59 and 1/2, you will be required to pay a 10% early withdrawal penalty, as well as taxes on the amount withdrawn.

**INVESTMENTS – RETIREMENT**

- **What Happens if I Change/Lose my Current Job?**
- You have three options if you leave your current job or get terminated:

**INVESTMENTS – RETIREMENT**

- **1)** You can keep your money in your former employer's 401k plan; you must have a fully vested amount of at least \$5000 in order to do this. If you have savings of less than \$5000 in your employer's 401k, they could force you to take a cash distribution.

**INVESTMENTS – RETIREMENT**

- **2)** You can withdraw the money direct. If you are 59 and 1/2 years or older, you will be subject to normal income taxes, and no penalties. However if you are under 59 and 1/2 years, you will be subject to a 10% penalty as well as normal income taxes.

**INVESTMENTS – RETIREMENT**

- **3)** You can transfer your 401k savings from your old employer to your new employer. Ask your HR representative for more information on how most efficiently this is done.

**INVESTMENTS – RETIREMENT**

- **Why would I choose to open an IRA?**  
An IRA is a great tool to provide for income after retirement. With some features similar to a 401k, tax-deferred earnings make your funds grow quickly until you take “distributions” after retirement.

**INVESTMENTS – RETIREMENT**

- **Are there different kinds of IRA accounts?**  
The simple answer is, Yes. There are a few different types of IRA accounts, all of which have slightly varying rules or regulations.

**INVESTMENTS – RETIREMENT**

- **Roth IRA**-Contributions to a Roth IRA are made after taxes have been levied, therefore, all account transactions are tax-free and withdrawals are usually not taxable.

**INVESTMENTS – RETIREMENT**

- **Traditional IRA** - Unlike the Roth, contributions to a traditional IRA are tax deductible and taxes are paid on withdrawals after retirement.

**INVESTMENTS – RETIREMENT**

- **Simple IRA** - A simple IRA allows both individual and employer contributions. It is similar to a 401k or pension plan, and often acts as one for employers who do not offer 401k's but want to offer retirement benefits.

**INVESTMENTS – RETIREMENT**

- **Self-Directed IRA** - This account is more complicated than other IRA accounts, as the individual allocates the investments in the account. A self-directed IRA is intended for those who want to maintain all of their portfolio.

**INVESTMENTS – RETIREMENT**

- **SEP IRA** - For the self-employed or small business, the SEP IRA (Simplified Employee Pension) is a variation of other IRA accounts by allowing small business owners to offer plans for both themselves and their employees.

**The key to a successful retirement is to START EARLY!**

YOU	YOUR NEIGHBOR
Starting at age 25	Starting at age 35
Monthly contribution of \$100	Monthly contribution of \$100
Assuming 7% return	Assuming 7% return
<b>TOTAL INVESTMENT \$30,000</b>	<b>TOTAL INVESTMENT \$27,000</b>
<b>RETIREMENT AT AGE 55: \$381,418</b>	<b>RETIREMENT AT AGE 55: \$278,474</b>
<b>Your Difference Due to Starting Early: \$94,944</b>	