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Class 4 Part 1: Investing Basics

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Roadmap to Retirement

you Are Here

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I'm going to ask you to step out of your comfort zone and try on some new ideas, that you may not have heard before.

I'm going to ask you to open your mind, give it an honest shot, promise to take action and...

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Write this down:

The Right Financial Plan is Also More than a 401k or an Investment Strategy.

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It's a Collection of Some Little Known Strategies, I call H.E.R.O.S.™

Her Efficient Retirement Optimized Strategies (based on science, math & research)

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Personal Pension & Protection Plan®

- ✓ Safe savings/spending strategy for lifestyle and emergencies
- ✓ Income plan & distribution > income for life
- ✓ Social Security strategy to maximize your benefit (and any impact from IRMAA Medicare premiums)
- ✓ Investment strategy > transition portfolio to balance growth and guarantees, minimize risks
- ✓ Tax strategy to pay as little taxes as possible.
- ✓ Home equity strategy for income buffer or emergency fund.
- ✓ Protect against what-ifs > healthcare/Medicare, long care and death

Implementing these strategies could add 5-15 years of life to your portfolio without adding anything to it.

Quick Video About H.E.R.O.S.

https://youtu.be/T0E-bpwLuqU

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These strategies challenge the "traditional" approaches to financial planning and offer some non-traditional, yet very effective ways to create an EFFICIENT & SUSTAINABLE income distribution & protection plan for retirement.

You may also be able to double your retirement income by implementing these strategies

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Women Are Better Investors Than Men.

A Fidelity study shows women outperforming men by 40 basis points or 0.4%—but when compounded over many years, this is meaningful. For example, someone who invested a million bucks for 25 years at 7.4% would earn $530,657 *more* than an investor who netted returns of only 7%

Source: Why Women Are Better (Investors) Than Men (forbes.com)

Introduction

Topics to be covered in this section

- Investment considerations before you invest
- Investment categories
- Cash accounts
- Bonds
- Stocks

Introduction

Topics (Cont.)

- Mutual funds
- Exchange traded funds
- Unit investment trusts
- Individually managed accounts
- Tax-deferred annuities
- Types of investment risk
- Investment risk management strategies

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Investors should consider the investment objectives, risks and charges and expenses of the investment company carefully before investing. The prospectus contains this and other information about the investment company. You can obtain a prospectus from your financial representative. Read the prospectus carefully before investing.

Investment Considerations

Your investment selections should be based upon a number of factors including your investment objectives, time horizon, current investments and tax situation.

INVESTMENT OBJECTIVES

Consider why you are investing:

- Are you seeking growth of your investment principal?
- Do you need your investments to provide you with current income?
- Do you want growth and income?

Investment Considerations

TIME HORIZON

This refers to the amount of time your money will be invested before you need it. Your time horizon is important because:

- A longer time horizon may allow you to take more risk and potentially achieve a greater rate of return
- A shorter time horizon may create a need for some of your retirement investments to become more conservative
- Don’t count on good market conditions if you are working within a short time horizon
- Once you have a plan in place, you may need discipline to stick to it over an extended time horizon

Investment Considerations

CURRENT INVESTMENTS – viewed as an aggregate portfolio

- New investments should not be made without evaluating those you already have
- All of your investments should be considered before making investment decisions
- Investments should be selected as part of a plan to accomplish your objectives

TAX SITUATION

- Investments with tax advantages may play an important role in your financial plan

Investment Categories

LOANING MONEY VS. OWNING INVESTMENTS

In the simplest terms, there are two basic ways to invest:

- Loaning your money - Bonds
- Purchasing and owning an asset - Stocks

Loaning Money – CDs, Bonds, etc.

- You can invest by loaning your money to a bank, a company or the government. Common examples include investing in cash equivalents (such as saving accounts and certificates of deposit) or bonds.
- In return for your loan, the borrower promises to:

  Pay you interest in return for the use of your money
  - The longer the term the higher the interest payment
  - The higher the quality of entity the lower your interest
  - U.S. Government = Low interest payment due to low potential default
  - Low Rated Corporation = Higher interest payment due to higher potential default

  Repay your principal investment at the end of the term

Please note: The ability to meet "promises" may depend upon the financial performance, strength and resources of the borrower or whether your investment is insured.

Owning Investments - Stocks

- You can also invest by purchasing an ownership stake in a company or asset. Common examples include stocks, mutual funds, real estate or gold.
- In return for becoming an owner, you receive:
  - The potential for increase in the value of your investment
  - No guarantees on the principal of your investment
  - The potential to receive distributed profits or dividends

Loaning Investments - Cash Reserves

- In most cases, investments for retirement should be made with a long-term perspective
- Many investments perform better over an extended time period and others have a penalty for early withdrawal
- It may be to your advantage to keep three to six months of living expenses available for emergencies
- **Emergency reserves may be held in cash accounts**

Loaning Investments - Cash Accounts

- One category of loan investments is cash accounts. Used for liquidity needs
- Examples include:
  - Savings accounts
  - Certificates of deposit (CDs)
  - Money market accounts
  - Money market mutual funds[1]

[1] An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at $1 per share, it is possible to lose money by investing in the fund. See prospectus of money market fund for full disclosures.

Loaning Investments - Bonds

- Another common type of loan investment is bonds
- Utilized for longer term time horizon
  - A bond is basically an IOU sold by the government or a company in order to raise money
  - In return for the loan, the bond investor is promised a return of principal and periodic interest payments
  - Bonds are often purchased by investors to generate income

Bonds

DEFINITIONS

- In order to properly explain how bonds work, we must first define a few terms:
- Face value – Sometimes referred to as par, face value is the amount for which a bond is initially sold and will return in principal if held till maturity.
- Coupon rate – The stated rate of interest on an issued bond.
- Yield – The annual percentage rate of return on your investment.
- Maturity date – The date in which the government or company has agreed to repay your investment principal.
- The term – The time period between the initial issue of the bond and the maturity date.

Bonds

PROS & CONS OF BONDS

- The advantage: If you buy a bond on the day it is issued, you can expect a fixed income over a certain time period as well as the return of your principal at the end of the term.
- The disadvantage: The corporation or government issuing the bond may not be able to pay your interest or repay your principal.

Bond Interest Rates

The interest or coupon rate of a bond is usually determined by:

- Length of term
- Credit of issuer

Bond Interest Rates

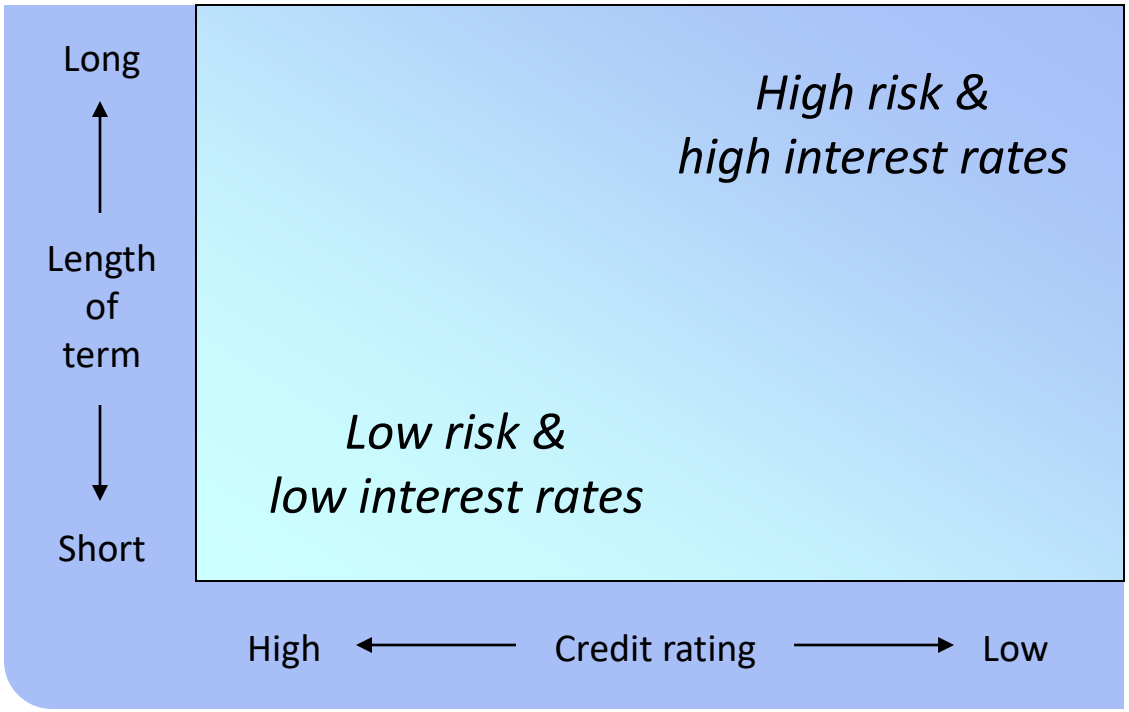
LENGTH OF TERM

- Longer terms may involve higher risk and usually offer higher interest
- Short-term bonds have a term of one to five years
- Intermediate-term bonds have a term of have term of five to ten years
- Long-term bonds have a term of over ten years

CREDIT OF ISSUER

- Lower credit ratings involve higher risk and usually offer higher interest

Bonds & Risk


Long
Length of term
Short
High risk & high interest rates
Low risk & low interest rates
High
Credit rating
Low

Secondary Market Bonds

- Most bonds are not purchased when originally issued (at face value). Instead, they are bought and sold throughout their terms on regulated exchanges. This fact introduces some important buying criteria.
- Bond prices change with economic conditions:
  - If interest rates go up, prices of older bonds will fall if their coupon rates are lower than the rates available with new bonds
  - If interest rates go down, prices of older bonds will rise if their coupon rates are higher than those available with new bonds

Secondary Market Bonds

DEFINITIONS

- Now that we're discussing bonds on the secondary market, we need to introduce a few more terms:
- Par – Sometimes referred to as face value, par is the amount for which a bond is initially issued and will return in principal if held till maturity.
- Premium price – A selling price above par.
- Discount – A selling price below par.

Secondary Market Bonds

HOW TO CALCULATE A BOND YIELD

- Once a bond is issued, the interest or coupon rate never changes[1]
- Since bonds are bought and sold at various prices on secondary markets, the bond yield is not always equal to the interest rate

[1] The U.S. Treasury issues a floating rate note that may be considered an exception. These notes are explained later in this section.

Secondary Market Bonds

Bond Yield = Interest / Price

Bond yield example

Purchased at:	Price of:	Interest	Yield
Par	$1,000	$60.00	6.0%
Discount	$800	$60.00	7.5%
Premium	$1,200	$60.00	5.0%

Bond Categories

Corporate bonds	
Subcategories	**Details**
There are three types of corporate bonds:	• Taxable • Pay a higher yield than government bonds • More risk than federal bonds
Asset-backed bonds are secured by collateral or physical assets.	
Debentures are unsecured loans backed only by credit or the promise to pay.	
Convertible bonds offer investors the option of converting their bonds into stock (subject to restrictions). Investors are not required to exercise this exchange option.	

Bond Categories

Municipal bonds	
Subcategories	**Details**
There are two types of bonds issued by states, cities or other local governments:	• Federal tax-exempt[1] • Only exempt from state and local taxes if you buy bonds issued by the state or city where you live[1]
General obligations are backed by the full faith and credit of the issuer.	• Pay a lower yield than similar corporate bonds or U.S. Treasuries
Revenue bonds are backed by earnings of the particular project the bond is financing.	• More risk than federal bonds

[1] Municipal bonds may be subject to the alternative minimum tax (AMT).

Bond Categories

U.S. Treasuries	
Subcategories	**Details**
Treasury Notes are issued with terms of 2, 3, 5, 7 or 10 years. They may be purchased at face value and pay fixed-rate interest every six months until maturity.	• Interest income is subject to federal tax but not state or local tax[1] • Very low-risk
Treasury Bonds are issued with terms of 10 to 30 years. They may be purchased at face value and pay fixed-rate interest every six months until maturity.	• Interest income is subject to federal tax but not state or local tax[1] • Very low-risk

[1] Consult your tax advisor pertaining to your specific situation.

Bond Categories

U.S. Treasuries	
Subcategories	**Details**
Treasury Bills (T-Bills) are often used as a cash equivalent and are available with 4, 13, 26 or 52 week terms. They are issued at a discount and you are paid its face value at maturity.	• Interest income is subject to federal tax but not state or local tax[1] • Very low-risk

[1] Consult your tax advisor pertaining to your specific situation.

Bond Categories

U.S. Treasuries	
Subcategories	**Details**
Treasury Inflation-Protected Securities (TIPS) are special types of Treasury notes and bonds issued with terms of 5, 10 or 30 years. Your principal will increase or decrease based on the Consumer Price Index. At maturity, you are paid the adjusted principal or original principal, whichever is greater. TIPS pay fixed-rate interest every six months. This fixed-rate is applied to the adjusted principal, so interest payments will increase or decrease accordingly.	• Interest income and growth in principal are subject to federal tax but not state or local tax[1] • Low-risk

[1] Consult your tax advisor pertaining to your specific situation.

Bond Categories

U.S. Treasuries	
Subcategories	**Details**
Floating Rate Notes (FRNs) are issued with a term of 2 years. They may be purchased at face value and pay interest (at a non-fixed rate that floats based on the 13-week T-Bill) every three months until maturity.	• Interest income is subject to federal tax but not state or local tax[1] • Very low-risk

[1] Consult your tax advisor pertaining to your specific situation.

Bond Categories

U.S. Savings Bonds	
Subcategories	**Details**
The two main types of savings bonds issued by the U.S. Government are **Series EE and I-Bonds.**	• Series EE bonds are exempt from state and local income tax • Federal tax on EE bonds is not due until they are redeemed or stop earning interest • Series EE bonds do not re-pay principal or interest until you redeem them • Savings bonds are not marketable, they cannot be sold to someone else prior to maturity
Series EE bonds are sold for one-half of the amount you receive at maturity.	
I-bonds are sold at face value and are inflation indexed savings bonds.	

Bond Categories

Agency bonds	
Summary	**Details**
Agency bonds are issued by federal, state and local agencies.	• May be subject to federal, state and local taxes • Slightly more risk than treasury bonds • Pay a higher yield than treasury bonds

Owning Investments - Stocks

- You can also invest by purchasing ownership in a company or asset. This is often referred to as purchasing an equity investment.
- By investing in stocks, mutual funds, real estate or gold, you are predicting that the company or asset will increase in value, provide income or both.
- Hopefully, you are making an informed prediction based on your own research or the research of a qualified financial professional.

Owning Investments

- All types of equity investments share the following characteristics:
  - Value – Based solely on supply and demand.
  - Capital appreciation – Potential for investment growth.
  - Income – Investment may pay dividends.
  - Inflation hedge – Returns have the potential to outpace inflation.

Owning Investments - Stocks

- When you buy stock in a corporation, you own part of the business including any assets such as buildings and inventory
- Corporations divide their ownership into shares of stock
- Companies may be publicly traded or privately held
- This section will focus exclusively on publicly traded stock that may be purchased by anyone

  Sold on stock exchanges
  - NYSE
  - NASDAQ
  - OTC

Stocks

ADVANTAGES OF STOCK OWNERSHIP

- Liquidity – Common stocks can be purchased or sold quickly without penalty.
- Voting rights – Owning common stock gives you the right to vote on company decisions.

Stocks

ADVANTAGES OF STOCK OWNERSHIP

- Capital appreciation – If the company performs well, the price of your stock may increase and become worth more than you invested.
- Dividends – As a stockholder, you may receive current income from the company without having to sell your shares. This may be paid from company earnings.
- Inflation hedge – Historically, stock prices have usually appreciated faster than the rate of inflation.

Stocks

DISADVANTAGES OF STOCK OWNERSHIP

- No insurance - Unlike cash investments, your investment is not insured by the FDIC or any other agency.
- No promises - Unlike bonds, there is no promise to repay your investment principal.

Secondary Market

- Unless you purchase stock during an Initial Public Offering (IPO), you are not buying from the company
- Instead, you are buying stock from other stockholders through regional or national stock exchanges
- The primary U.S. Stock Exchanges are the New York Stock Exchange and Nasdaq
- Each stock exchange has its own set of listing criteria that corporations must meet if they wish to be traded on that exchange

Secondary Market

WHAT DETERMINES STOCK PRICES?

- The price of a stock is based upon supply and demand
- If there are more “buy orders” than there are “sell orders” at the current market price, the price will go up until enough sellers are attracted
- If there are more “sell orders” than there are “buy orders” at the current market price, the price of the stock will go down

Stock Categories

Classes of stock shares

- Companies issue different classes of stock that may appeal to investors with different objectives.
- Two classes of stock are common and preferred.
- You may own common shares, preferred shares or both but they are always distinct types of ownership in a company.
- Most publicly traded shares are common stock.

Stock Categories

Common stock	Preferred stock
• Greater potential for share price appreciation • Have voting rights • Last to receive any investment back if the company goes out of business • Directly participates in the success or failure of the company	• Usually offers greater price stability but less potential for appreciation • Do not receive voting rights • After creditors and bondholders but before common stockholders to receive a portion of investment back if the company goes out of business • Dividends are fixed regardless of how the company performs and are paid before any dividends on common stock • If company is unable to pay dividends, they will be repaid in the future before any dividends are paid to common stockholders

Stock Categories

Use of corporate earnings

- Growth and income stocks are vague classifications referring to how they use any corporate earnings.
- Some companies may fall into both categories since they reinvest in their companies but also pay out dividends to shareholders.

Growth stock	Income stock
• Reinvest earnings in order to grow their business • Purchased with the primary objective of capital appreciation • Growth stocks are often smaller companies	• Pay dividends to shareholders • Purchased with the primary objective of generating current income • Income stocks are often larger, more established companies

Stock Categories

Company size

- The size of a company is often categorized by its market capitalization.
- This can be calculated by multiplying the price of one share by the number of outstanding shares.
- While the calculation remains the same, the exact market capitalization amounts and how they are labeled vary with different brokerage firms and over time.

Small cap stock	Large cap stock
• $2 billion and less • May be less stable during a bad economy • More potential for growth but also may pay dividends	• $10 billion and greater • May be more stable during a bad economy • More likely to pay dividends but may also offer growth potential

Do-It-Yourself Investing

- Many people approaching retirement don't want to select and monitor their own investments for several reasons:
  - Extensive knowledge and experience is required to be successful
  - A large capital investment is required to build a diversified portfolio
  - Discipline is required to avoid emotional investing
  - A lot of time and effort is required to select and monitor investments
  - Selections should complement the goals of a comprehensive plan
  - Mistakes can be costly

Professional Money Management

- With their financial future and retirement at stake, many people prefer focus on their careers and families and let the professionals take care of investment selections.
- Today, there are countless choices of professionally managed investments such as:
  - Mutual funds
  - Exchange traded funds (ETFs)
  - Unit investment trusts (UITs)
  - Individually managed accounts
  - Variable annuities

Professional Money Management

- The advantages of professionally managed investments include:
  - Professional investment research
  - Experienced portfolio managers
  - A smaller investment may achieve greater diversification
  - Additional opportunities may be available to institutional investors

Mutual Funds

- There are over 20,000 mutual funds to choose from in the U.S. alone
- Selecting the right funds can be a challenge
- If you choose the right funds, it will drastically reduce the amount of time and effort required to monitor a portfolio of individual stocks or bonds
- Must analyze utilizing a selection process / screening criteria
  - Absolute Vs Relative returns

Note: Fund share values fluctuate in accordance with market and economic conditions. It is possible to lose money by investing in mutual funds.

Mutual Funds

ABOUT MUTUAL FUNDS

- Mutual funds are designed with specific objectives which help you to narrow your choices
- Diversification and professional money management make mutual fund investing popular
- The fund company and manager(s) select investments that meet certain criteria
- The fund manager(s) decide when to buy and sell investments
- Most mutual fund portfolios consist of 20 to over 200 different investments

Note: Fund share values fluctuate in accordance with market and economic conditions. It is possible to lose money by investing in mutual funds.

Mutual Funds

INVESTING IN A MUTUAL FUND

- When you buy shares in a mutual fund, your money is pooled with assets of other investors
- You can choose to have any profits (or distributions) paid to you by check, deposited in an account or reinvested in the fund
- The fund company takes care of administrative tasks and provides you with regular updates on performance
- Any taxable earnings will be reported to the IRS even if you reinvest them

Note: Fund share values fluctuate in accordance with market and economic conditions. It is possible to lose money by investing in mutual funds.

Before You Invest

PORTFOLIO MANAGER

- A mutual fund is often as good as its portfolio manager.
- **Important: Absolute Vs Relative Returns**
  - The manager is the person making investment decisions with your money
  - Investors often look at past performance of a fund without investigating how long the current manager has been responsible for performance[1]
  - If the manager is new to that fund, try to find out what fund they managed previously and how it performed during their tenure
  - If your fund hires a new portfolio manager, investigate their previous track record

[1] Past performance is no guarantee of future results.

Before You Invest

MUTUAL FUND PROSPECTUS

- The prospectus is a legal document you should review before purchasing any mutual fund. It provides you with valuable information such as:
  - Information about the fund manager(s)
  - A statement of objectives for the fund
  - A description of fund operations
  - The types of investments that may be purchased by the fund
  - A list of countries where the fund can invest
  - A history of the fund's performance
  - The fund's top investment holdings on a specific date

Mutual Fund Categories

- Today, there are mutual funds available for almost any investment objective
- To select your fund(s), you should understand the many objectives and descriptions
- Keep in mind that any given fund may be classified in more than one of the categories listed

Mutual Fund Categories

STOCK FUNDS

Small, mid & large cap		
Description & objective	**Investments**	**Risk**
The size of the companies in which the fund buys stock – small, medium or large These terms do not describe the objective of the fund	• Stocks	• Varies

Mutual Fund Categories

STOCK FUNDS

Growth		
Description & objective	**Investments**	**Risk**
Seek capital appreciation Rarely pay dividends	• Stocks	• High

Mutual Fund Categories

STOCK FUNDS

Value

Description & objective	Investments	Risk
Try to achieve capital appreciation by buying stocks that are priced low compared to their value May often pay dividends	• Stocks	• High-medium

Mutual Fund Categories

STOCK FUNDS

Index		
Description & objective	**Investments**	**Risk**
Designed to copy the performance of a particular stock index such as the S&P 500[1] Offers low fees and capital gains distributions	• Stocks that compose a particular market index	• Varies

[1] S&P 500 is an unmanaged index that is generally considered representative of the U.S. stock market. The performance of an unmanaged index is not indicative of the performance of any particular investment.

Mutual Fund Categories

HYBRID FUNDS

- These funds may invest in different types of investments including common and preferred stock, bonds and money markets in order to create a more diversified portfolio.

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Mutual Fund Categories

HYBRID FUNDS

Growth & income

Description & objective	Investments	Risk
Seek long-term capital appreciation and to provide current income	• Common and preferred stock • Convertible securities • Bonds • Money markets	• Medium

Mutual Fund Categories

HYBRID FUNDS

Fixed income

Description & objective	Investments	Risk
Seek to provide current income May provide capital appreciation	• Bonds • Preferred stock	• Medium-low

Mutual Fund Categories

HYBRID FUNDS

Balanced		
Description & objective	**Investments**	**Risk**
Designed to create stability through a balanced portfolio Seek to provide income and appreciation	• Common and preferred stock • Bonds • Money markets	• Medium-low

Mutual Fund Categories

BOND FUNDS

- These funds buy and sell certain types of bonds in order to generate current income for investors. Unlike an originally issued, individual bond, these funds may experience either capital appreciation or depreciation due to an actively managed portfolio.

Mutual Fund Categories

BOND FUNDS

Corporate		
Description & objective	**Investments**	**Risk**
Seek to provide current income	• High-quality corporate bonds	• Varies

Mutual Fund Categories

BOND FUNDS

Government		
Description & objective	**Investments**	**Risk**
Objective is to provide current income	• Treasury and government agency bonds	• Low

Mutual Fund Categories

BOND FUNDS

Municipal		
Description & objective	**Investments**	**Risk**
Seek to provide tax-free income While income is federally tax-exempt, it is only exempt from state taxes if your fund invests in the state where you live	• State, city or other local government bonds	• Varies

Mutual Fund Categories

BOND FUNDS

High-yield		
Description & objective	**Investments**	**Risk**
Sometimes called junk-bond funds Seek to provide high-current income	• Low-rated corporate or municipal bonds	• High

Mutual Fund Categories

MONEY MARKET FUNDS

Money market[1]		
Description & objective	**Investments**	**Risk**
Income is based on current interest rates No potential for capital appreciation	• Short-term debt of the U.S. Government, corporations and banks	• Very low

[1] An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at $1 per share, it is possible to lose money by investing in the fund. See prospectus of money market fund for full disclosures.

Exchange Traded Funds

ABOUT EXCHANGE TRADED FUNDS

- An ETF is a recipe of securities that provides a diversified portfolio with one purchase
- They are traded on exchanges like stocks, so you can buy and sell throughout the day
- Typically, ETFs try to imitate market indexes or sectors by investing in all or a representative sample of the stocks or bonds in that index or sector
- They often have low annual management fees

Exchange Traded Funds

ABOUT EXCHANGE TRADED FUNDS

- ETFs are tax efficient. Unlike an actively managed mutual fund that sells securities for a gain, to meet shareholder redemptions or when the fund manager changes, an ETF sells securities to reflect the index or sector. Most capital gains are delayed until you sell the fund.
- The transaction fee to buy or sell an ETF has a small impact on larger investments and a large impact on smaller, ongoing investments
- ETFs provide financial transparency with daily portfolio disclosure

Exchange Traded Funds

INVESTING IN AN EXCHANGE TRADED FUND[1]

- Individual investors typically buy shares of an ETF on the secondary market from other investors
- The price of an ETF is based upon supply and demand which may be at a premium or discount to the value of the underlying assets
- ETF fees, charges and expenses are disclosed in the prospectus
- Capital gains, interest or dividends will be passed along to you and reported to the IRS

[1] ETFs are subject to the same risks as those of the underlying securities. Some ETFs have more risk than others depending upon the risk of the asset subclass the fund is tracking and/or the trading volume or liquidity of the ETF.

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Exchange Traded Funds vs. Mutual Funds

Features	*ETFs*	*Index Mutual Funds*	*Active Mutual Funds*
Continuous trading & pricing	Yes	No	No
Traded on exchanges	Yes	No	No
Prospectus available	Yes	Yes	Yes
Provides diversification	Yes	Yes	Yes
Financial transparency	Yes	No	No
Early redemption fees	No	Possible	Possible
Sells holdings to meet redemptions	No	Yes	Yes
Actively managed	Possible	No	Yes
Tracks index or sector	Yes	Yes	No

Note: ETFs are subject to the same risks as those of the underlying securities. Some ETFs have more risk than others depending upon the risk of the asset subclass the fund is tracking and/or the trading volume or liquidity of the ETF.

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Unit Investment Trusts

ABOUT UNIT INVESTMENT TRUSTS

- For each trust, investment professionals purchase and supervise a portfolio
- Each portfolio is either designed to invest in a particular sector or accomplish a stated investment objective
- A specific time period is set for the duration of each trust
- The portfolio is not actively managed and will remain the same over the life of the trust[1]
- If the trust is held to maturity or over 12 months, all capital gains will be taxed at the long-term rate
- A prospectus is available for each trust

[1] Changes may occur in certain limited situations

Unit Investment Trusts

INVESTING IN A UNIT INVESTMENT TRUST

- You receive a diversified portfolio with a single investment
- You may purchase a certain number of “units” of a trust
- You may sell your units at any time, either on the secondary market or back to the trust at its current net asset value
- You receive your share of the trust’s earned income, and at maturity, you receive proceeds from the assets of the trust

Individually Managed Accounts

- A different way to receive professional money management is by investing in an individually managed account. This approach is designed to create a diversified portfolio and achieve specific, personalized objectives.

Individually Managed Accounts

- Individually managed accounts are described below:
  - Minimum account size is usually $100,000 or more
  - The account holder specifies their time horizon, risk tolerance and investment objectives so that the manager may build a customized portfolio
  - The account holder does not pool their money with other investors (unless own mutual funds within the managed account)
  - A professional money manager constructs and actively manages a portfolio within the account

Individually Managed Accounts

- The investor owns each investment in the portfolio directly
- Investors and their accounts are not affected by the actions of other investors using the same portfolio manager
- Account holders only pay taxes on the capital gains they actually realize
- Managers may purchase tax-exempt investments or use tax management strategies to minimize the account holder's tax liability

Tax Deferred Annuities

- Investors may consider tax-deferred annuities in order to accomplish objectives such as risk reduction, guaranteed retirement income, tax-deferral or death benefit. Tax-deferred annuities are described below:
  - Assets accumulate tax-deferred to provide future income[1]
  - You may make withdrawals during deferral period
  - A penalty may apply to withdrawals prior to age 59½
  - Can be annuitized to begin lifetime income payments
  - Guarantees are subject to the claims-paying ability of the issuing insurance company
  - May avoid probate[2]
  - A surrender charge may apply during early years of the contract

[1] Tax deferral is not available for corporate or trust-owned policies
[2] Applies only if death occurs prior to contact annuitization

Tax Deferred Annuities

- There are two basic types of tax-deferred annuities:
  - Fixed Annuities
  - Equity Index Annuities
  - Variable Annuities[3]

[3] A variable annuity is a long-term financial vehicle designed for retirement purposes. In essence, a variable annuity is a contractual agreement in which payment(s) is/are made to an insurance company, which agrees to pay out an income or a lump sum amount at a later date. There are contract limitations, fees, and charges associated with variable annuities, which include, but are not limited to, mortality and expense risk charges, sales charges, administrative fees, and charges for optional benefits. Early withdrawals may be subject to surrender charges and taxed as ordinary income. Withdrawals reduce annuity contract benefits and values. Investments in variable annuities will fluctuate and values upon redemption may be less than the original amount invested. Variable annuities are not guaranteed by FDIC or any other government agency and are not deposits or obligations of, or guaranteed or endorsed by, any bank or savings association.

Deferred Annuity Comparison

Deferred annuity comparison

Features	Fixed Annuity[1]	Variable Annuity[1]
Income tax deferral	Yes	Yes
Guaranteed principal[2]	Yes	No
Guaranteed minimum return[2]	Yes	No
Investment market return and risk	No	Yes
Variable investment choices[3]	No	Yes
Variable investment fees and charges[4]	No	Yes
Transfer between investment choices[5]	N/A	Yes

[1] A surrender charge may apply during the early years of the contract. A penalty may apply to withdrawals prior to age 59½
[2] All guarantees are based on the claims-paying ability of the issuing insurance company.
[3] These variable investment choices are available only as investment options in variable annuity contracts issued by life insurance companies. They are not offered or made available to the general public directly.
[4] Variable investment fees and charges are provided in the prospectus, which should be read before purchasing a variable annuity.
[5] Policy provisions may limit the number of exchanges allowed per year.

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Deferred Annuity Comparison

Deferred annuity comparison

Features	Fixed Annuity[1]	Variable Annuity[1]
Guaranteed minimum death benefit[2]	Yes	Usually
A variety of withdrawal choices	Yes	Yes
Lump-sum withdrawals[6]	Yes	Yes
Can provide income you cannot outlive[2]	Yes	Yes
Monthly annuitized income may vary[7]	No	Yes

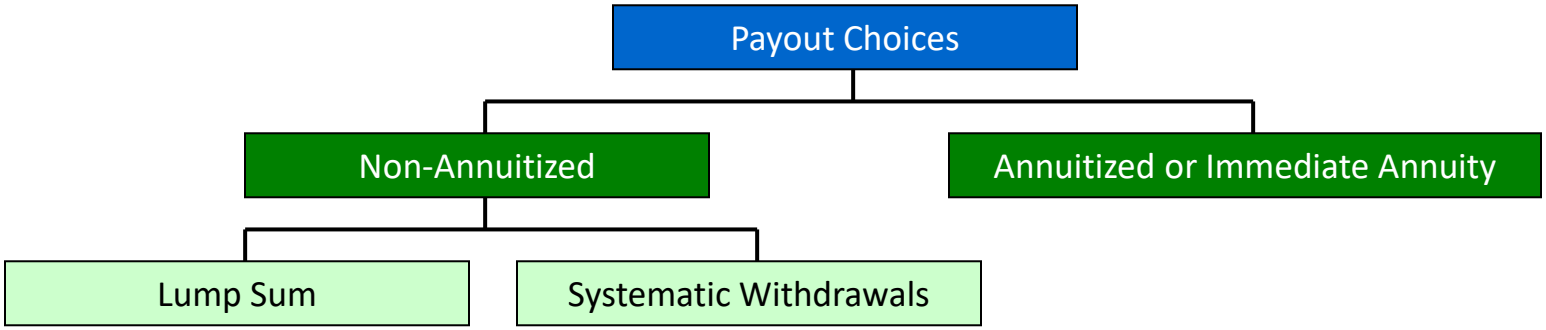
[1] A surrender charge may apply during the early years of the contract. A penalty may apply to withdrawals prior to age 59½

[2] All guarantees are based on the claims-paying ability of the issuing insurance company.

[6] Lump-sum withdrawals are only available prior to annuitization. Surrender charges may apply. Withdrawals are subject to last in, first out income tax treatment.

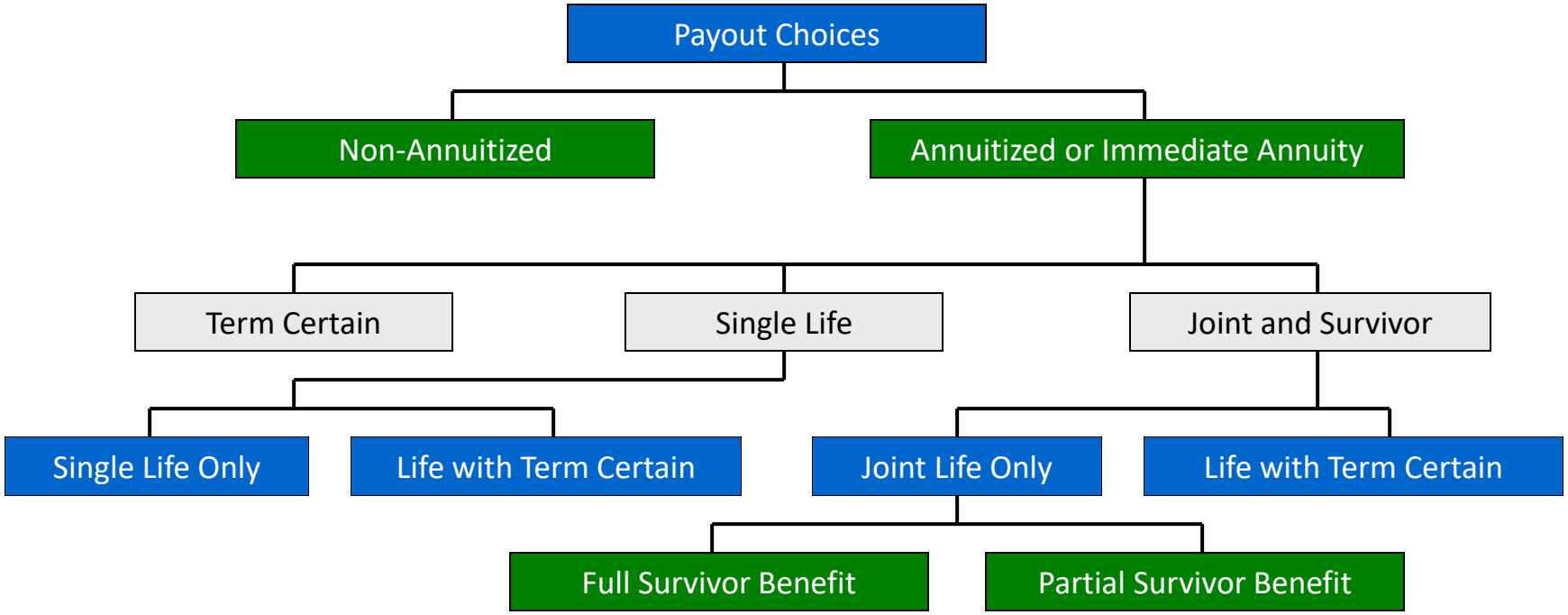
[7] Annuitized income from a variable annuity results from the liquidation of a set number of units each payment period. The value of the units will vary, depending on the performance of the underlying investments.

Annuity Withdrawal Choices



- Taxation of non-annuitized withdrawals is based on a last in, first out method. Any increase in value is taxed before return of principal.
- Taxation of Annuitized (NQ Funds) - withdrawals have an exclusion ratio which a percentage of income is non-taxable return of principle.
- Surrender, withdrawal charges, and tax penalties may apply.

Annuity Withdrawal Choices



- A portion of each annuitized withdrawal is considered a tax-free return of principal until the initial investment has been fully recovered. Future withdrawals are taxed as ordinary income.

Common Investment Risks

- Up to this point, we've only discussed risk in the context of a potential loss of principal
- However, there are many types of investment risk that you should understand in order to properly evaluate current and potential investments
- All investments are subject to at least one type of risk

Common Investment Risks

MARKET RISK

- Market risk is the potential that an investment will decrease in price if its particular financial market performs poorly
- Various financial markets can be affected by a variety of factors

- Examples:
  - When the stock market goes down, most stocks also decrease in price
  - If a local real estate market drops, most homes and commercial real estate in that local market also decrease in price

Common Investment Risks

BUSINESS RISK

- Business risk is the potential that an investment will decrease in value due to issues such as unsuccessful products, labor problems or poor financial performance

- Examples:
  - When a business is performing poorly, its stock may decrease in price or potentially become worthless
  - If a company cannot repay its obligations, it may default on its bonds (sometimes referred to as credit or default risk)

Common Investment Risks

INTEREST RATE RISK

- Interest rate risk is the potential for rising interest rates to cause the decrease in price of an investment

- Examples:
  - When interest rates go up, the current market price of bonds goes down
  - When interest rates rise, stocks usually do not perform as well, especially if they have a large amount of debt

Common Investment Risks

INFLATION RISK

- Inflation risk is the potential that an investment will not keep up with inflation (which may result in going broke slowly)
- Very conservative investors may lose purchasing power over time (also referred to as purchasing power risk)

- Examples:
  - Certificates of deposit return principal but earn a very low interest rate
  - Bonds held to maturity will return principal but may also earn a low rate of interest

Investments and Common Risks

The table below indicates which investment categories are subject to the most common types of investment risks.

	Market Risk	*Business Risk*	*Interest Rate Risk*	*Inflation Risk*
Cash Equivalents				
Savings Accounts	No	No	No	Yes
CDs	No	No	Yes	Yes
Money Market Accounts	No	No	No	Yes
Bonds				
Bonds	No[1]	Yes	No[1]	Possible

[1] Will not lose value if held to maturity

Note: The chart above is a broad overview. Significant differences exist within categories.

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Investments and Common Risks

The table below indicates which investment categories are subject to the most common types of investment risks.

	Market Risk	*Business Risk*	*Interest Rate Risk*	*Inflation Risk*
Stocks				
Stocks	Yes	Yes	Yes	Possible
Mutual Funds				
Stock Funds	Yes	Yes[2]	Yes	Possible
Bond Funds	Yes	Yes[2]	Yes	Possible

[2] Since mutual funds contain many investments, business risk is limited

Note: The chart above is a broad overview. Significant differences exist within categories.

Risk Management Strategies

- There is no such thing as zero risk for investors
- Many of the risks associated with investing can be managed by using various risk management strategies

Risk Management Strategies

DOLLAR COST AVERAGING

- A technique used to reduce market risk (but does not guarantee a profit on investments or protect against loss in declining markets)
- Contributing a set amount every month into a stock or mutual fund will result in the purchase of more shares of the investment when the price is lower and fewer shares when the price is higher[1]
- This may result in an average cost per share that is lower than the average price over the same time period

[1] Investors should consider their ability to continue their purchases through periods of all price levels.

Risk Management Strategies

STAGGER FIXED-INCOME MATURITIES

- Staggering the maturity dates of fixed-income securities (such as bonds) is a technique used to reduce interest rate risk
- This will allow investments to mature and be reinvested at different times at various interest rates

Risk Management Strategies

DIVERSIFICATION – Very Basic

- Diversification can be used to reduce both inflation and business risk
- This technique involves investing money in several different investments (as opposed to a single investment)
- The intent behind this strategy is that if some investments don't perform well, they will be offset by others that perform above average[2]

[2] While diversification may help reduce volatility and risk, it does not guarantee future performance.

Risk Management Strategies

DIVERSIFICATION CASE STUDY

Diversification may provide a greater return on investment.

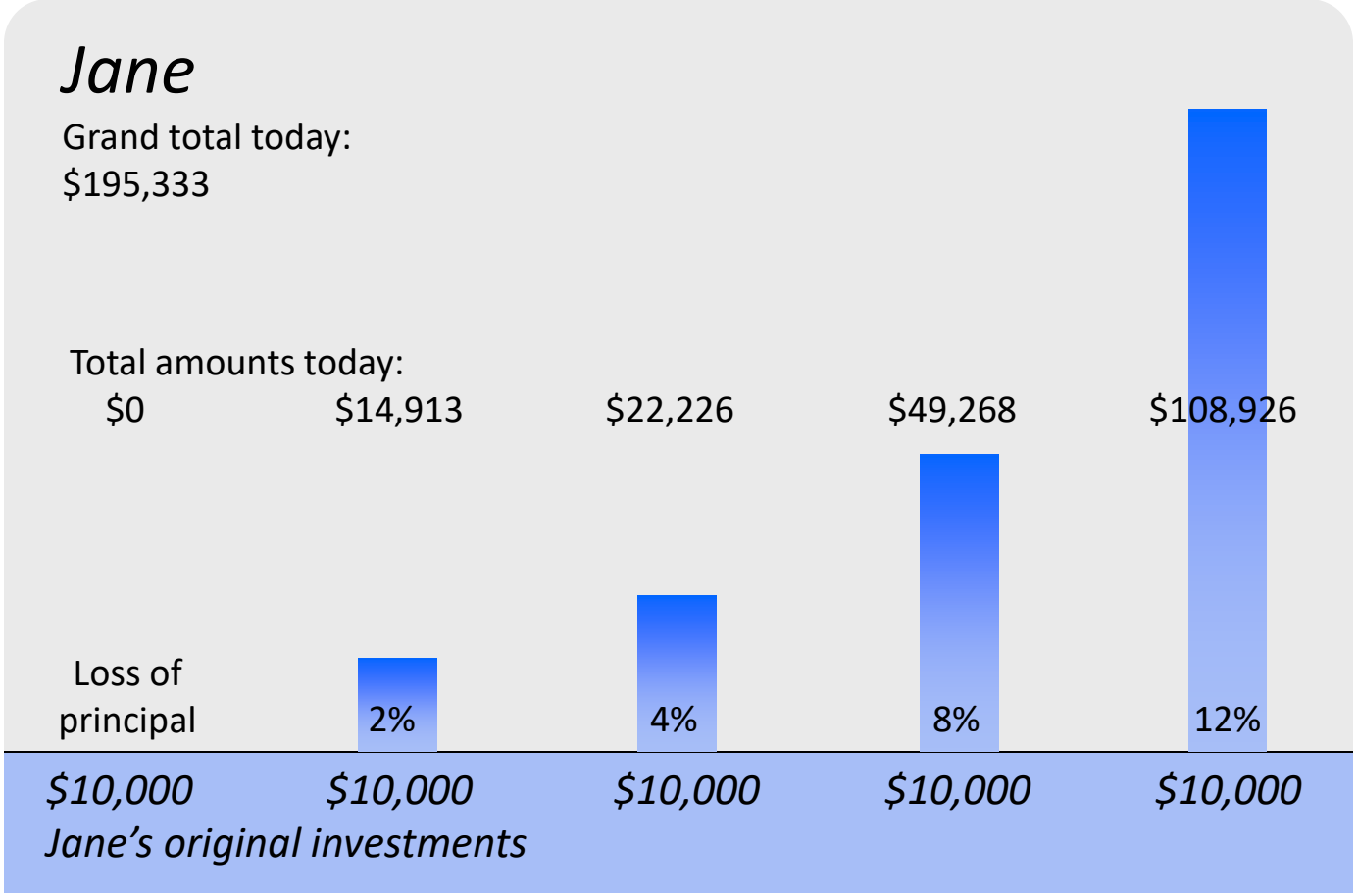
- John Doe invested $50,000 for 20 years
- Jane Doe invested $50,000 for 20 years

Risk Management Strategies

DIVERSIFICATION CASE STUDY

Note: Each investor's results will vary from these shown as investing involves risk, fluctuation returns and the possibility of loss. Results use average balances and are compounded monthly. Calculations do not consider taxes or inflation. Investment results are hypothetical and are for illustrative purposes only. Figures do not represent past or future investment results. This illustration does not represent any specific product.

Risk Management Strategies



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Risk Management Strategies

Performance

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Foreign Stocks	REITs	Foreign Stocks	Bonds	Foreign Stocks	REITs	Bonds	REITs	Small Stocks	REITs
REITs	Foreign Stocks	Bonds	T-Bills	REITs	Small Stocks	REITs	Foreign Stocks	Large Stocks	Large Stocks
Large Stocks	Small Stocks	Large Stocks	Small Stocks	Small Stocks	Large Stocks	Large Stocks	Small Stocks	Foreign Stocks	Bonds
Small Stocks	Large Stocks	T-Bills	Large Stocks	Large Stocks	Foreign Stocks	T-Bills	Large Stocks	REITs	Small Stocks
T-Bills	T-Bills	Small Stocks	REITs	Bonds	Bonds	Small Stocks	Bonds	T-Bills	T-Bills
Bonds	Bonds	REITs	Foreign Stocks	T-Bills	T-Bills	Foreign Stocks	T-Bills	Bonds	Foreign Stocks

Note: T-bills represented by 90-day Treasury bills. Large stocks represented by S&P 500 Index. Small stocks represented by Russell 2000 Index. Bonds represented by the Barclays Capital Aggregate Bond Index (formerly the Lehman Brothers Aggregate Bond Index). Foreign Stocks represented by the Morgan Stanley Capital International Index. REIT represented by NAREIT Composite Index. Investors cannot invest directly in indexes. However, they are accurate reflections of past performance of the asset classes. Returns reflect past performance which is not indicative of future results.

Risk Management Strategies

ASSET ALLOCATION

- Asset allocation is a technique that can be used to reduce many types of risk
- It refers to the process of diversifying a portfolio among several different asset classes, with the objective of reducing risk and increasing returns
- This concept is easy to understand but can be difficult to perform properly
- A qualified financial professional can help you develop an asset allocation strategy that meets your needs and objectives

Risk Management Strategies

MODERN PORTFOLIO THEORY - Sophisticated Asset Allocation Strategy

- A term used to describe a body of knowledge developed since 1952
- Its contributors were awarded two Nobel Prizes in Economic Science
- It is used by fiduciaries, trust companies and pension funds as a strategy to attempt to reduce risk while enhancing returns

Risk Management Strategies

MODERN PORTFOLIO THEORY

- Many financial advisors use this theory and sophisticated software to:
  - Evaluate if you are achieving the appropriate return for the amount of risk you are taking
  - Construct a portfolio offering the maximum possible expected return for a given level of risk

True/False?

I learned a lot from this class.

True

You learned that you should…

- ❑ Investing is a pretty complicated topic
- ❑ There's many types of investment vehicles to be considered in a portfolio
- ❑ It's important to invest properly before retirement
- ❑ It's important to protect yourself against certain risks inherent in investing while IN retirement
- ❑ It's prudent for many people to hire an advisor who's an investing expert

Next Steps...

1. Remember to vist the Homework page
2. Enter your info into the software Assess module
3. Get ready for next week

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Reminder!

Take action and hold yourself accountable. This class and our platform can help get you started. Our coaching can keep you going and hold you accountable while also connecting you to the resources you need.

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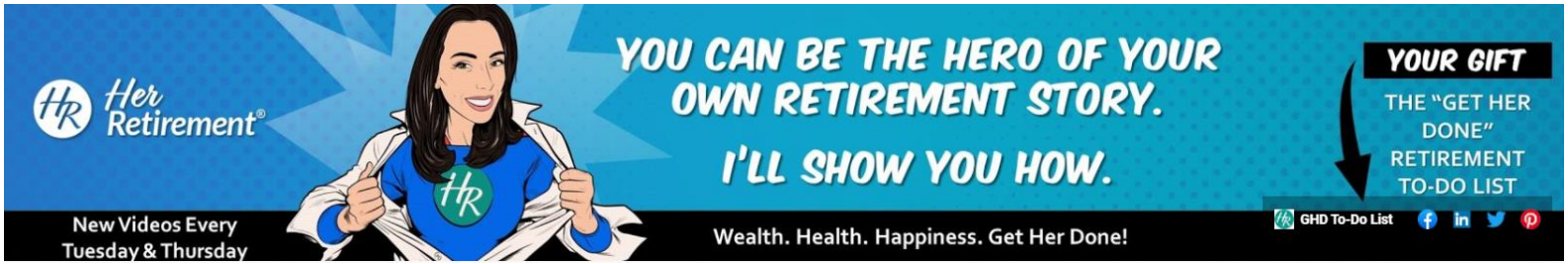
Get more support, information and inspiration from my podcast, Youtube channel and private FB group



Links...

- Her Retirement Website
- Retirement Solved Readiness Platform
- Lynn's Blog & Podcast
- Lynn's Private Her Retirement Facebook group
- Lynn's Youtube Channel
- **Coming Soon: Lynn's book**

Reminder: You Can Get Help Anytime You Need It...

1. Work with Her Retirement to get fully prepared for planning and implementing
2. Request ANY type of assessment
3. Connect with a CFP to get your plan started or subject matter experts to review an existing plan and get a revised one or new one implemented, or discuss an urgent issue

Schedule time on Lynn's calendar to discuss any of the above options.

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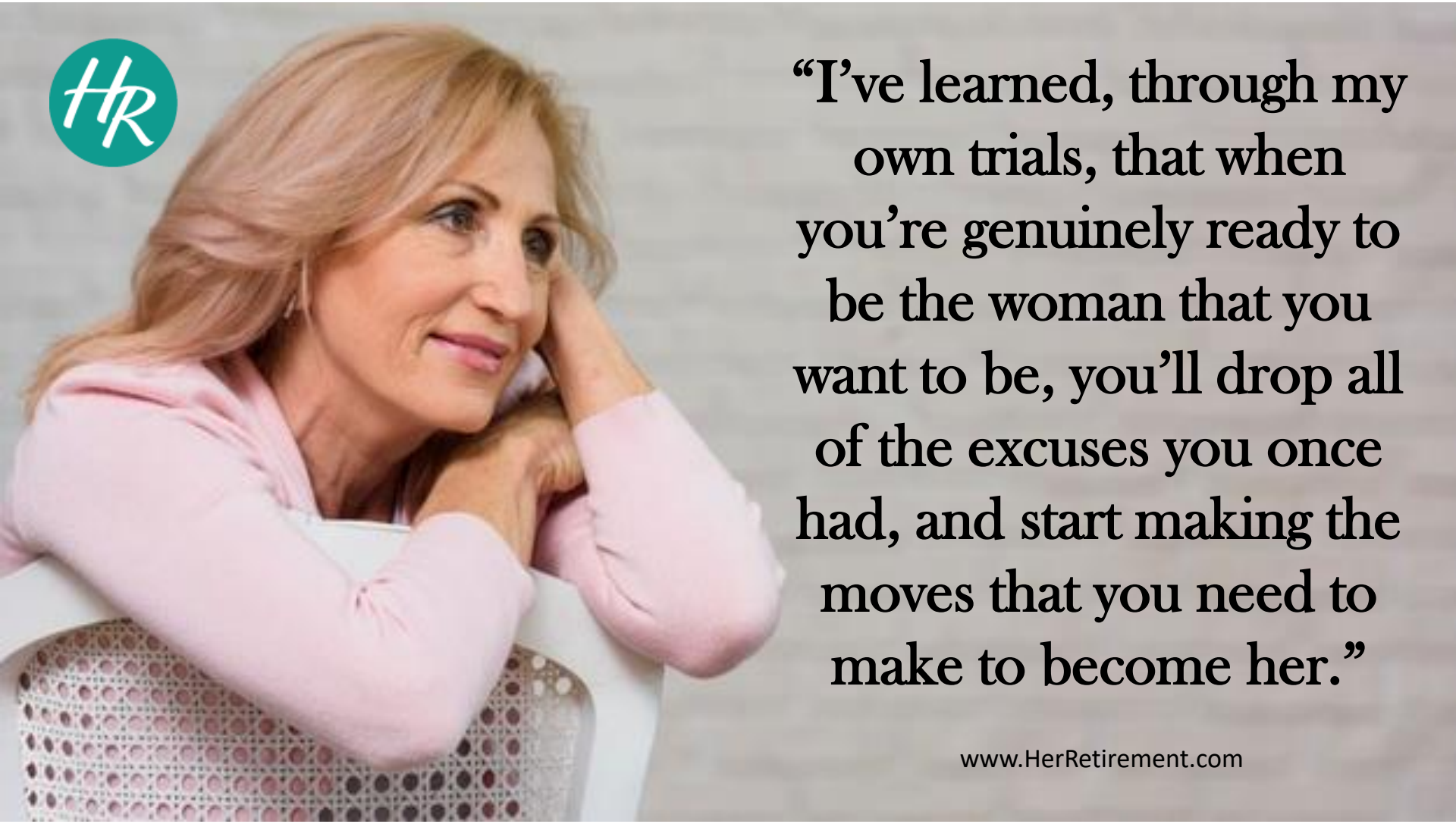

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Thank you for coming tonight. SmartHER. StrongHER. More Secure. Let's Get Her Done. See you next week.