



September Investment Summit

Session 1: Investing for Absolute Beginners

Session Materials Available:
Friday, September 9

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FINANCIAL WELLNESS

Zoom Webinar

Talking:

Meeting Topic: My Webinar
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Close Q&A Ask question

All(2) My questions

AmyMay 18:00
Should I keep my savings on a different account?
2
Comment

Anonymous attendee 18:01
At what point should I consider investing my savings?
1
Comment

Presentation Format & Questions
email – FinancialWellness@nar.realtor



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Presenter: Heather C. Liston, CFP[®], E.A.

**Principal, Clarity Financial
www.Clarityfinancialca.com**



Investing for Absolute Beginners

2022

IMPORTANT DISCLAIMER

- These are general examples.
- Neither the speaker nor the National Association of Realtors® can give specific advice about your personal situation.
- Investing **always** carries a **risk** of loss.
- If you have a tax preparer, financial advisor, attorney, or other professional, always discuss important financial decisions with them.

The Basics

- What?
- Why?
- Where?
- How?

Plus

- And what are you all *talking* about?!?

Your Questions?

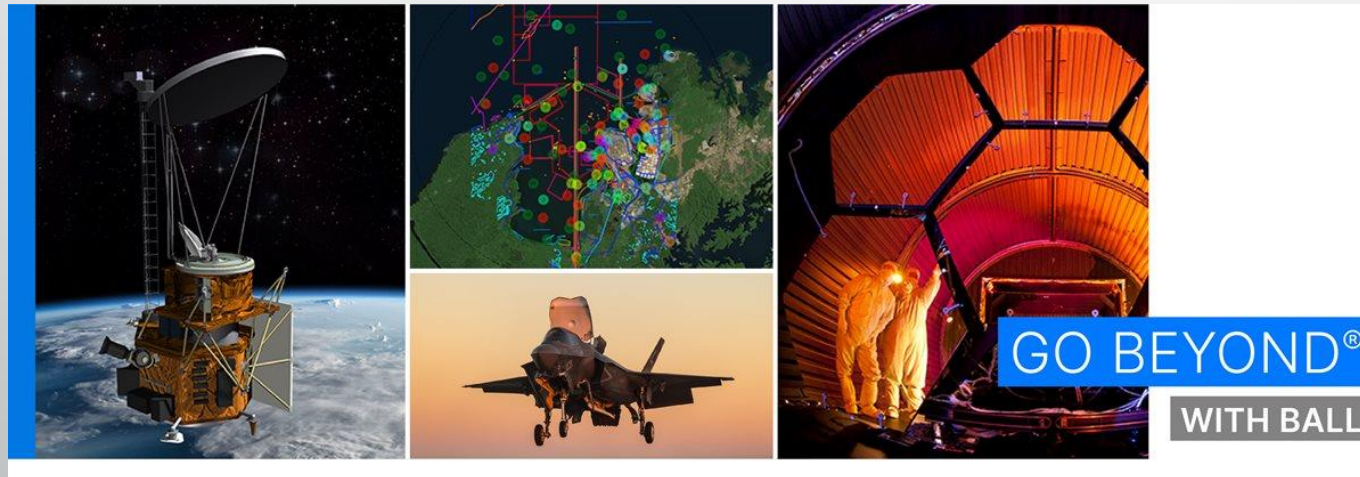
Put them in Q&A.

If you see a question similar to yours, “upvote” it.

Ask one question you’re embarrassed to admit you don’t know already.

Ball Corporation

- Space Shuttles and Diet Coke Cans
- 1976: 10 shares at \$20 = \$200



Ball Corporation

- 1976: \$200
- 10/22/2021: \$61,326.94

Ball Corporation

- 1976: \$200
- 10/22/2021: \$61,326.94
- 8/24/2022: \$40,722.14



What?

What is Investing?

What is Investing?

- *Investing is the act of allocating resources, usually money, with the expectation of generating an income or profit. – Investopedia*
- *Investing is the process of buying assets that increase in value over time and provide returns in the form of **income payments** or **capital gains**.*

*In a larger sense, investing can also be about spending time or money to improve your own life or the lives of others. But in the world of finance, investing is the **purchase of securities, real estate and other items of value** in the pursuit of capital gains or income.*

-- Forbes

Securities

- Security: A fungible, negotiable financial instrument.
- Commonly, **Stocks and Bonds**

What are the Major Asset Classes?

- Stocks
- Bonds
- Cash

Secret Language

- Stocks = **Equity** = Owning part of a company
- Bonds = **Debt** = Lending money to a corporation or government

Your Relationship to Companies

- Bond means you LENT a company money



- Stock means you OWN part of the company



Meaning . . . ?

- Bonds are safer
- Stocks have more potential for high returns

How Do Investors Make Money?

1. Income

1. Interest
2. Dividends


2. Growth

1. Selling for more than you bought it for: Capital Gains



Why?

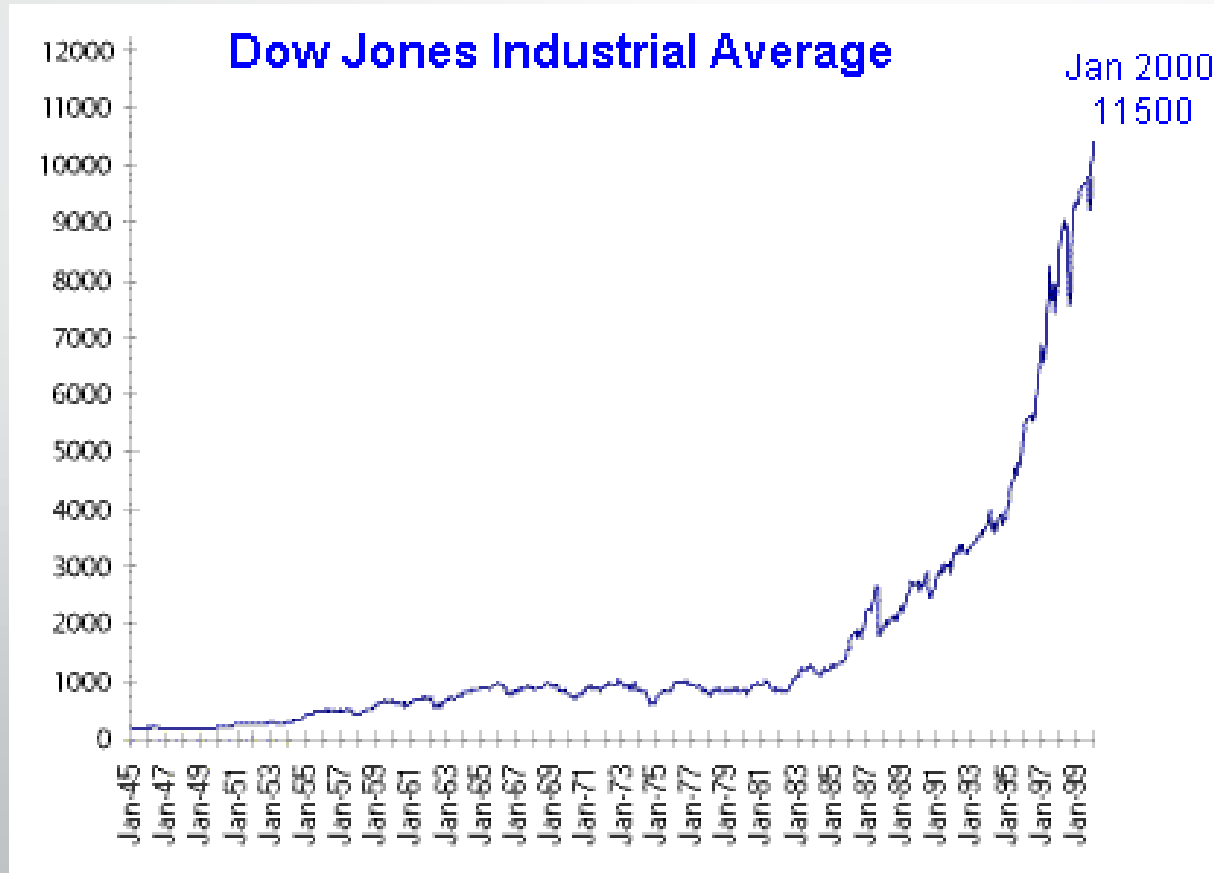
Why do we invest?



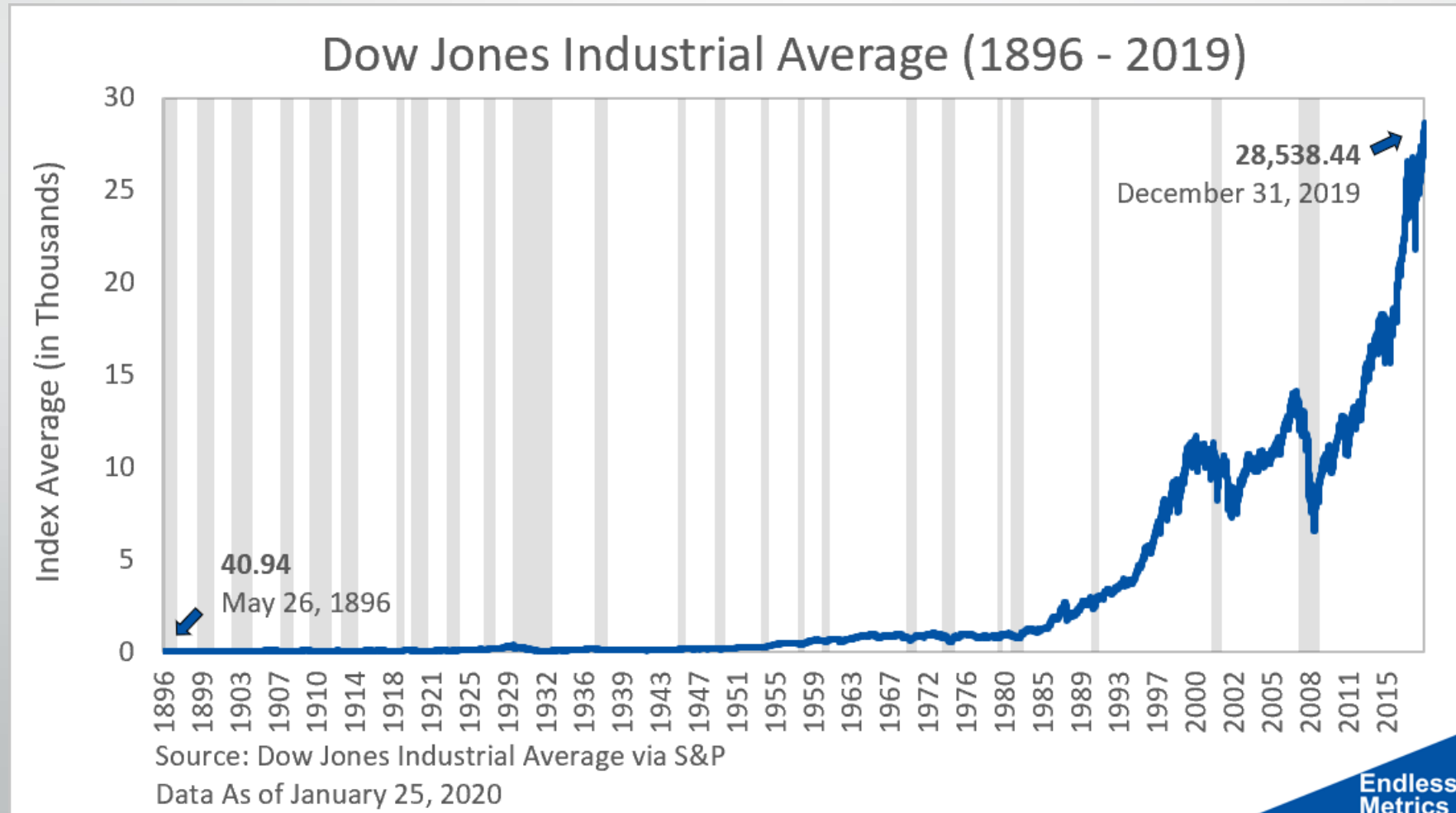
“I loved investing—everything about it: the idea that companies are meant to grow, that anyone can participate in that growth and build up their own financial independence over time.”

Charles Schwab, 2019

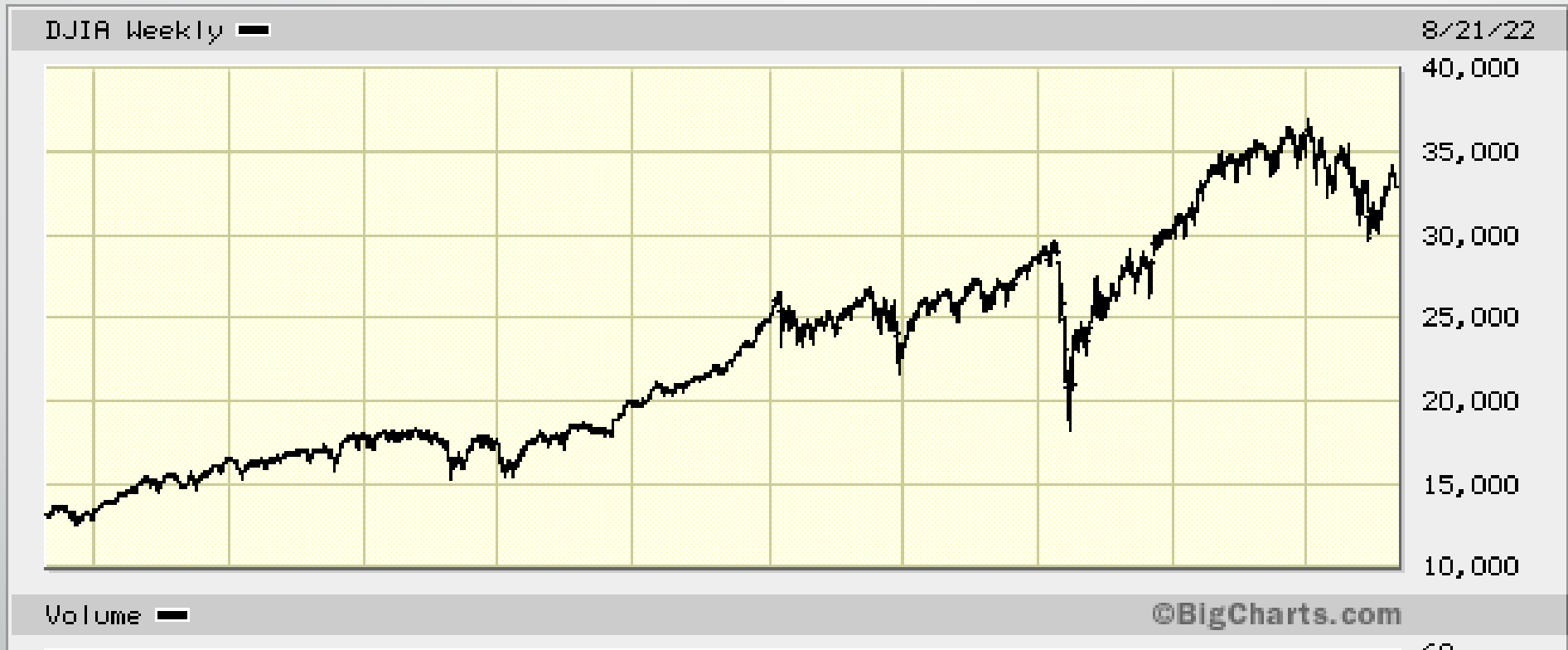
Dow Jones 1945 to 2000



DJIA 1896 to 2019



10 years of DJIA 2013 through 2022



From “Invested” by Charles Schwab

“Look at a chart of the S&P 500 over 40 years and you see an endless series of jagged peaks and valleys. . .

“But step back for a wider view and you see the inevitable direction is up.

“Stick with it and ride out the emotions and you’re an investor.”

Growth and Compounding

- If you invested \$100 in 1928 till 2020
 - 3-month Treasury Bills: \$2,082
 - Corporate Bonds: \$8,921
 - S&P 500: \$592,868

Growth and Compounding

- S&P 500 has a **10%** average annual return since 1926
 - If you put \$1 in the stock market in 1974, it would be worth \$154 now
 - If you had invested \$100,000 in 1974, you would have \$15.4 million now

Growth and Compounding . . . And Risk

- US Stock Market Return in **2021: 20.94%**
- 2022 YTD to August 24, **2022: -9.27%**

Bonds

- Average Annual Return on 10-year bonds in the U.S. from 2001-2018: **.34%**
 - **Note the decimal point! The return was about 1/3 of a percent.**



CASH

Other Investments

Interest Rates for Checking Accounts at the Biggest U.S. Banks

November 2020

Bank	Checking APY*	Minimum balance to waive monthly fee and/or earn APY
Chase Bank	0.00%	\$1,500
Bank of America	0.01%	\$1,500
Wells Fargo Bank	0.01%	\$500
Citibank	0.03%	\$10,000
US Bank	0.01%	\$1,500
BB&T	0.01%	\$25,000
PNC Bank	0.01%	\$2,000
TD Bank	0.01% - 0.03%	\$2,500
Capital One	0.1%	\$0
HSBC	0.01%	\$0 with qualifying direct deposits

Checking account rates at the biggest U.S. banks March 2022

Bank	Account	Checking APY	Minimum balance to waive monthly fee
Chase Bank	Chase Premier Plus Checking	0.01%	\$15,000
Bank of America	Advantage Plus	0.01%-0.02%	\$10,000
Wells Fargo Bank	Portfolio by Wells Fargo	0.01%	\$20,000
Citibank	Citigold Interest Checking	0.01%	No fee
U.S. Bank	Platinum Checking	0.01%	\$25,000

But . . . What about Risk?

- Yes!
- Risk is a big deal.
- It's a major reason to hold cash.
- And bonds.
- And it's a big reason to diversify.



RISK

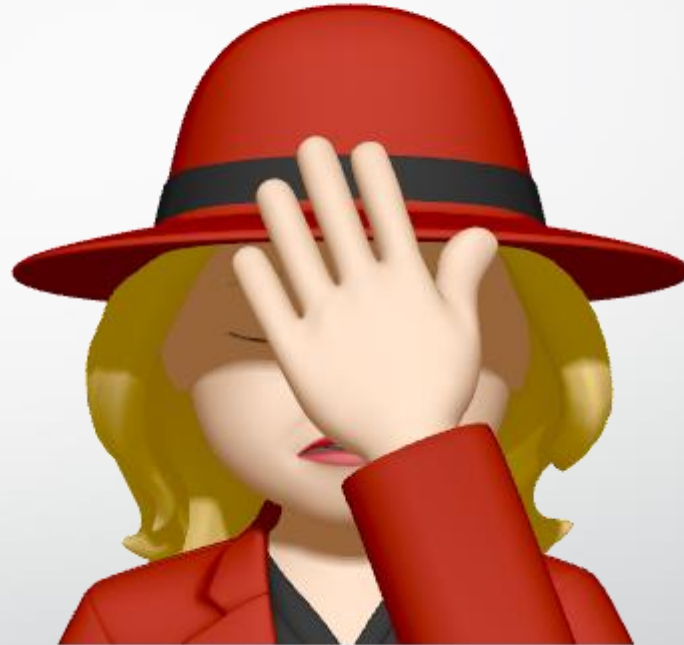
and mitigation

RISK vs. REWARD

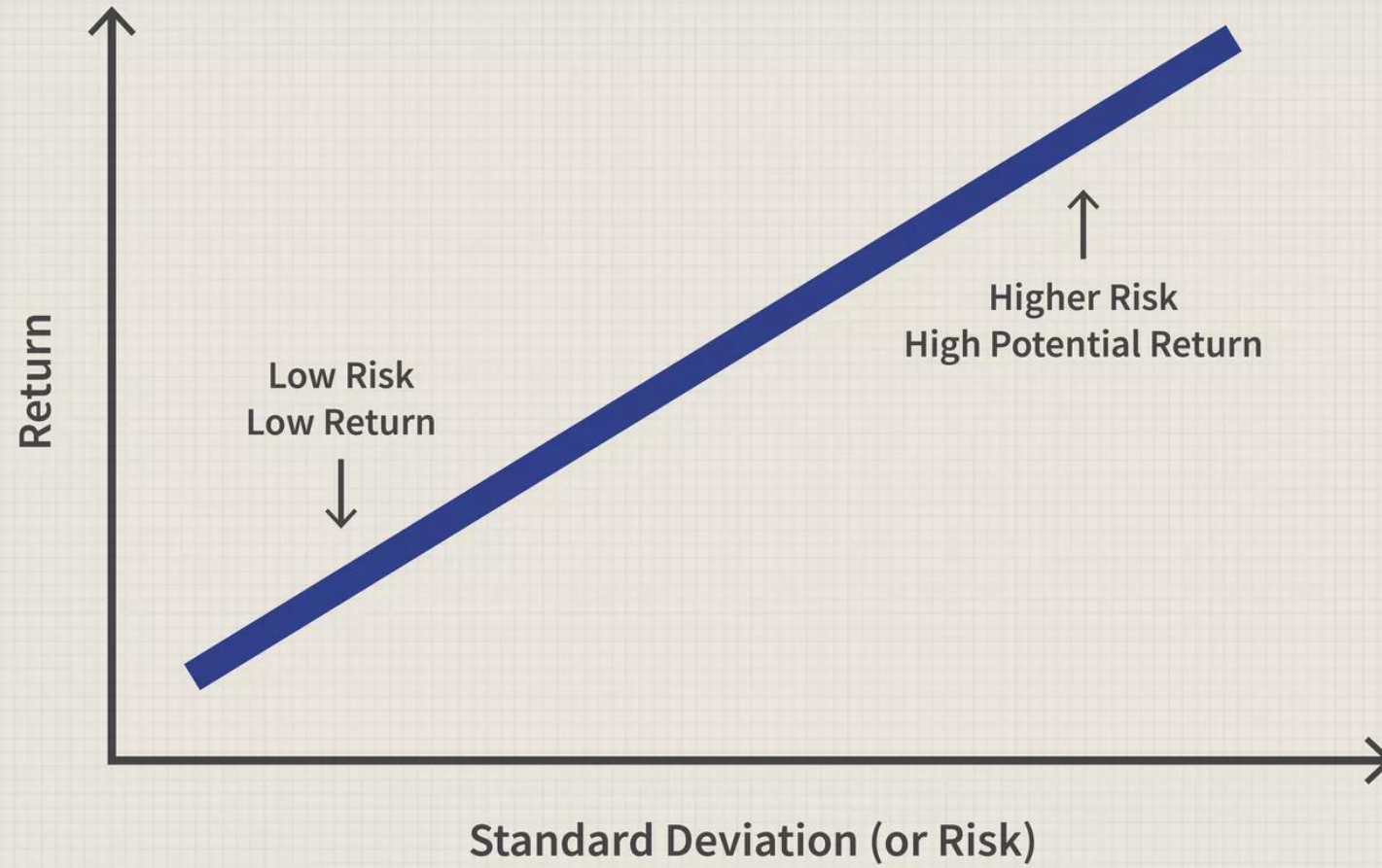
- Marilyn: I have to earn 10% and I cannot ever spend the principal.
- My father left me this money and I cannot take any risk with it.

Sorry, Marilyn

Not gonna happen



Risk/Return Tradeoff





RISK

1. Stocks

2. Bonds

3. Cash

REWARD

1. Stocks

2. Bonds

3. Cash

RISKS

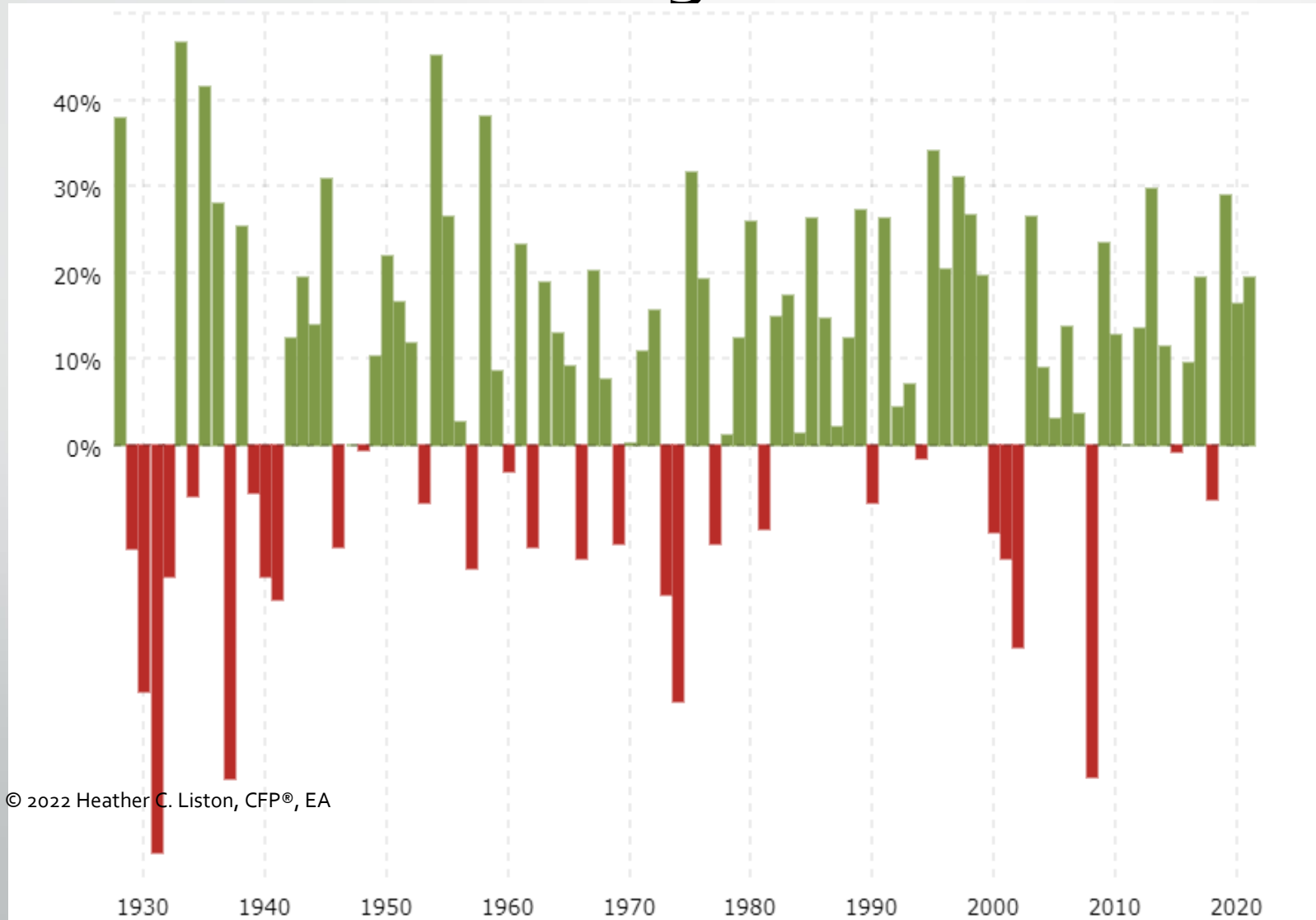
- Market Risk
- Concentration Risk
- Inflation Risk
- Timing Risk

Concentration Risk



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Timing Risk



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Risk Mitigations

1. Cash Reserve: Always keep **at least** 6 months' worth of expenses in cash
2. Timing: Make sure you don't have to liquidate at a bad time
3. Diversification: Never put all your eggs into one burrito (or stock)
Diversify across companies, asset classes, maturity dates, and more



HOW?

How and where can you invest?

Client Statements & Questions

- What's the difference between a bond fund and a mutual fund?
- I can't invest in mutual funds; my dad said I had to buy an index fund.
- I don't have a 401(k). My company just has a Fidelity account.
- I don't have any money to invest. Everything I save I put into my 401(k).

Categories

- Savings (Money)



- Institution (Fidelity, Vanguard, Schwab, E-Trade, TD Ameritrade . . .)



- Type of Account (401k, 403b, IRA, Brokerage, Trust Account, 529 plan . . .)



- Investment Fund (Mutual Fund, ETF, Index Fund, Sector Fund . . .)

Where? Financial Institutions



Ameritrade



Where? TPAs for Retirement Funds



Tax Styles

- **Taxable**

- Checking and Savings accounts
- Brokerage accounts
- Trust accounts

- **Tax-Deferred**

- 401(k), 403(b), 457
- Traditional IRA
- SEP-IRA, SOLO 401(k)

- **Tax-Free**

- Roth IRA or Roth 401(k)
- 529 College Savings Plan
- Health Savings Account (HSA)



Asset Classes

Stocks, Bonds, Cash

What are Asset Classes? STOCKS

- Stocks
 - U.S. Stock
 - International Stock
 - Emerging Markets Stock
 - Technology Stocks
 - Health Care Stocks
 - Consumer Staples Stocks
 - Large-cap, medium-cap, small-cap company stock
 - Growth stocks or Value stocks
 - Stocks from specific companies or specific countries

What are Asset Classes? BONDS

- US Treasury Bonds
- Corporate Bonds
- Investment-Grade Bonds
- High-Yield Bonds (aka Junk Bonds)
- Short-Term Bonds & Intermediate-Term Bonds & Long-Term Bonds
- International Government Bonds
- International Corporate Bonds
- Emerging Markets Bonds
- Bonds from specific countries, or specific types of companies

What are Asset Classes? CASH

- Cash
 - Checking accounts
 - Savings accounts
 - CDs
 - Money market funds
 - MM funds with government bonds
 - MM funds with commercial paper
 - MM of lots of other varieties

How Do I Know What Asset Classes to Be In? Answer: The Ice Cream Solution



Asset Allocation

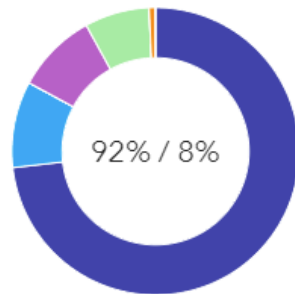
Asset Allocation

Summary

Detail

Current allocation

All Accounts



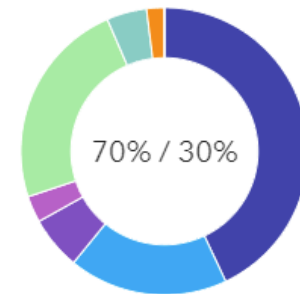
Equity / Fixed Income

Annual return: 7%
Standard deviation: 15%

73.2%	● U.S. Equities	43%
9.7%	● International Equities	17.9%
0%	● Emerging Markets	6%
9.1%	● Real Estate	3%
7.3%	● U.S. Bonds	23.6%
0%	● International Bonds	4.5%
0.7%	● Cash	2%
0%	● Other	0%

Target allocation

Growth



Equity / Fixed Income

Annual return: 5.7%
Standard deviation: 11.7%

Risk Tolerance

- Asset Balance
 - 60/40? * 80/20? * 25/75?

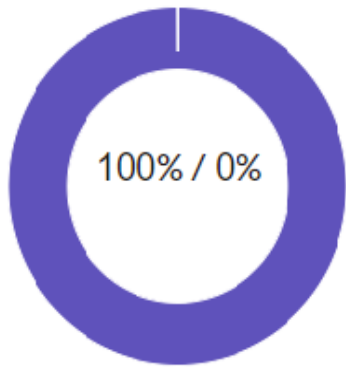
Which Allocation is Right For You?

- 10/90 – very conservative
- 50/50 - balanced
- 60/40 - moderate
- 70/30 - growth
- 80/20 – aggressive growth
- Know your risk tolerance
- And your time horizon
- Real portfolios:
- 0%/100% *** 105%/-5%

Real Clients

Current allocation

All Accounts



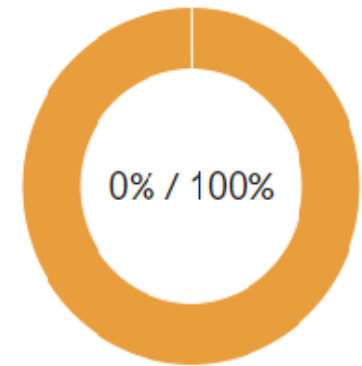
Equity / Fixed Income

Annual return: 7.5%
Standard deviation: 16.1%

100%	U.S. Equities	0%
0%	International Equities	0%
0%	Emerging Markets	0%
0%	Real Estate	0%
0%	U.S. Bonds	0%
0%	International Bonds	0%
0%	Cash	100%
0%	Other	0%

Target allocation

Most Conservative



Equity / Fixed Income

Annual return: 0.5%
Standard deviation: 1.9%

ACTION ITEMS

But now . . . I've decided on my allocation and I want
xx% in stocks

WHICH stocks?



Risk #1: Stock Picking



Chipotle

- 6/23/2014: Forbes headline: *How The Fast Casual Segment Is Gaining Market Share In The Restaurant Industry*
- 12/17/2014: Business Insider: *Game-Changing Fast Food Innovations Of 2014: Chipotle tofu*

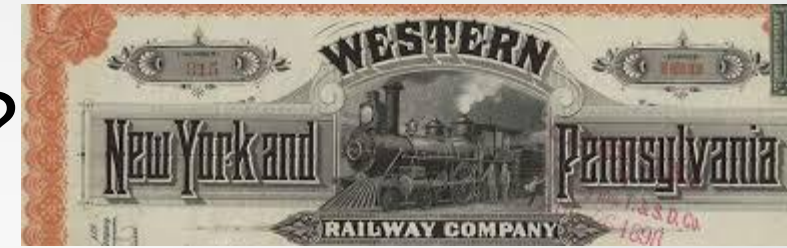
- 2/9/2015: Purchased 3 shares for \$2,050
- 2/12/2015: Purchased 8 shares for \$5,227.94

New York Post Headline

**BC hoops team wiped out by
infected Chipotle burritos**

December 8, 2015 10:12am

What Stock to Buy?



What Stock to Buy?

- Answer: Buy ALL of them.
 - (Or at least a lot.)



Answer: More Ice Cream: Mutual Funds



What is a Mutual Fund?

“a type of financial vehicle made up of a pool of money collected from many investors to invest in securities like stocks, bonds, money market instruments, and other assets.” -- Investopedia



What is an Index Fund?

- A type of **mutual fund** that follows an index
- Active vs. Passive management

What are Indexes?

- The Dow Jones Industrial Average (DJIA) is a weighted average of 30 of the largest stocks on the New York Stock Exchange
- The S&P 500 Index, or Standard & Poor's 500 Index, is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S. (Investopedia)
- Russell 3000 Index: The largest 3,000 US stocks
 - About 98% of all publicly traded US stocks
- Russell 2000: The smallest 2,000 of those 3,000 US stocks
 - The bottom 2/3 of the Russell 3000 index

What's in the S&P 500?

Top Ten at June 17, 2021

1. Apple Inc.
2. Microsoft Corporation
3. Amazon.com Inc.
4. Facebook Inc. Class A
5. Alphabet Inc. Class A
6. Alphabet Inc. Class C
7. Berkshire Hathaway Inc. Class B
8. JPMorgan Chase & Co.
9. Tesla Inc.
10. NVIDIA Corporation

Also: Even Easier

- Lifestyle Funds or Target Date Funds
 - Fidelity Freedom Funds
 - Vanguard LifeStrategy Funds
 - TIAA Lifestyle Funds
 - Government TSP Lifecycle (L) Funds

A mix of stocks and bonds. They rebalance for you, and may change the mix as you approach retirement.

Index Funds that follow the S&P 500

- Vanguard 500 Index Investor Shares (VFINX)
- Fidelity 500 Index Fund (FXAIX)
- Schwab S&P 500 Index Fund (SWPPX)
- T. Rowe Price Equity Index 500 Fund (PREIX)

Index Funds that follow the whole US stock market

- Vanguard Total Stock Market Index Fund: VTSAX
- Fidelity® Total Market Index Fund: FSKAX
- Schwab Total Stock Market Index: SWTSX
- T. Rowe Price Total Equity Market Index Fund: POMIX

Other Index Fund Types

- International stock market index
- Russell 3000 index
- U.S. bond market index
- International bond market index
- Corporate bond index fund
- Emerging markets index fund

Advice on Index Funds

*My advice to the trustee couldn't be more simple: Put 10% of the cash in short-term government bonds and 90% in a **very low-cost S&P 500 index fund**. (I suggest Vanguard's.)*

I believe the trust's long-term results from this policy will be superior to those attained by most investors — whether pension funds, institutions or individuals — who employ high-fee managers.

--Warren Buffett's letter to investors 2/28/2014

Investor Words in a Rush

- **Equity:** Stock
- **Debt:** Bonds
- **Fixed Income:** Also means Bonds

Investor Words in a Rush

- **Mutual Fund:** An investment that includes stock shares or bonds from many different companies. Mutual fund companies pool your money with that of other investors and buy a batch of things. This reduces the risk to any single investor, since we can each own a little bit of lots of companies.
- **ETF:** Exchange-Traded Fund.

This is a lot like a mutual fund. It also includes small amounts of many different investments. They trade immediately, and they are sometimes more tax efficient than mutual funds.

Investor Words in a Rush

- **ESG:** Environmental, Social, and Governance
Current buzzword for socially responsible investment options.
- **REIT:** Real Estate Investment Trust
A type of mutual fund or ETF that buys shares in multiple real estate projects. It lets you invest in the real estate sector while also getting the benefit of diversification.

Investor Words in a Rush

- **Balanced Fund:** Includes both stocks and bonds, usually in a mix of about 60% stock and 40% bonds.
- **Global Fund:** Made up of investments from the U.S. AND from other countries.
- **International Fund:** Made up of investments from countries NOT including the U.S.
- **Emerging Markets:** A subset of international. Funds investing in emerging markets will focus on countries that have previously been poor and undeveloped and are now becoming larger players in the world economy. Often, this means China, India, Russia, Brazil, and Mexico.

Investor Words in a Rush

- **Blended Fund:** A stock mutual fund with both “Value” and “Growth” stocks
- **Growth Stock:** A company that is expected to grow at a relatively fast rate.

These stocks generally do not pay dividends, as the companies usually want to reinvest any earnings in order to accelerate growth in the short term. Investors then earn money through capital gains when they eventually sell their shares. -- Investopedia)

- **Value Stocks:** Stocks or stock funds that are relatively low in price. *(A value stock is a stock that trades at a lower price relative to its fundamentals, such as dividends, earnings, or sales, making it appealing to value investors. – Investopedia) Low P/E ratio.*

How to Buy a Lot of Companies

- Mutual Funds

- Stock mutual funds
- Bond mutual funds
- Commodities mutual funds
- Sector mutual funds
- Prices are adjusted at the end of the trading day
- If you place an order today it will be filled (usually) by tomorrow

How to Buy a Lot of Companies

- ETFs

- Exchange-Traded Funds
 - Stock ETFs
 - Bond ETFs
 - Industry or Sector ETFs
 - Commodity ETFs (including gold or silver or oil)
 - Currency ETFs
- Traded on exchanges, like the NASDAQ or NYSE
- Prices change throughout the day
- If you place a trade today, it will probably be filled immediately

The Ice Cream Plan

- Roth vs. Traditional?
- Mutual Fund vs. ETF?
- Stocks vs. Bonds?
- U.S. vs. International?
- Mid-cap vs. Small-cap vs. Mega-cap vs. Large-cap?
- Tech stocks vs. Health Care vs. Consumer Staples vs. Utilities vs. Energy ?

What Matters?

- Diversification
- Low fees

Don't Overthink It



Where to open

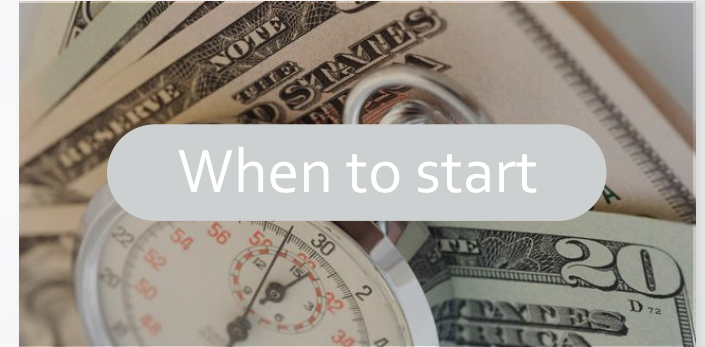
Brokerage Houses
Vanguard, Fidelity,
Schwab, E-Trade, T.
Rowe Price



How to choose

Diversified
Index Funds
Other Mutual Funds &
ETFs

Target Date Funds or
Lifestyle Funds



When to start

NOW!

Good Investing

Yes

- Low Fees
- Diversification
- Mutual Funds
 - Index Funds
- Hiking

No

- Fear & Panic
- Second-Guessing
- Reactiveness
- Selling Low
- Advice from Thanksgiving guests
- Individual Stocks (Well, not much)

Top Ten Investment Tips

1. Keep an emergency fund large enough so you never have to sell investments at a bad time.
2. Don't buy individual stocks.
3. If you **want** to buy individual stocks, think of it like going to Vegas. Set aside your "play money" in an amount you can afford to lose.
4. Diversify.
5. Use mutual funds and ETFs. Especially Index funds.
6. Check fees first.
Mutual fund fees should be less than 1%; less than .1% if possible.
7. Invest gradually. Automatically, if possible.
8. Buy and hold.
9. Figure out your own risk tolerance, and respect it.
10. Don't watch the market every day. When it goes nuts, you go outside.

Successful Investors



Thank you!

Heather is reachable at
HCListon@ClarityFinancialCA.com

<https://www.clarityfinancialca.com/>





Questions?

ASK IN THE Q&A BOX

NOTE: PLEASE BE MINDFUL OF PERSONAL FINANCIAL QUESTIONS.

FinancialWellness@nar.realtor



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Recording Available:
Friday, September 9

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Session 2: Investing for the
Seasoned & Sophisticated