Basics of Investing

This program is made possible by a grant from the FINRA Investor Education Foundation through Smart Investing@your library®, a partnership with the American Library Association.

Shauna La Beau, M.S.
FINRA & FINRA Foundation

Financial Industry Regulatory Authority (FINRA)

► Independent, non-governmental regulator for all securities firms doing business with the public in the U.S.

► Protects investors and maintains market integrity in a public-private partnership with the Securities and Exchange Commission

► Regulation, enforcement, education

FINRA Investor Education Foundation

► Awards grants and manages targeted projects focused on investor education and protection

► Smart investing@your library is a partnership with the American Library Association
What Does it Mean to Invest?

Put money to use by purchasing something that offers POTENTIAL profitable returns, as interest, income, or increase in value.

Two Ways Your Money Works for You: Your money earns money or you buy something that could increase in value.

We can invest in a garden, fruit trees, education, a business, stocks, bonds, mutual funds, real estate, commodities, metals, currencies.

We invest for the future, a personal goal, retirement, our children.
Safest places to protect your money. Easy access.

Greater chance of earning and losing money

Usually a fixed interest rate

Interest earned changes based on markets

Insured through the FDIC

Not insured through the FDIC

Risk of **Inflation** outpacing your interest rate

Can earn more than the money in a bank

Savings Accounts, Checking Accounts, CDs

Stocks, bonds, mutual funds, real estate, commodities

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**Saving** vs. **Investing**
Pay Yourself First

• Prepare for your future!
• Whenever you receive money put a little aside in a savings account or investment.
• It doesn’t matter how much just put something away.
How Do I Know Where to Start?

You and Your Goals

Time Horizon: The more time you have to accomplish your goal the better off you are in handling market fluctuations.

How much money do you need? Check out the Ball Park Estimate @ http://www.choosetosave.org/ballpark/webapp/#/your_info

ABILITY: What can you do? Do you feel comfortable researching your accounts, following markets and making adjustments to your investments?
Risk Tolerance or Risk Preference

Emotional ability to handle changes in the market.

If you invest money that you would need for an emergency you may have to sell at the wrong time.

Conservative, Moderately Conservative, Aggressive
What is Your Risk Tolerance?

Sample Risk Preferences

<table>
<thead>
<tr>
<th>Risk Tolerance</th>
<th>Growth</th>
<th>Loss</th>
<th>Growth2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggressive</td>
<td>20</td>
<td>-10</td>
<td></td>
</tr>
<tr>
<td>Moderate</td>
<td>8</td>
<td>-4</td>
<td></td>
</tr>
<tr>
<td>Conservative</td>
<td>5</td>
<td>-1</td>
<td></td>
</tr>
</tbody>
</table>

- FAMILY
  Prosperity Initiative
  Financial Literacy for All
What Investments Fall Under Each Category

Government Bonds, Government Notes and Bills, Money Market Mutual Funds
Bank Accounts and Money Market Deposit Accounts, CDs, Cash
*Foundation or base of investments, foreseeable returns.*

Real Estate, Mutual Funds
Stocks, High Income Bonds/Debt
*More risk, but have chance for long-term growth.*

Collectibles, Penny Stocks, Futures
*Should only be extra money you can lose without any problems.*

High Risk

Low Risk
### Investment Philosophies

<table>
<thead>
<tr>
<th>Philosophy Name</th>
<th>What does it mean?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value Investing</td>
<td>Seeking relatively undervalued stocks and believing they will eventually produce strong returns.</td>
</tr>
<tr>
<td>Fundamentals Investing</td>
<td>Identifying companies with strong earnings prospects.ian</td>
</tr>
<tr>
<td>Growth Investing</td>
<td>Buying into companies that have promising emerging products or services that hold promising growth potential.</td>
</tr>
<tr>
<td>Socially-Responsible</td>
<td>Looking for companies that adhere to certain set of moral and/or ethical business standards.</td>
</tr>
<tr>
<td>Investing</td>
<td></td>
</tr>
<tr>
<td>Technical Investing</td>
<td>Examining past market data to look for hallmark visual patterns in trading activity to make buy and sell decisions.</td>
</tr>
<tr>
<td>Contrarian Investing</td>
<td>Making investment decisions in direct opposition to the market majority (selling when others are buying).</td>
</tr>
</tbody>
</table>

*Information from: [Investment Philosophy Definition | Investopedia](http://www.investopedia.com/terms/i/investment-philosophy.asp#ixzz3wK8YS6xa)
Asset Allocation

• The process for dividing up your assets in your investments to balance risk and reward.

• You can choose investments that will adjust automatically.

• Or you/investment advisor can adjust the investments a few times a year.
Diversification

- Spread your money over various investments.
- If one investment loses money the idea is that your other investments will be able to make up for it.
- Minimizes your risk.
Idea that a dollar today is worth more than a dollar tomorrow.

Today’s money can earn interest, making you more $$ overtime.
Time Value of Money Example

• You have found an account that will earn 5%. Would it be better to invest $100 today or in one year?
  
  \[ \$100 \times 0.05 \text{ (5\%) = } \$5.00 \]

• If you invested today you would have $105 in one year.
Compound Interest

- When you earn interest on your investment, then you start earning **interest on the interest**.

- This is how you can earn a lot more money on your investments than just your principal.

- [http://apps.finra.org/Calcs/2/Savings](http://apps.finra.org/Calcs/2/Savings)
Compound Interest Example

Original Deposit: $100
Monthly Addition: $5.00
Rate of Return: 5%

Time of investment: 5

From: http://www.helpfulcalculators.com/compound-interest-calculator
## Key Terms to Know

<table>
<thead>
<tr>
<th>Word</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volatility:</td>
<td>Amount of uncertainty or risk related to the changes in a security’s value.</td>
</tr>
<tr>
<td>Yield:</td>
<td>Income on an investment, refers to interest or dividends</td>
</tr>
<tr>
<td>Rate of Return:</td>
<td>Gain or loss of an investments over a certain time frame.</td>
</tr>
<tr>
<td>Real Rate of Return:</td>
<td>Gain or loss of an investment, adjusted for inflation. A more accurate picture of how much you earn.</td>
</tr>
<tr>
<td>Capital Gains:</td>
<td>An increase in the value of an asset.</td>
</tr>
<tr>
<td>Principal:</td>
<td>Amount you first invested.</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>A measure of risk that indicates the volatility of a portfolio's total returns as measured against its mean performance. In general, the higher the standard deviation, the greater the volatility or risk.</td>
</tr>
</tbody>
</table>
Stocks

- Piece of ownership in a company. If the company profits or has perceived earning potential the stock will go up in value and pay dividends. Stock is sold as a share. When you buy a stock you become a **shareholder**.

- **Dividends**: Payout of a company’s earnings to a specific class of shareholders.
- **Prospectus**: Legal document that details the performance, philosophy, and information about a stock.

- **Common Stock**: Ownership in a stock. Last to get paid if a company fails. Bondholders and preferred stock holders are paid first.
- **Preferred Stock**: Ownership class who would receive a dividend and are paid before common stock holders, but they do not have voting rights.
## Stocks

<table>
<thead>
<tr>
<th>Type</th>
<th>Reasons to Invest</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Growth:</strong> Companies who are expected to grow faster than other companies</td>
<td>As revenues increase, the price of the stock and value of the investment increase</td>
<td>When growth stops, the market stalls, or stock prices go down then the value of the investment goes down.</td>
</tr>
<tr>
<td><strong>Income:</strong> Companies that normally pay high or consistent dividends to investors</td>
<td>Your money can grow in two ways: through the increase in stock prices and through dividends</td>
<td>Dividends could be stopped. Stocks prices could go down. Stocks that pay extra high dividends could be trying to hide a problem in the company.</td>
</tr>
<tr>
<td><strong>Value:</strong> Companies whose stock is selling at a low price or is considered undervalued. This could be from some bad news, poor earnings announcement, legal problems</td>
<td>If the stocks report better than expected performance, their stock prices can increase</td>
<td>If performance does not improve, the stock price could stay the same or drop.</td>
</tr>
</tbody>
</table>
What is the Dow Jones, NASDAQ and S&P 500?

Dow Jones Industrial Average (DJIA)
Average of 30 significant stocks traded on the New York Stock Exchange. Started in 1896.

NASDAQ Index
Index of 3,000 technology and biotech company stocks. Includes Apple, Google, Microsoft, Oracle, Amazon, Intel, Amgen

S&P 500 Index
500 stocks chosen for market size, liquidity, and industry groups. It is designed to be a leading indicator of U.S. companies. Many consider it to be the definition of the market.
Markets from Today

- S&P 500: 2,016.71 (+4.05, 0.20%)
- Dow: 17,158.66 (+9.72, 0.06%)
- Nasdaq: 4,891.43 (-11.66, 0.24%)

Tue, Jan 5, 2016, 5:07pm EST - US Markets are closed
How Do Investments Make Money?

- The company makes a profit.
- With the profit the stockholders receive a dividend and bondholders receive an interest payment.
- Others realize the company is a good one and want to buy your investments when you are ready to sell.
- The company outperforms their competitors.
Why Do Investments Lose Money?

• You may have to sell your investment when the market is down.
• The people running the company are dishonest and use your money for more than investments.
• The company lies about their true value, financial reports, or earnings.
• Other investors think the stock is too expensive and no one wants to buy.

• Brokers manipulate the price so it doesn’t show the true value of a company. After the price has increased the brokers then sell the stocks which drops the price.
• Customer’s stop buying the companies products or services.
• Competitors are performing better.
Bonds

- Is a loan an investor gives to a corporation, government or federal agency. In exchange for the investor’s money the bond issuer pays interest to the bondholder.

- **Bond Maturity:** Length of the bond’s term. Could be from 1 day to 100 years. Short-term bonds are 1-3 years. Medium bonds are 4-10 years. Long-term bonds are more than 10 years.

- **Par or Face Value:** The original value of a bond when it was first issued.
- **Coupon:** Annual interest rate paid to a bondholder. Usually paid twice a year. If you hold your bond for the whole time and re-invest the interest they pay you then the rate of return is called the Yield-to-Maturity (YTM).
Risks of Investing in Bonds

- **Credit Risk**: The possibility that a company will not make the scheduled interest and/or principal payments on time.
  - Bonds that are rated higher than BBB are investment grade. Bonds lower than BB, bb, Ba or lower are non-investment or junk bonds.
  - Credit Risk affects the bond’s price.

- If the company goes bankrupt your money may be lost. If there is any money left bondholders will be paid before stockholders.

- **Liquidity Risk**: How easy it is to sell an investment.

- **Inflation Risk**: Risk that inflation will be more than the interest you receive.
Additional Risk of Investing in Bonds: Interest Rate Risk

If interest rates go down then the price of the bond goes up.

When interest rates go up then the price of the bond goes down.
More on Interest Rate Risk

• Interest Rate Risk increases the longer you hold the bond.

• If you bought a bond last year and now you want to sell your bond, you may have to sell the bond for less than you paid because now new investors can buy bonds offering better interest rates.

• If you have a bond and interest rates go down, the company may not want to keep paying you the higher interest rate so they could **CALL** the bond and re-pay you the principal early. If the company calls the bond before the term they may not pay you the full coupon rate.
When business is good then the value of the fund goes up = more money for investors.
## Mutual Funds

<table>
<thead>
<tr>
<th>Index Funds</th>
<th>Balanced Funds</th>
<th>Historically index funds have enjoyed higher rates of return than average managed funds because of lower fees. They do still have risks.</th>
<th>Net-Asset Value: Price per share NAV is calculated at the end of the day Turnover</th>
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More on Mutual Funds

Fees
- **Load fees:** Fees or charges for selling the fund.
- **Front-end load:** Fee paid when you first invest.
- **Back-end load fee:** Charged when an investor sells his or her investments

Fees
- **Expense Ratios:** How much the fund charges to manage a fund each year.
- **12b-1 fees:** Fee that is tied into the share price and is used for promotions, sales, and other activities. Could be as much as .75% of the fund’s assets per year.

Beware
- Look for NO LOAD funds
- Load fees can be between 3-8.75% of the total amount invested or distributed.
- Average expense ratios are between: .15%-1.25% of the value of your investments.
# Growth of the Market S&P 500

<table>
<thead>
<tr>
<th></th>
<th>Price Change</th>
<th>Dividend Dist. Rate</th>
<th>Total Return</th>
<th>Inflation</th>
<th>Real Price Change</th>
<th>Real Total Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950's</td>
<td>13.2 %</td>
<td>5.4 %</td>
<td>19.3 %</td>
<td>2.2 %</td>
<td>10.7 %</td>
<td>16.7 %</td>
</tr>
<tr>
<td>1960's</td>
<td>4.4 %</td>
<td>3.3 %</td>
<td>7.8 %</td>
<td>2.5 %</td>
<td>1.8 %</td>
<td>5.2 %</td>
</tr>
<tr>
<td>1970's</td>
<td>1.6 %</td>
<td>4.3 %</td>
<td>5.8 %</td>
<td>7.4 %</td>
<td>-5.4 %</td>
<td>-1.4 %</td>
</tr>
<tr>
<td>1980's</td>
<td>12.6 %</td>
<td>4.6 %</td>
<td>17.3 %</td>
<td>5.1 %</td>
<td>7.1 %</td>
<td>11.6 %</td>
</tr>
<tr>
<td>1990's</td>
<td>15.3 %</td>
<td>2.7 %</td>
<td>18.1 %</td>
<td>2.9 %</td>
<td>12.0 %</td>
<td>14.7 %</td>
</tr>
<tr>
<td>2000's</td>
<td>-2.7 %</td>
<td>1.8 %</td>
<td>-1.0 %</td>
<td>2.5 %</td>
<td>-5.1 %</td>
<td>-3.4 %</td>
</tr>
<tr>
<td>1950-2009</td>
<td>7.2 %</td>
<td>3.6 %</td>
<td>11.0 %</td>
<td>3.8 %</td>
<td>3.3 %</td>
<td>7.0 %</td>
</tr>
</tbody>
</table>

Graph comes from: [http://www.simplestockinvesting.com/SP500-historical-real-total-returns.htm](http://www.simplestockinvesting.com/SP500-historical-real-total-returns.htm)

The Data was gathered from: Standard & Poor’s S & P 500, U.S. Department of Labor, Yahoo Finance, Robert Shiller from Yale University.
Investment Paper Work

Fund Over Review

- Investment Objective, Strategy, Investor Profile

Prospectus: formal legal document that provides details of investment offerings

- Semi-Annual & Annual Report
<table>
<thead>
<tr>
<th>Daily YTD Return</th>
<th>Three Month Return</th>
<th>Average Annual Total Returns - Month End 12/31/2015</th>
<th>Expense Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>-0.64% as of 01/04/2016</td>
<td>1.76% as of 12/31/2015</td>
<td>-0.75% 4.48% 5.20% 5.17% 5.44% since 02/2004</td>
<td>0.58% as of 05/31/2015</td>
</tr>
<tr>
<td>-0.71% as of 01/04/2016</td>
<td>2.00% as of 12/31/2015</td>
<td>-0.76% 5.26% 5.68% 5.30% 7.47% since 09/2002</td>
<td>0.58% as of 05/31/2015</td>
</tr>
<tr>
<td>-0.88% as of 01/04/2016</td>
<td>2.62% as of 12/31/2015</td>
<td>-0.58% 6.46% 6.48% 5.65% 6.08% since 02/2004</td>
<td>0.62% as of 05/31/2015</td>
</tr>
<tr>
<td>-1.07% as of 01/04/2016</td>
<td>3.23% as of 12/31/2015</td>
<td>-0.31% 7.52% 7.15% 5.88% 8.46% since 09/2002</td>
<td>0.66% as of 05/31/2015</td>
</tr>
</tbody>
</table>
Other Investments

**ETFs**

- Exchange Traded Funds: A basket of stocks, but it is not a mutual fund. It trades like a stock and the price changes throughout the day. Diversity of an index fund plus the flexibility of a stock.

**Commodities**

- Commodities: Trade in a primary economic sector rather than a manufactured good. Trade in wheat, coffee, cocoa, sugar, gold, oil, livestock, silver, corn, natural gas.

**REIT**

- Real Estate Investment Trust: comparable to a mutual fund, but for Real Estate, allows investors the opportunity to have a liquid assets in Real Estate. Trades on exchanges like stocks.
Money Market Deposit Accounts vs Money Market Mutual Funds

**MMDA**
- Offer higher interest rates than regular savings account
- Can write check and withdraw funds up to 6 times a month.
- FDIC insured when opened at a bank insured by FDIC

**MMMF**
- Net asset value of $1 per share.
- Short-term (less than 1 year) securities. Liquid debt, US Corporations, state and municipal governments, U.S. Treasury securities.
- May not outgrow inflation they are good if you need a cash portion piece for your investments.
## Who Can Help Me?

<table>
<thead>
<tr>
<th>Title or Name:</th>
<th>What do they do?</th>
<th>Potential Cost:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Planners</td>
<td>Usually offers a comprehensive financial plan to help you accomplish your goals</td>
<td>Fee only is best because they don’t make money from sales. Hourly, annual fee, monthly fee, commission.</td>
</tr>
<tr>
<td>Broker</td>
<td>Make specific recommendations on stocks, bonds, mutual funds.</td>
<td>Commissions when they buy and sell securities.</td>
</tr>
<tr>
<td>Investment Advisor</td>
<td>Gives advice on securities. Not all investment advisors are financial planners.</td>
<td>Commissions, fees</td>
</tr>
<tr>
<td>Fund Manager</td>
<td>Usually works for a specific investing company or firm.</td>
<td>Maintenance fees, or commissions</td>
</tr>
</tbody>
</table>
# Who Can Help Me?

<table>
<thead>
<tr>
<th>Title or Name</th>
<th>What they do?</th>
<th>Cost?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount Brokerage</td>
<td>Assist you in buying investments. May have limited staff to help.</td>
<td>Lower fees and commissions than a full-service brokerage.</td>
</tr>
<tr>
<td>Full-Service Brokerage</td>
<td>Assist you in buying investments. May have more staff available.</td>
<td>Higher fees and commissions.</td>
</tr>
</tbody>
</table>

*It pays to ask how they make their $.*

Banks, Credit Unions, Insurance Companies, Accountants also offer financial services.

Don’t forget the rule of 3! Visit at least three financial advisors or professionals to see who you like the best and closely examine their fees. It is your money and you should trust them. Before making the final decision make sure the professional is licensed.
## What Questions Should You Ask Your Investment Advisor?

<table>
<thead>
<tr>
<th>Ask! Ask!! Ask!!!</th>
</tr>
</thead>
<tbody>
<tr>
<td>What experience do you have, especially with people in my circumstances?</td>
</tr>
<tr>
<td>Where did you go to school? What is your recent employment history?</td>
</tr>
<tr>
<td>What licenses do you hold? Are you registered with the SEC, a state, or the Financial Industry Regulatory Authority (FINRA)?</td>
</tr>
<tr>
<td>What products and services do you offer?</td>
</tr>
<tr>
<td>Can you only recommend a limited number of products or services to me? If so, why?</td>
</tr>
<tr>
<td>How are you paid for your services? What is your usual hourly rate, flat fee, or commission?</td>
</tr>
<tr>
<td>Have you ever been disciplined by any government regulator for unethical or improper conduct or been sued by a client who was not happy with the work you did?</td>
</tr>
<tr>
<td>For registered investment advisers, will you send me a copy of both parts of your Form ADV?</td>
</tr>
</tbody>
</table>
More Questions to Ask Your Investment Advisor?

Ask! Ask!! Ask!!!

<table>
<thead>
<tr>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>How will the investment make money?</td>
</tr>
<tr>
<td>How is this investment consistent with my investment goals?</td>
</tr>
<tr>
<td>What must happen for the investment to increase in value?</td>
</tr>
<tr>
<td>What are the risks?</td>
</tr>
<tr>
<td>Where can I get more information?</td>
</tr>
<tr>
<td>How will you contact me if you want to sell a security?</td>
</tr>
<tr>
<td>Will I have an online account where I can monitor my investments?</td>
</tr>
</tbody>
</table>
What Should I Expect?

They should ask you your goals.

You should have the final say in the investment decision.

Discretionary authority gives the broker power to buy and sell without consulting you. Be careful with this.

Ask for documentation.

Make sure the professional is licensed and registered with your State Securities office, FINRA, and/or the SEC.

http://securities.utah.gov/investors
http://brokercheck.finra.org/
http://www.sec.gov/
Remember

All investments have some type of risk related to them.

You need to find out what risk you can handle and what risk you can not.

Your investment strategy should be yours. Do not worry about what other people are doing.
Websites from the Presentation:

- http://securities.utah.gov/investors
- http://brokercheck.finra.org/
- http://www.sec.gov/
- http://apps.finra.org/Calcs/2/Savings
- http://www.choosetosave.org/ballpark/webapp/#/your_info

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This program is made possible by a grant from the FINRA Investor Education Foundation through Smart investing@your library®, a partnership with the American Library Association.
Terms to Know

• Beta: Beta is a statistical measure of a security's volatility relative to the broader market. For a stock fund, beta is measured against an appropriate benchmark index such as the S&P 500, which is deemed to equal 1.00. A beta higher than 1.00 means the fund has experienced greater sensitivity to swings in the market, while a beta of less than 1.00 means the fund has experienced less sensitivity. For example, a fund with a beta of 1.5 can be expected to rise (or fall) by 15% for each 10% gain (or loss) in the S&P 500. Note that beta is less useful as a risk measure with respect to certain types of funds, such as international, metals, and specialty funds, whose performance sometimes bears little relationship to the movement of the S&P 500. For money market funds, beta is measured against their Lipper category averages. Bond funds are measured against their respective benchmark indexes. The relevance of a fund's beta is indicated by its R-squared value (see definition for R-squared).
R-Squared

- R-squared is a measure, in percentage terms, of how closely a fund's performance correlates to the broader market. For a stock fund, R-squared is measured against an appropriate benchmark index such as the S&P 500. It is useful in determining a fund's level of diversification. An R-squared of 100 means that the fund is exactly as diversified as the S&P 500, and therefore that 100% of its performance is attributable to the market (as would be the case for an index fund). For money market funds, R-squared is measured against their Lipper category averages. Bond funds are measured against their respective benchmark indexes. R-squared is measured over a three-year period using monthly observations.
College Savings

• Annual Maintenance Fee for college accounts is between $10-$15.

• See the Smart Saving for College by FINRA-Better Buy Degrees see page 5 Coverdell, Pre-Paid Tuition, 529, Custodial accounts, Savings bonds