

A Beginner's Guide to Investing



Part 1

The Basics of Investing



JAN

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A Beginner's Guide to Investing



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Set Your Goals

- ★ Grow Your Money
- ★ Earn Higher Returns
- ★ Save for Retirement
- ★ Start a Business
- ★ Save for Your Child's Education





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Risk vs. Return

- ★ Higher risk equates to potential higher returns or higher losses





Diversify Your Assets & Your Industries

- ★ Don't buy all bank stocks, buy in assorted industries
- ★ Don't put all your investments in stocks, go with mutual funds or other options as well





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Invest for the Long Term

- ★ Invest for the long term.
- ★ You'll experience ups and downs.
- ★ Riding the downs out usually pays off in the long run.





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Manage Your Portfolio

- ★ Manage your portfolio for action as needed.
- ★ Re-invest your earnings and keep your portfolio balanced with diversity
- ★ Create a Watchlist on the Weiss Financial Ratings website and you'll get email alerts when your stocks or mutual funds are upgraded or downgraded





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Fees

- ★ Watch your fees and be sure they align with your investment strategy
- ★ These can include Transaction Fees, Expense Ratios or Internal Expenses, Investment Management Fees, Front End Loads, Back End Loads, Custodial Fees and 12 B-1 Fees





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Taxes

- ★ Keep your tax accountant informed and take advantage of tax-free options (which we'll note later)



Part 2

Major Investment Vehicles



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Money Market Accounts, Savings Accounts, Certificates of Deposit, College Savings 529 Accounts, Traditional & Roth IRAs

- ★ All interest bearing, low risk products
- ★ College Savings 529 Plans & IRAs offer tax benefits





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- ★ **Money Market Accounts** typically have higher interest rates than savings accounts. You can write a limited number of checks per month. Most have higher minimum balance requirements and maintenance fees.
- ★ **Savings Accounts** typically have no minimum balance requirements, but still only allow a minimal amount of transactions per month without paying fees.
- ★ **Certificates of Deposits (CDs)** offer you a higher interest rate, in some cases, if you leave a lump-sum deposit with the bank, untouched, for a fixed period of time.





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- ★ **College Savings 529 Plans** allows you to save for future education costs with a prepaid tuition plan or an education savings plan.
- ★ Most states offer tax benefits for contributions to 529 plans.
- ★ Withdrawals that are made for qualifying educational expenses are not subject to state or federal income tax.
- ★ If a withdrawal is made for non-qualifying educational expenses, those withdrawals will be subject to state and federal income tax and additional tax penalties.





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- ★ **Traditional IRA (Individual Retirement Account)** is a retirement account that allows you to grow your earnings tax-deferred. It allows you to reduce your taxable income now. Taxes are paid when you withdraw your funds after retirement. Early withdrawals are taxed and are charged a 10% penalty. You can contribute \$6,000 per year (in 2022) or \$7,000 per year if you are 50 or older. Everyone can open and contribute to a Traditional IRA, but your contribution may not be fully tax-deductible if you meet certain income requirements.
- ★ **Roth IRA** is another type of tax-advantaged retirement savings account. You can fund a Roth IRA with after-tax dollars and the contributions are not tax-deductible. But, when you withdraw funds, you do so tax-free. You can contribute \$6,000 per year (in 2022) or \$7,000 per year if you are 50 or older. A Roth IRA is a good choice if you will likely be paying a higher tax rate in retirement than you are now. You can not qualify for a Roth IRA if you have an annual income of more than \$144,000.





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401(k)

- ★ Usually employer sponsored
- ★ Often employers match your contribution to a set percentage.
- ★ If your employer offers a match, try to invest as much as you can, up to the percentage that they match, to take advantage of that free money
- ★ Contributions are pre-tax and deducted from your paycheck, lowering your adjusted gross income and your tax bill
- ★ Employees are limited to \$20,500 in employee contributions in 2022. Employees over 50 are also allowed a catch-up bonus of \$6,500 in 2022.





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Stocks

- ★ When you buy shares of a Stock, you are purchasing a piece of ownership or equity in a company
- ★ For example, if you purchase 100 shares of XYZ company and they issued 10,000 shares, then you effectively own 1% of XYZ company.
- ★ Your investment risk is that the market value of your share drops below the price you paid
- ★ Well performing companies are likely to grow and your stock values are likely to increase
- ★ New or poor performing companies may result in losses





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Bonds

- ★ Bonds represent debt to the company or government entity selling the bonds
- ★ As an investor, you are lending them your money with the expectation of a return
- ★ Interest is paid periodically in accordance with the contract
- ★ Principal is returned at maturity, a defined date in the contract
- ★ Your investment risk is that the entity who sold the bond defaults and you lose both principal and interest





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Mutual Funds

- ★ Mutual Funds are a basket of assorted products, stocks and bonds
- ★ Most funds are already well diversified
- ★ You are paid a portion of the income made by the fund
- ★ The risk is that the fund fails to perform well (diversity makes this less likely)





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Annuities

- ★ Annuities are insurance related products. You give your investment to the insurer and they promise you a certain rate of return for as long as you live
- ★ You can purchase them with either monthly payments or a single lump sum
- ★ The insurer disperses payments to you on a set schedule defined in the contract
- ★ Depending on the terms of the purchase, you can receive these payments and you may also name a beneficiary who would benefit in the event of your death
- ★ With Fixed Annuities, you are guaranteed the same payout each pay period. With Variable Annuities, your payment will fluctuate depending on the stock market and other factors. Examine your risk tolerance carefully before considering variable annuities. Variable annuities tend to have high fees and surrender charges if you withdraw your money early.





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Commodities

- ★ Commodities are things like:
 - ★ Precious Metals (gold and silver)
 - ★ Agricultural (wheat, corn, beef, and soybeans)
 - ★ Energy (gas, heat, and oil)





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Hedge Funds

- ★ Hedge Funds are high risk and usually require high dollar investments
- ★ Combination of money from multiple investors





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Savings Bonds

- ★ Issued by the Treasury Department at [TreasuryDirect.gov](https://www.treasurydirect.gov)
- ★ Low Risk
- ★ You can earn interest for up to 30 years.
- ★ Tax Beneficial – you pay no state or local taxes on the interest. You pay federal taxes on the interest when you cash in the bond or when it matures. There are additional tax benefits if savings bonds are used for qualifying education expenses.
- ★ You can buy up to \$10,000 in savings bonds per year

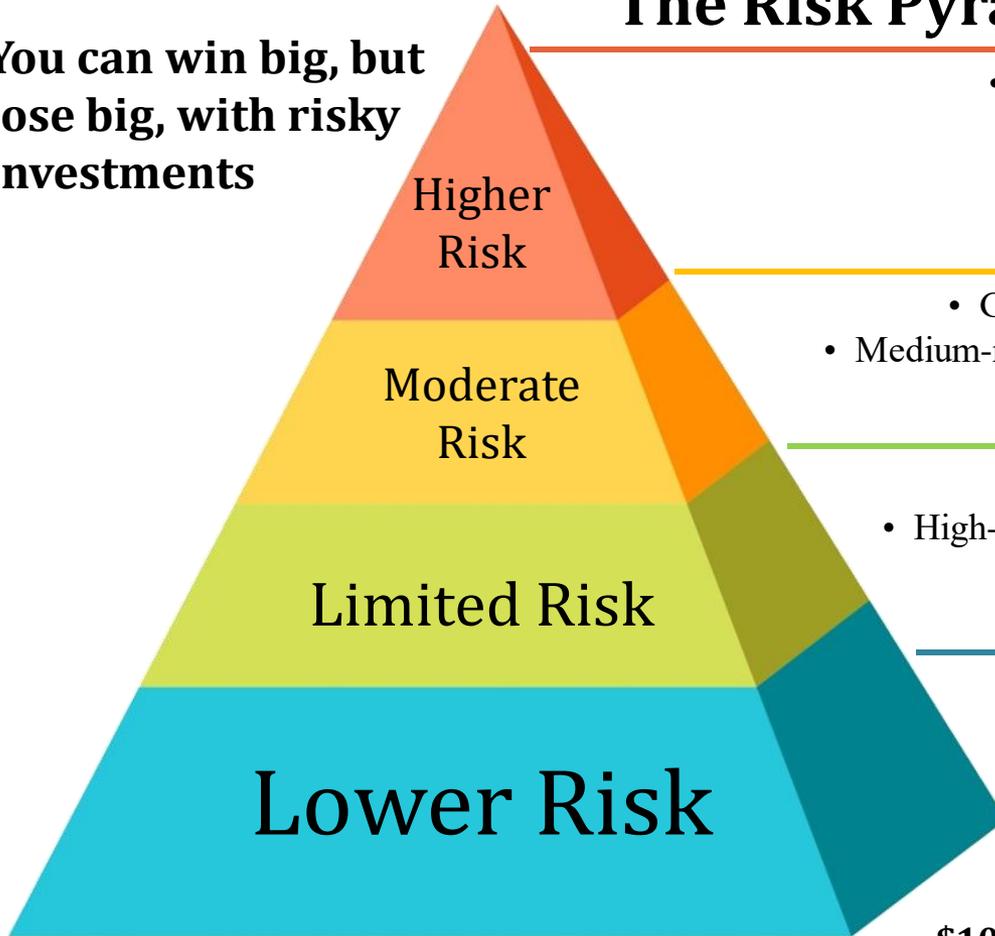




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The Risk Pyramid

You can win big, but lose big, with risky investments



- Futures, options and other derivatives
- Speculative stocks and mutual funds
 - Low-rated bonds
- Mining, precious metals

- Growth Stocks
- Small Company Stocks
- Medium-rated corporate, municipal and zero-coupon bonds
 - Mutual Funds
 - Rental Real Estate

- Blue chip stocks
- High-rated corporate, municipal, and zero-coupon bonds
 - Conservative mutual funds
 - US Treasury bonds and notes

- Savings accounts
- Money market accounts and funds
- CDs
- Fixed Annuities
- Cash

\$10,000 in a savings account at rates below inflation will be safe but will lose value over time



Part 3

How to Get Started



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How to Get Started

- ★ Educate yourself. Knowledge is power.
- ★ Hire a financial advisor if you are new to investing
- ★ Understand the risks and benefits
- ★ Decide what to invest in that will help you best meet your goals





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How to Get Started

★ Open a Brokerage Account

- There are various types of brokerage firms:
- **Full Service Brokers** offer investment management, experienced advice, research, retirement planning, tax advice and more. You'll pay fees and commissions for the service.
- **Discount & Online Brokers** offer low-cost trades, but you're in charge of managing your picks and your trades. You'll pay an extra fee if you want help from a broker.





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How to Get Started

- ★ Fund your account
- ★ Keep growing your investment portfolio



Part 4

Looking at the Numbers



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Stocks

Earnings

- ★ Earnings should be growing year to year
- ★ No need for drastic jumps
- ★ Consistent small jumps are a good indicator
- ★ Earnings Per Share (EPS) – this is the company's net income or earnings divided by the total number of outstanding shares
- ★ Example: Earnings of \$50,000/10,000 outstanding shares = \$5 EPS





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Stocks

Long Term Stability

- ★ Trend lines should move in a general upward pattern
- ★ The economy will play a role, but again, you want long term upward momentum





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Stocks

The Industry

- ★ Is the industry one that will be an ongoing concern?
- ★ Technology, for example, can become outdated quickly





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Stocks

Price/Earnings (P/E) Ratio

- ★ Current Share Price divided by Earnings per Share
- ★ Higher P/E ratios generally indicate good growth
- ★ Again, check the industry norm





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Stocks

Dividends

- ★ Consistent or increasing payment of dividends is another good indicator





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Stocks

Executive Management

- ★ Well experienced and low turnover in executive management is a good thing





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Mutual Funds

Risk Tolerance

- ★ Risk tolerance depends on your current and long term needs. **Ask yourself:**
 - Are you looking for current income or long-term growth (capital gains bring tax implications)?
 - Is the money needed to fund a college education or are you working towards retirement?
 - Can you tolerate a portfolio that may have extreme swings in value? Ups and downs can be nerve racking
 - Are you more comfortable with a conservative investment strategy?
 - Are you investing money that you can afford to have tucked away for many years?





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Mutual Funds

Expense Ratio

- ★ The Expense Ratio is basically the cost associated with owning the fund
- ★ Expenses include things like copies, portfolio management, analyst salaries, coffee, office leases, and electricity
- ★ Also, the management advisory fee and basic operating expenses
- ★ Lower is better when considering expense ratios





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Mutual Funds

Turnover Ratio

- ★ The Turnover Ratio is the percentage of the portfolio that is bought and sold each year
- ★ If it is higher than 50 percent, you may want to consider another fund





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Mutual Funds

Load vs. No-Load

- ★ Loads are fees
- ★ Look for funds that do not have loads, or no-load funds





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Mutual Funds

Diversification

- ★ The more diversification, the less likely one factor can negatively impact the performance of the fund





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Mutual Funds

Index Funds

- ★ Index Funds are based on an index like the S&P 500 (Standard & Poor) or the Dow Jones Industrial Average
- ★ Index Funds are usually good bets with low expense ratios and are heavily diversified





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Mutual Funds

International Funds

- ★ International Funds are generally higher cost and higher risk because value is dependent on the dollar value of the country





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Mutual Funds

Dollar Cost Averaging

- ★ Dollar Cost Averaging is the best way to keep your risk low over the long term
- ★ Example: Invest \$50 each month into mutual funds. When the market is up, your \$50 buys less shares, but when the market is down, you buy more shares for the same investment
- ★ Over time, the average cost basis of your shares is lower, and you can build a larger stock position



Part 5

The Weiss Ratings Database



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How to Log in

- ★ Go to www.plainfieldpubliclibrary.org
- ★ Navigate to their **Resources & Services**
- ★ Scroll down or search for **Online Resources for Weiss Ratings**
- ★ If you are logging in from home, enter your **library card** number if you are prompted, or click **Sign In** in the upper right and enter your library card number there





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Create a Watchlist

As you are navigating the Weiss Financial Ratings site, you'll be able to save companies or investments into a Watchlist. You'll get email alerts if a rating is ever upgraded or downgraded, and you can easily view the ratings of your investments in one click.

- ★ You'll see the Watchlist button  in search results and investment profiles
- ★ Click the Watchlist button  to add a company to your Watchlist
- ★ After a company is stored into your Watchlist, the button will turn into a checkmark 
- ★ To view your Watchlist, click on the  button in the blue navigation bar



Part 6

More Information



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Popular Financial Advisors

- ★ Edward Jones
- ★ Advisor Group
- ★ RBC Wealth Management
- ★ Morgan Stanley
- ★ Charles Schwab
- ★ UBS Wealth Management Americas
- ★ Ameriprise
- ★ Fidelity Investments
- ★ Raymond James
- ★ Wells Fargo Advisors

* List by J.D. Power Best Financial Advisor Firms





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Finding More Information

- ★ **Investor.gov**
<https://www.investor.gov/introduction-investing>
- ★ **SEC – Beginners Guide to Investing**
<http://www.sec.gov/investor/pubs/begininvest.htm>
- ★ **Weiss Financial Ratings Online**
<https://greyhouse.weissratings.com>

