MONEY MATTERS 2023:
UL SYSTEM FINANCIAL WELLNESS SERIES

SESSION #14:

INVESTING 101

AUGUST 1, 2023

BRIDGING THE DIVIDE
Summer Series
MONEY MATTERS

University of Louisiana System
FOR YOUR FUTURE. FOR OUR FUTURE.

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UNIVERSITY of LOUISIANA LAFAYETTE

B.I. Moody III College of Business Administration

Opening Quiz Question

If you invest $100 a month every month **from ages 25 to 35**, earning an 8% annual return, how much will you have accumulated when you retire at 65?

If you invest $100 a month every month **from ages 35 to 65**, earning an 8% annual return, how much will you have accumulated when you retire at 65?

A. $149,036

B. $184,092

C. $149,036

D. $184,092

Opening Quiz Question

If you invest $100 a month every month **from ages 25 to 35**, earning an 8% annual return, how much will you have accumulated when you retire at 65?

If you invest $100 a month every month **from ages 35 to 65**, earning an 8% annual return, how much will you have accumulated when you retire at 65?

A. $149,036

C. $149,036

B. $184,092

D. $184,092

In both cases, this math assumes you make your 1st investment in the first month of your 26th or 36th year and keep all money invested until the end of your 65th year.

Owning Your Financial Future

Adults Returning to Finish a Degree: Financial & Other Concerns June 6, 2023	Financial Planning for Graduate Students June 7, 2023	Financial & Tax Planning for International Students June 8, 2023	The Financial Aspects of Your Side-Hustle #1 – Planning, Strategies, Legal, Resources June 20, 2023	Family Financial Planning: Making Finances Work for the Whole Family June 23, 2023
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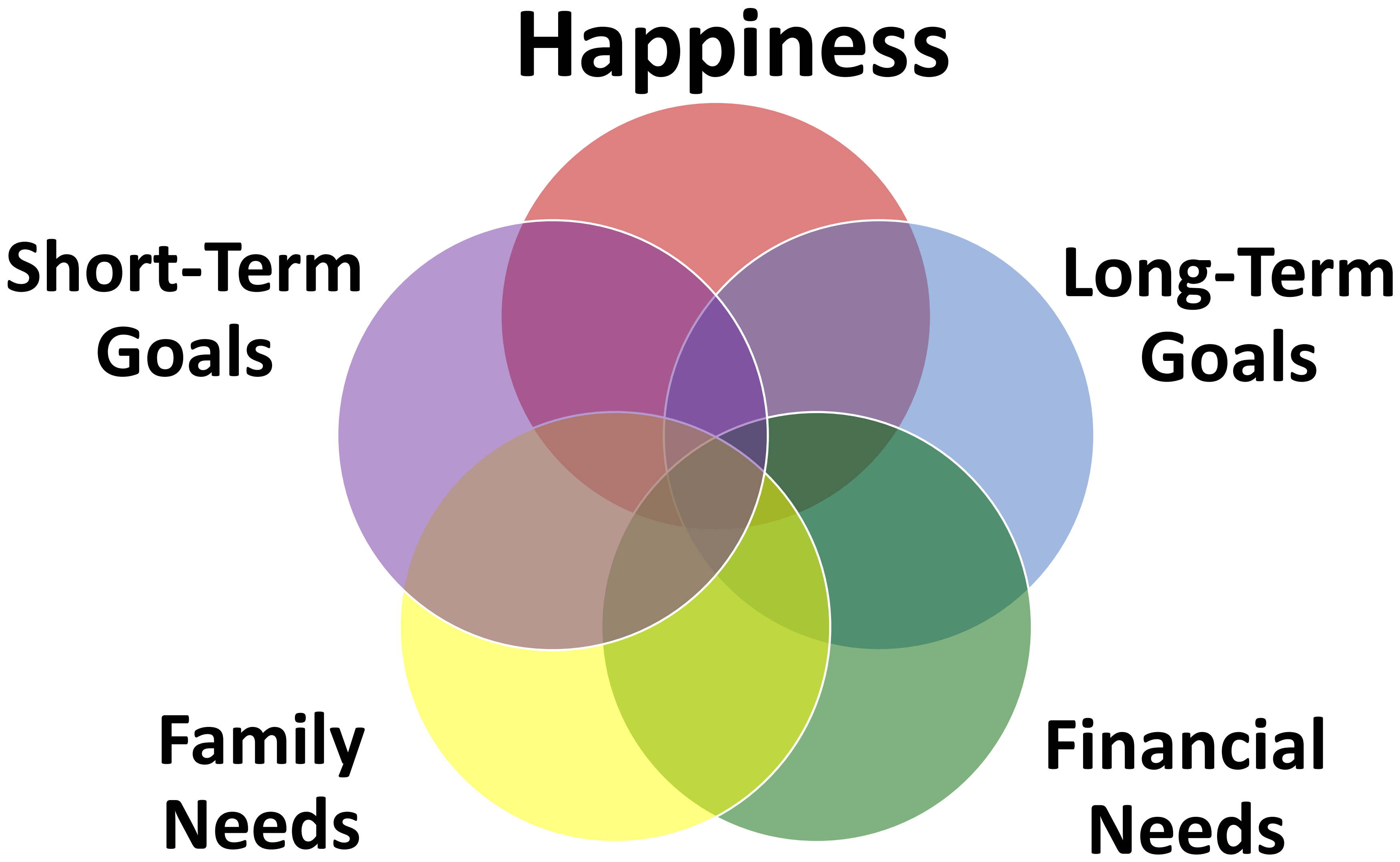
Happiness
Short-Term Goals
Long-Term Goals
Family Needs
Financial Needs

What Are Your Values, Dreams & Goals?

Education | Career | Family

What Is Your Current Situation?

Education | Career | Family | Financial

Create a Personal Financial Plan for You:

- Investing
- Budgeting
- Debt Management
- Taxes
- Insurance
- Retirement
- Education
- Family
- Business Planning
- Philanthropy
- Estate Planning

SAVINGS

INVESTING

OWNERSHIP

WEALTH

3 Opening Morals #1

Personal Finance is…personal.

It's about you and not about anyone else.

You have to make it about you and your goals.

3 Opening Morals #2

Because personal finance is personal, it is virtually impossible for me to give you any specific advice.

However, there is one word of advice that applies to 99% of people working on their finances:

SAVE

SAVINGS

INVESTING

OWNERSHIP

WEALTH

3 Opening Morals #3

When it comes to investing
– or saving or eating or going to the amusement park –
RISK and RETURN always work in tandem.

Higher returns are associated with higher risk.

But…higher risk does not automatically lead to higher return.

3 Opening Morals #3

Average Stock Returns, 2021-2023:

2021	**+25%**
2022	**- 22%**
2023	**+20%**

3 Opening Morals #3

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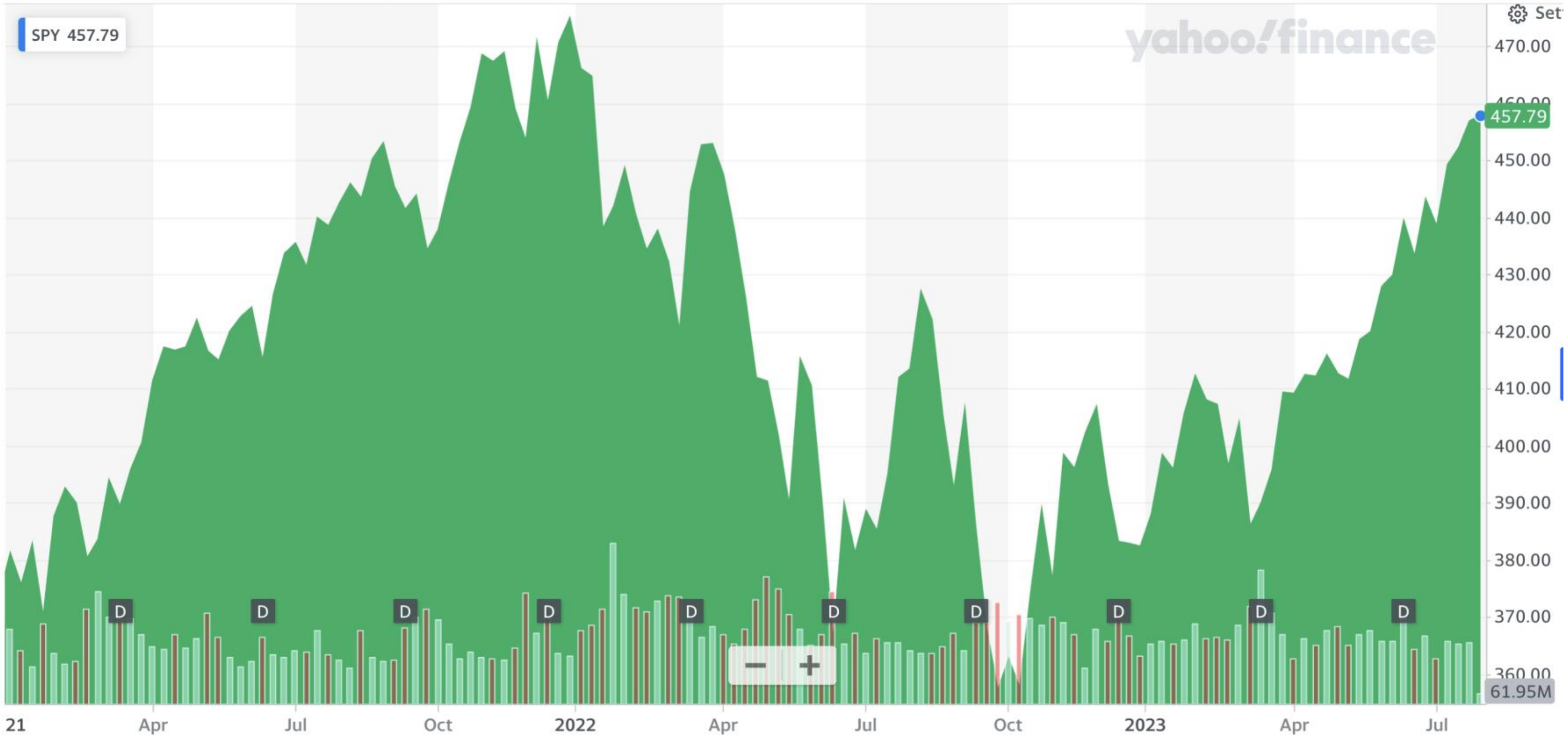

INVESTING
101
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Question I Was Asked Last Week

I'm about to receive $50,000 from a family member.

What should I do with it?

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What should I do with it?

Personal Finance is PERSONAL. Investing is PERSONAL.

If you ever meet with a financial advisor, they will ask you 2 questions:

1. ***What are your goals?***
2. ***What is your risk tolerance?***

Question I Was Asked Last Week

I'm about to receive $50,000 from a family member.

What should I do with it?

Today's Focus:

Investing in financial markets and financial securities (stocks, bonds, CDs)

Investing in real estate, cryptocurrency, classic cars, Beanie Babies, sneakers…

That's all real investing, but I'm not talking about that today.

QUESTION I WAS ASKED LAST WEEK

I'm about to receive $50,000 from a family member.

What should I do with it?

Let's assume you are 25 years old:

1. ***Pay bills, pay off bad debt.***
2. ***$10,000 in cash / savings***
3. ***$10,000 in a 6 or 12 month certificate of deposit, earning a certain 5% per year.***
4. ***$10,000 to $15,000 in the S&P 500 Index, a broad basket of 500 of the largest companies in the U.S. Average return over the past 100 years = 12.1%***
5. ***$10,000 to $15,000 in 5-10 companies / stocks that interest you. Don't stress or overanalyze. Don't sell within 1 year. Just pick, watch, and wait patiently.***

Question I Was Asked Last Week

I'm about to receive $50,000 from a family member.

What should I do with it?

Let's assume you are 55 years old:

1. ***Pay bills, pay off bad debt.***
2. ***$10,000 to $15,000 in cash / savings***
3. ***$20,000 in a 6, 12 or 18 month CD, earning a guaranteed 5% per year.***
4. ***$10,000 in the S&P 500 Index, a broad basket of 500 of the largest companies in the U.S. Average return over the past 100 years = 12.1%***
5. ~~***$10,000 to $15,000 in 5-10 companies / stocks that interest you. Don't stress or overanalyze. Just pick, watch, and wait very patiently.***~~

Investment Tools We All Can Use

Investing is not just for super-rich Wall Street types.

We all have opportunities to invest in financial securities through our other goals.

1. *401(k) or 403(b) – probably able to invest in a selection of 10-15 mutual funds.*
2. *Individual Retirement Account or Roth IRA – able to invest in most financial securities*
3. *529 college savings plan – able to invest in most financial securities.*
4. *Taxable brokerage account – able to invest in any financial security, with as little as $1.00*
    - *Robinhood and the democratization of finance has made it (a) super-easy, and (b) super-cheap for anyone to invest just like they are a super-rich Wall Street type.*

Opening an IRA or Roth IRA – Why Do It?

- An IRA is an Individual Retirement Account
- A Roth IRA is a special kind of IRA.

- Either an IRA or a Roth IRA has special tax benefits…the difference between the two is when you get those benefits.
  - With a Traditional IRA, you get the benefits (or tax deduction) today, when you make the investment…which means it's good for people in high tax brackets today.
  - With a Roth IRA, you get the benefits (or tax deduction) when you withdraw cash in retirement…which means it's good for people in low tax brackets today.

  - With either type, there are 2 tax benefits:
    1. As shown above, the ability to choose WHEN you pay ordinary income taxes on the income.
    2. You never pay capital gains taxes on investment growth within the IRA.

Opening an IRA or Roth IRA – Why Do It?

- Conceptually, the earlier we begin saving for retirement, the more we will benefit from compound interest when we get to retirement age.
  - If you invest $6,500 per year from age 25 to age 60, you would have **$1,400,000** in your account at age 60 (assuming a 9% annual return).
  - If you wait 10 years and invest $6,000 per year from age 35 to age 60, you would have **$550,000** in your account at age 60 (assuming a 9% annual return).

Opening an IRA or Roth IRA – Why Do It?

- But what is an IRA? Why the Roth IRA?
  - An IRA is an Individual Retirement Account.
  - You are allowed to contribute $6,500 per year
  - The key decision is based on whether you think your tax rate will be higher today or in the future.
  - The bad news is that the money you put into an IRA cannot be withdrawn, unless you pay a 10% penalty, until you turn 59 ½ years old
  - There is some fine print that we are skipping over here and some minor exceptions to this overview, but this should cover most of you and most situations.

Opening an IRA or Roth IRA – A Checklist

1. Research – and pick – a brokerage or financial institution to use.
   - Functionally, as far as managing your account and investments, they are going to be similar.
   - However, the user interfaces will be different…including how you use the account and resources available.
   - And, some brokerages may not offer certain types of accounts.

   - Fidelity, Charles Schwab, JP Morgan Chase, Bank of America, TD Ameritrade and many others are all good. Robinhood can be good (but different…and maybe a wee bit dangerous).

2. Establish and open your IRA or Roth IRA account.
   - This will require your Social Security number and other personal information, but not too much. It should take 5-10 minutes.

Opening an IRA or Roth IRA – A Checklist

3. Fund your IRA or Roth IRA account.
    - Link a bank account to your IRA or Roth IRA to allow online transfers. It may take 1-2 weeks initially to get the money transferred as the Roth IRA account verifies your bank accounts.
    - You may be able to upload an electronic copy of a personal check to deposit funds into your Roth IRA account.
    - You may be able to go old school and visit a branch of your brokerage to do everything in person.

4. Begin investing and saving for your retirement.

Opening an IRA or Roth IRA – A Checklist

4. Begin investing and saving for your retirement.

   This all begins with understanding who you are and what your investment goals are.

   And this all begins with your ***Investment Policy Statement***, your personal investing roadmap.

Your INVESTMENT POLICY STATEMENT

- An Investment Policy Statement is your personal investing roadmap and strategy.

- It includes the following information:
  - Some brief personal information, about you and your situation
  - Your risk tolerance
  - Your investing goals
  - Your tax, liquidity and income preferences
  - How you want to handle your investments
  - How you want to allocate your investments across different asset classes (stocks vs. bonds)
  - Any other personal or situational issues that may impact your ability to invest or your investment strategy

Your INVESTMENT POLICY STATEMENT

ASSET ALLOCATION

We know that the asset classes or categories you choose are responsible for 90% of portfolio returns, while specific security selection within classes is responsible for 10% of returns.

- This means that how you decide to allocate your investments is the primary driver of your investment returns.
  - Think about which geographic regions you want to invest in.
  - Think about how to distribute your investment across asset categories.
    - Stocks, bonds, currency, real estate, crypto, value stocks, growth stocks, large companies, small companies, oil, gold, sneakers, Beanie Babies…

What Investment Options Are Available to You?

Type of Investment	Potential Return	Amount of Risk	Comments
Stocks - Large Companies with reliable income	Moderate - Historically 5-8% per year	Moderate. Losses are possible, but should be temporary	Good for long-term investors. Might provide regular income, which you would pay taxes on.
Stocks - Large Companies with less reliable income	Moderate - Historically 7-10% per year	Moderately High. Pretty big losses are possible, but should be temporary	Good for long-term investors. Probably do not provide regular income - you only get income when you sell.
Stocks - Smaller Companies with high potential for growth	High - Historically 10-12% per year	High. Pretty big losses are possible, but should be temporary	Good for long-term investors. Probably do not provide regular income - you only get income when you sell.
Bonds - Corporate	Moderate - Historically 3-6% per year	Moderately low. Losses are unlikely.	Good for long-term investors. Will provide regular income, which you would pay taxes on.
Bonds - Government	Moderate - Historically 1-5% per year	Low. Losses are unlikely. You will get your money back.	Good for short- and long-term investors. Will provide regular income, but you won't pay taxes.
Mutual Funds - Either Stocks or Bonds	Moderate - Could be as low as 3-4% or over 10%.	Moderate. Huge gains are unlikely, losing everything is unlikely.	Mutual funds pool money to make lots of investments; your risk is lower but won't own any specific company.
Real Estate	Who knows? Nobody knows.	Very High. Be prepared for anything.	Very sensitive to the overall economy. And the entry price can be very high.
Yourself + Your Education	Enormous	Very low if you work hard. Very high if you're lazy.	Without question, the best investment you can make. You get to determine how much this investment pays off.
The Lottery	Negative	Very High	See the next Chapter - You should expect to lose all of your money.

Investing – How Do You Do It?

- When you're just getting started with investing, here are a few approaches you can take:

    1. Start with a small amount of money – whether that's $20 or $2,000 – and just go for it. Pick a few investments, track them regularly and be prepared to buy more or sell more should you feel comfortable doing either.

Investing – How Do You Do It?

- When you're just getting started with investing, here are a few approaches you can take:

2. Determine how much you have to invest.
    - Maybe put ½ of that into an index fund or a specific mutual fund. This will provide some security, generally with less or moderate risk.
    - Maybe put the other ½ into individual stocks or securities that intrigue you. If you're interested in the companies, you might be more likely to follow them as investments.
    - This half-half approach will help you figure out what kind of investor you are. In 1-2 years, you might gravitate more to either of the approaches that interest you more.

Investing – How Do You Do It?

- When you're just getting started with investing, here are a few approaches you can take:

3. Talk to a financial advisor. Note that they generally do not (initially) tell you which specific investments to make, but they will work talk through your options with you and help you better understand what you're getting into.
   - They will ask you 2 questions – what are your goals and what is your risk tolerance – and then work with you to find the investments that best align with your answers to these questions.
   - But they do not work for free…and most adults can manage their investments on their own with minimal effort and stress.

I DO NOT GIVE INVESTMENT ADVICE

- But here are some investment issues to think about:

- Do you want to pick individual stocks (or other securities) and monitor them regularly?
  - This can help you feel more control, more connection and more personal interest in your investments.
  - Advantages: Potential for big gains, maybe a personal connection to the companies, you feel more engaged with the process.
  - Disadvantages: Potential for big losses, requires more time and energy, transaction costs (trading, taxes) can add up, there are 1000s to choose from, potential loss of sleep and hair.

I DO NOT GIVE INVESTMENT ADVICE

- Or, would you be content investing in mutual funds and/or market indexes that pool dozens or hundreds of stocks?
  - Advantages: Potential for moderate gains, lower risk (through diversification), lower trading and tax costs, you can narrow down the selection pretty quickly, less loss of sleep and hair
  - Disadvantages: Lots of singles and doubles but no home runs, no emotional connection to your investments, susceptible to big market downturns (but not necessarily more than individual stocks)

I DO NOT GIVE INVESTMENT ADVICE

- If you want to invest in individual stocks, I cannot help you.
- But if you are interested in market indexes, here are some ideas:
  - SPY – The S&P 500 index. 500 of the largest U.S. firms, from all industries.
  - SPYD – The same as above, with a focus on those companies that pay regular dividends out to investors from their earnings. You will get more income, but possibly lower long-term capital gains.
  - IWM – The Russell 2000. 2000 smaller U.S. firms (the 2000 firms after the 1000 largest firms). More volatility, possibly higher returns.
  - EFA – Index of non-US firms (Europe, Far East, Australasia). Big firms.
  - EEM – Index of non-US, emerging market stocks. Bigger firms in developing countries. More risk than any of the above.
  - GBTC – A Bitcoin index. Invest in Bitcoin without mining or owning. Big Risk.

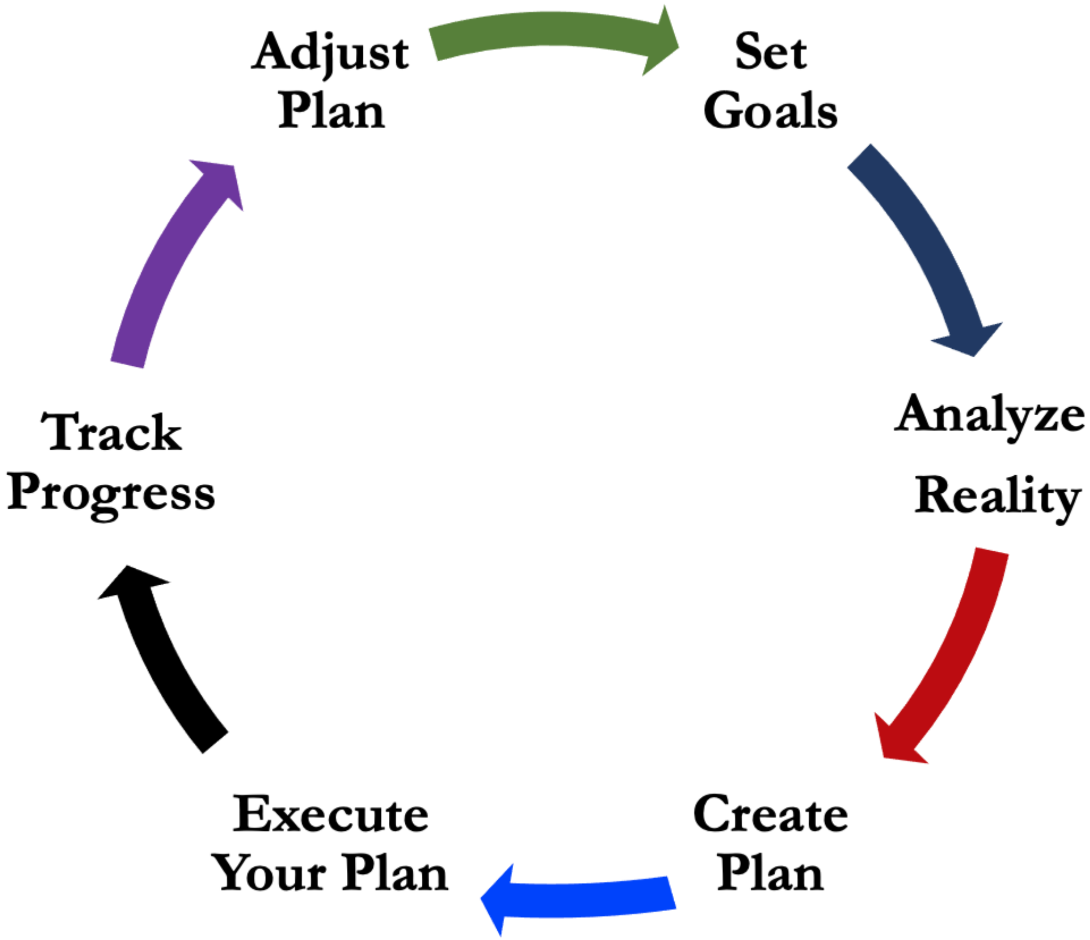
ENJOY THE EXPERIENCE

- If you invest in stocks or bonds, yes, there is risk…there is a chance that you will lose some of your money.

- But it is really difficult to lose all of your money. It is even difficult to lose a lot of your money.
  - 2022…we lost 22% in the stock market. That stinks.
  - But 2022 was one of the 10 worst years since 1900. The Depression was worse. So was 2008. But losing 22% in a single year is historically unusual.

  - My retirement account is up 20% since January 1, 2021. That's pretty cool.

- In investing, TIME is your best friend. Take some risks, be patient, enjoy the experience.



1. **Set your goals.** What do you want to achieve in life? What financial goals will make this happen?
2. **Analyze your reality.** What is your situation? What is your income? What are your expenses? When can you achieve your goals?
3. **Create your plan.** Focus on the short-term – the next 3-6 months – and the long-term – the next 1, 2, 5 and 10 years.
4. **Execute your plan.** Work to decrease your expenses. and to pay off debt. Work to increase your income and your savings.
5. **Track your progress.** How are you doing? Are you ahead of your goals? Are you behind your goals?
6. **Adjust your plan** to reflect your progress, your new reality and any new goals.
7. **Repeat. Revise. Enjoy.**

Isn't this a lot like what you do with your education planning?

Financial Wellness

A goal without a plan is just a dream.

Wealth is largely the result of habit.

The most difficult thing is the decision to act; the rest is mere tenacity.

It takes as much energy to plan as it does to wish.

You cannot escape the responsibility of tomorrow by avoiding it today.

A goal without a plan is just a dream.

Don't wait around for other people to be happy for you.
Any happiness you get,
You've got to make yourself.
~ Alice Walker, poet & novelist

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