San Mateo County Financial Literacy Workshop

Investing Basics and Credit

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Investing Basics and Credit

- Investing Basics: Be a Smart Investor
  - Explore Investing and Investment Concepts
  - Explain how investing fits into an overall financial plan
  - Introduce general investment strategies
  - Discuss ways to put these strategies into action
- Credit: The Untold Story
  - Why is good credit important
  - What is in the credit report
  - How to get your credit report
  - What is a Credit Score
  - How to improve your score

Investing Basics

- What We're Not Going to Do
  - Make you a top stock picker
  - Provide "insider" information
  - Recommend a specific course of action

- Key Concepts for a Smart Investor
  - Saving
  - Investing
  - Risk and Return
  - Asset Allocation
  - Diversification

Saving

- Put money into a traditional savings account or money market account
- Earn regular interest
- Have the money immediately accessible when you need it
- Know your assets are safe because they are insured by the government

Investing

- Buy assets for their potential to increase in value, provide income, or both
- Expect a fluctuating rate of return
- Must sell assets at market price if you need immediate cash
- Recognize the potential for losing as well as making money since the assets are not insured

Reasons to Save and Invest

- Save
  - Emergencies
  - Vacation
  - Short-term goals
- Invest
  - Retirement
  - College
  - Long-term goals

Financial Planning

- Financial Planning is a comprehensive and systematic process for getting your financial house in order and meeting your financial goals
  - Insurance
  - Employee benefits
  - Investments
  - Tax Planning
  - Retirement
  - Estate Planning

Before You Invest

- Get a handle on your cash flow
- Build a cash emergency fund
- Pay off expensive credit card debt
- Buy the right kinds of insurance
- Write a will and living trust
  - Review your beneficiary designations

Start Investing

- Participate in an employer-sponsored retirement plan if you are eligible
- Open an Individual Retirement Account (IRA)
- Contribute to a college savings account
- Invest in taxable accounts

Create an Investment Plan

- Identify your investment goals and time horizon
- Balance risk and return
- Create an investment strategy
- Select investments
- Monitor and update your portfolio

Clarify Your Goals

- List your financial goals
- Define your time horizon for each goal
- Determine minimum average annual return you need to meet goals within time horizon
  - Short-term (less than a year)
  - Medium term (2 to 10 years)
  - Long-term (more than 10 years)

Risk and Return

- Risk is the possibility you could lose some of the money you invest
  - The more risk you take, the greater the potential for a larger return or greater loss
- Return is what you get back as a percentage of the amount you invest
  - If you limit risk, you limit your potential return and your potential loss

Understand Your Risk Tolerance

- Questions to ask yourself
  - Are you willing to lose some principal in pursuit of higher returns?
  - Do concerns about your current investments keep you awake at night?
  - Do you make changes to your investment account every time the market drops?
  - Do you monitor your accounts frequently?

Be Realistic

- Recognize that investment markets gain and lose value in recurring cycles
- Remember that if you use only insured accounts your return will be limited
- Evaluate what you can responsibly expect to earn from various types of investments

Performance History

- Type of investment and average annual return (1926-2017)
  - Large company stocks
    - 10.2%
  - Small company stocks
    - 12.1%
  - Government bonds
    - 5.5%
  - Treasury Bills
    - 3.4%
  - Inflation
    - 2.9%
- Source: Morningstar Fundamentals for Investors

Asset Allocation

Let every man divide his money into three parts, and invest a third in land, a third in business, and a third let him keep in reserve.

Talmud (c. 1200 bc – 500 ad)

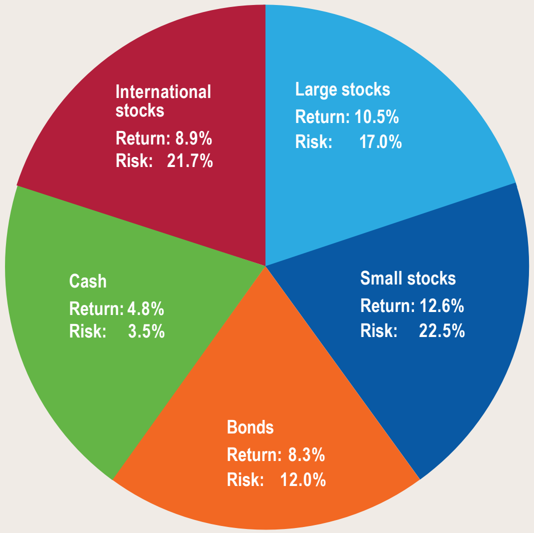
Asset Allocation

- Asset allocation is an investment strategy that can help control risk without reducing the potential for a strong return
  - Invest in several asset classes at the same time
    - Stock and stock funds
    - Bonds and bond funds
    - ETFs – Exchanged traded funds
    - Cash Equivalents
  - Divide principal among asset classes on a percentage basis

A Diversified Portfolio: Sum of the Parts

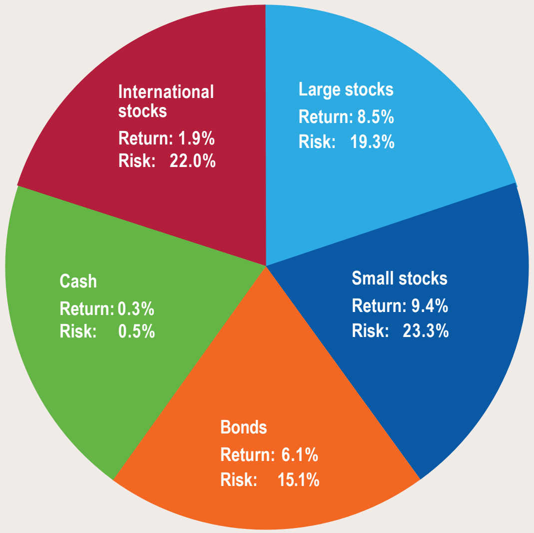
Risk and return characteristics

1970–2017



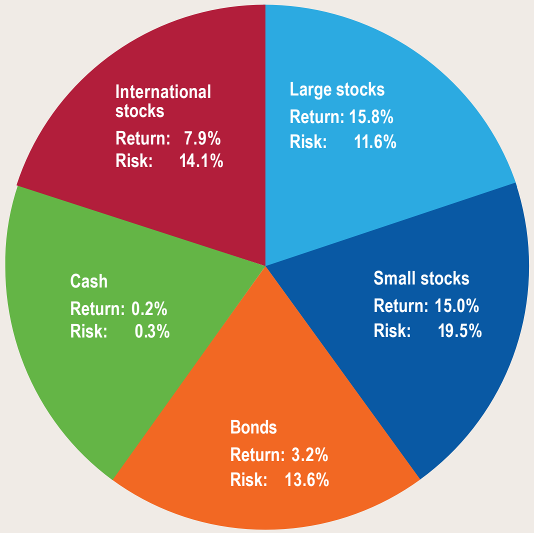
Total portfolio
Return: 9.8%
Risk: 10.6%

Past 10 years 2008–2017



Total portfolio
Return: 6.3%
Risk: 10.3%

Past 5 years 2013–2017



Total portfolio
Return: 8.9%
Risk: 6.8%

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Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Diversification does not eliminate the risk of experiencing investment losses.

MORNINGSTAR®

Asset-Class Winners and Losers

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Highest return	28.6	29.8	21.5	22.8	17.8	60.7	20.7	14.0	26.9	11.6	25.9	32.5	31.3	27.1	18.2	45.1	24.7	1.4	25.6	25.6
	20.3	27.3	5.9	3.8	1.6	39.2	18.4	7.8	16.2	9.9	1.6	28.1	15.1	2.9	17.9	32.4	13.7	0.0	12.0	21.8
	13.1	21.0	0.1	3.7	−6.3	28.7	11.9	7.1	15.8	5.5	−17.9	26.5	13.0	2.1	16.0	23.3	7.4	−0.4	8.2	13.1
	11.9	14.8	−3.6	−0.6	−13.3	26.2	10.9	5.7	13.0	5.3	−36.7	14.4	10.1	0.0	11.1	17.6	2.9	−0.6	1.8	11.2
	4.9	4.7	−9.1	−11.9	−15.7	1.4	8.5	4.9	4.8	4.7	−37.0	0.1	8.2	−3.3	3.4	0.0	0.0	−0.7	1.5	6.2
Lowest return	−7.3	−9.0	−14.0	−21.2	−22.1	1.0	1.2	3.0	1.2	−5.2	−43.1	−14.9	0.1	−11.7	0.1	−12.8	−4.5	−3.6	0.2	0.8

•Small stocks •Large stocks •International stocks •Long-term government bonds •Treasury bills •Diversified portfolio

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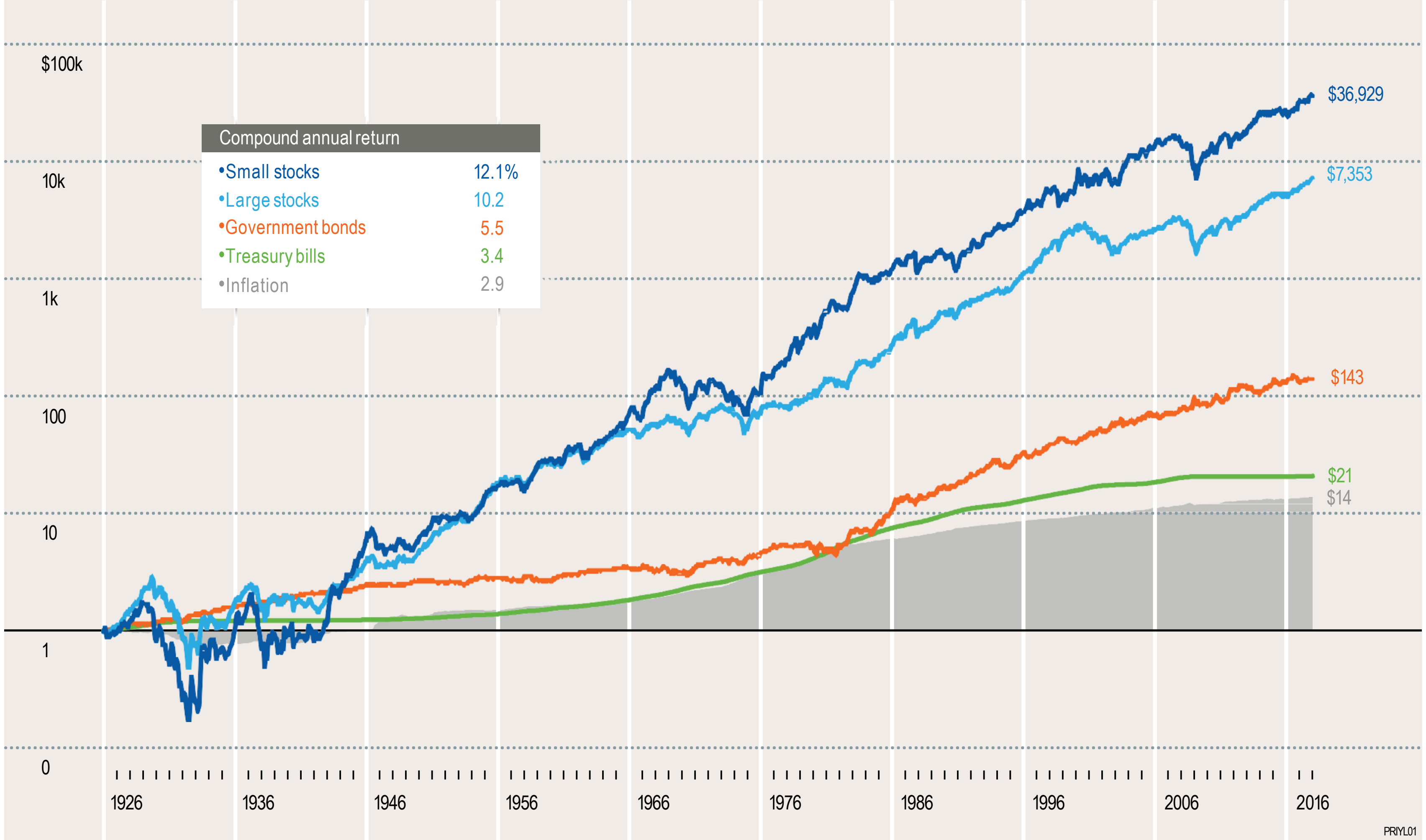
Ibbotson® SBBI®

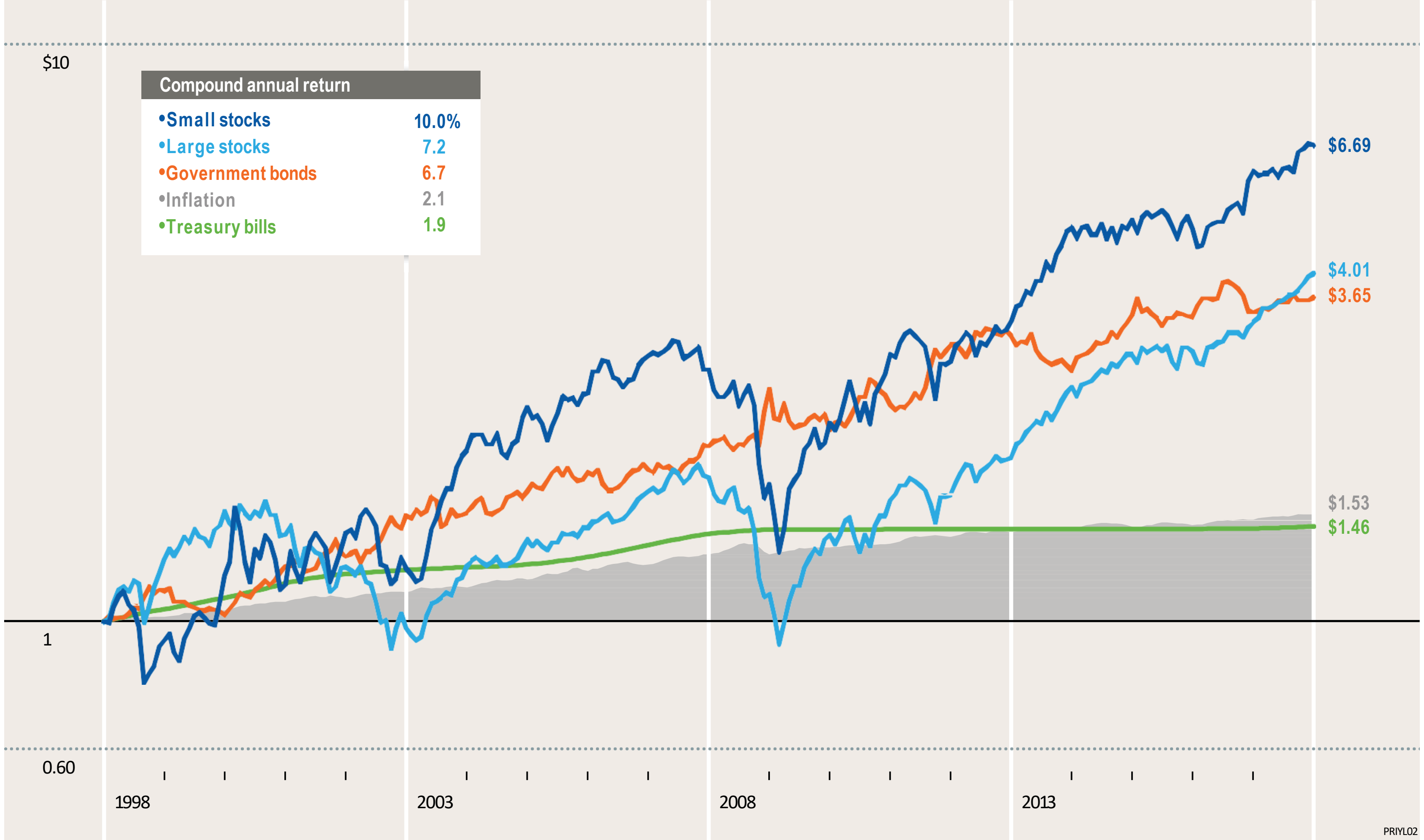
Stocks, Bonds, Bills, and Inflation 1926–2017



Past performance is no guarantee of future results. Hypothetical value of $1 invested at the beginning of 1926. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

Ibbotson® SBBI®

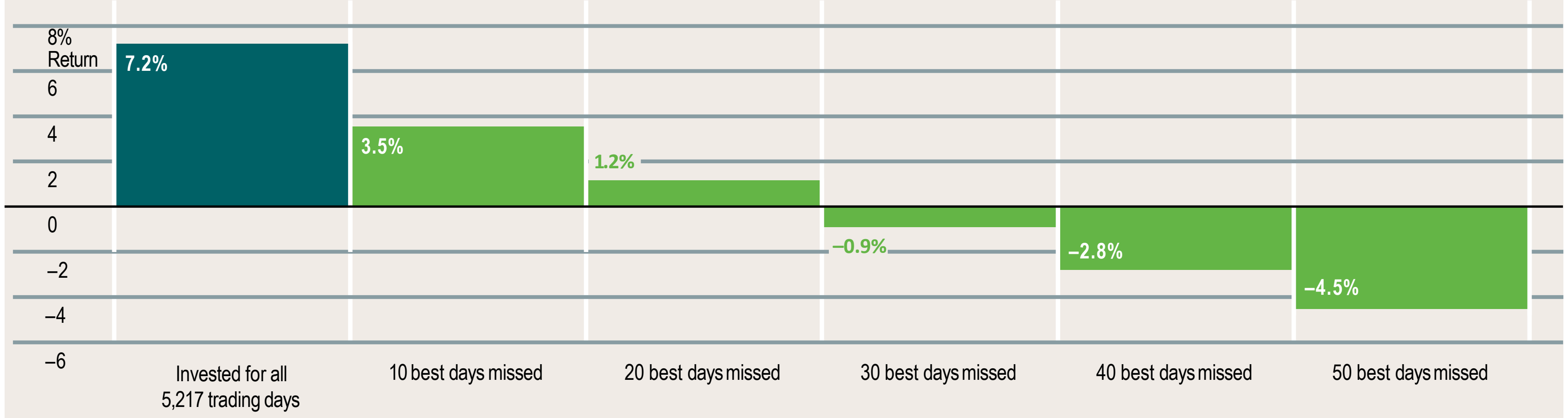
Stocks, Bonds, Bills, and Inflation 1998–2017

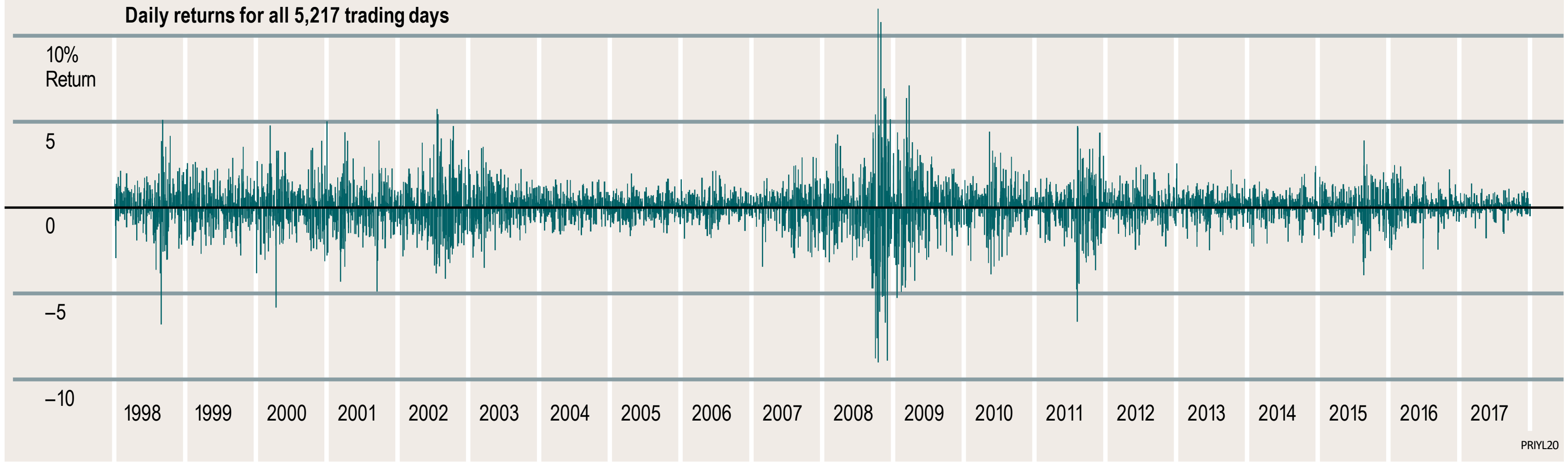


Past performance is no guarantee of future results. Hypothetical value of $1 invested at the beginning of 1997. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

The Cost of Market Timing

Risk of missing the best days in the market 1997–2017





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Putting Asset Allocation to Work

- Allocate by time horizon and risk tolerance
  - Younger investors can typically take more investment risk and allocate more to stocks and stock funds
  - Older investors typically wish to take less risk and increase allocation to bonds and bond funds

- However, there are always exceptions to the rule!

Diversification

- Diversification is an investment strategy that can help control risk without reducing the potential for a strong return
  - Choose different investments within an asset class
  - Each subclass performs differently
  - Gains in some may offset losses in others

Putting Diversification to Work

- Spread principal within each asset class
  - Large and small company bonds
  - Long and short term bonds
- Consider a combination of individual securities, mutual funds and exchange traded funds
- Weigh each new investment for the diversification it adds

Choosing Investments

- Identify investments that have potential to deliver average annual return you seek
  - Do your research
  - Work with your financial professional
- Choose among suitable investments that fit into your asset allocation and diversification plans

Investment Mistakes to Avoid

- Don’t concentrate on one or two investments
- Don’t put money into investments you don’t understand
- Don’t overload on company stocks
- Don’t chase “hot” performance
- Watch your expenses

Investment Approaches that Work

- Start investing early
- Invest regularly and automatically
  - Dollar cost averaging
  - Direct deposit from paycheck
- Stay in the Market

The Time Value of Money

- Invest $10,000 with an average annual return of 8%
  - 10 years = $21,589
  - 20 years = $46,610
  - 30 years = $100,627

Manage Your Investments

- Pay attention to investment expenses
- Be aware of taxes, but don’t let them dictate your investment strategy
  - Are you being tax efficient?
- Monitor your investment strategy to stay on target
- Rebalance your portfolio as needed to keep it aligned with your intended asset allocation

Investment Plans Evolve

- Your investment goals change
- Your attitude toward risk and return changes
- Your financial situation changes
- The economic situation changes
- You become a more experienced investor

Looking Forward

- Investing is a voyage of discovery
- Individual mistakes are not fatal
- Learning from experience is essential
- Professional expertise can help you make decisions
- Your situation is unique
- You are ultimately responsible for your investment results

Why is Good Credit Important

- Getting a job
- Renting a home
- Buying a home
- Getting a credit card
- Buying a car
- Insurance

What is in the Credit Report

- Your identifying information
- A report containing your credit history
- A list of inquiries
- A report containing information about you in public records

What is not in the credit report

- Checking and savings account balances
- Income
- Medical history
- Purchases made with cash or check
- Business account information
- Race, gender, religion, or national origin
- Driving record

How do I get my Credit Report

- www.annualcreditreport.com
- Some banks will also run them for a nominal fee
- Some of your credit cards may report your score

What is a Credit Score

- The most commonly used score is the FICO Score
- FICO scores range from 300-850
- What is in the score
  - How the score is calculated
    - Payment history – 35%
    - Debt - 30%
    - Credit history length – 15%
    - New credit – 10%
    - Credit Mix – 10%
- www.myfico.com – there is a fee
- Free scores
  - Credit Karma, Credit Sesame, Quizzle

How can I improve my credit score

- Don’t close old credit cards
- Pay your bills on time
- Get current on your bills and stay current
- Keep balances low on credit cards and other “revolving credit”
  - How about a zero balance?
- Pay down outstanding debt rather than moving the balance around between cards
- Don’t shop for or open new credit cards or loans that you don’t need

How to compare credit card offers

- Annual Percentage Rate (APR)
- Periodic Rate
- Annual Fee
- Grace period
- Finance charges
- Other fees

Resources

- CalCPA – Resources/Financial Literacy
  - https://www.calcpa.org/public-resources/financial-literacy
  - Financial Empowerment Podcasts
- 360 Degrees of Financial Literacy
  - https://www.360financialliteracy.org/
  - Ask The Money Doctor
- Federal Trade Commission
  - https://www.consumer.ftc.gov/
  - Money & Credit
  - Free Credit Report