



MIND your MONEY
Smart investing@your library®

A financial literacy program of the
Huntsville-Madison County Public Library



LIBRARY
CREATE. EXPLORE. CONNECT.

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MIND your MONEY
Smart investing@your library®

- Practical Steps to Building Wealth
- Net Worth & Basic Investment Options
- Principles of Investing
- **Creating and Managing a Portfolio**

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What do you know so far?

- Basics about stocks and bonds
- Diversify, diversify, diversify!
- Mutual funds provide immediate diversification.
- Allocate your money across stocks, bonds, and cash based on your risk.
- Take advantage of tax-sheltered investments and employer matches.

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So what do you do now?

- Determine risk tolerance
- Decide on asset allocation
- Create a portfolio
- Hold for the long term
- Rebalance



Risk Tolerance

- Let's check your risk tolerance.
 - Loss of principal.
 - Volatility.
 - Long-term expected gain.
- Why is knowing your risk tolerance important?



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Risk Tolerance Tools

- FINRA Investor Knowledge
 - <http://www.finra.org/Investors/ToolsCalculators/P116940>
- Risk Tolerance Quizzes
 - <https://njaes.rutgers.edu/money/riskquiz/>



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So what do you do now?

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Asset allocation rules of thumb

Asset	Allocation	Example 30
Cash	5%	5%
Bonds	difference	15%
Stocks	<u>110-your age</u>	<u>80%</u>
Total	100%	100%

<http://monevator.com/asset-allocation-strategy-rules-of-thumb/>

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Asset allocation rules of thumb

- **The Tim Hale 'target date' rule of thumb**
 - Used to control risk to reach shorter-term goals
 - Hold 4% in stocks for each year between now and your target date

<http://monevator.com/asset-allocation-strategy-rules-of-thumb/>

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Asset allocation rules of thumb

- The maximum loss rule of thumb

Maximum loss you can tolerate	Maximum % of stock
5%	20%
10%	30%
20%	50%
30%	70%
40%	90%
50%	100%

<http://monevator.com/asset-allocation-strategy-rules-of-thumb/>

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Asset allocation rules of thumb

	Conservative	Moderate Conservative	Moderate	Moderate Aggressive	Aggressive
U.S. Equity	15.00%	30.00%	41.00%	52.00%	61.00%
Non-U.S. Equity	5.00%	11.00%	17.00%	23.00%	30.00%
Fixed Income	67.00%	49.00%	36.00%	25.00%	9.00%
Cash Equivalents	13.00%	10.00%	6.00%	0.00%	0.00%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

These are considered optimal allocations but they change over time.

<http://www.sectorspdr.com/sectorspdr/tools/ibbotson-models>

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Allocation over time

Typical recommended allocation for a person in their 40s or under



- 40% Large cap stocks
- 15% Small cap stocks
- 25% International stocks
- 20% Bonds
- 0% Money market

Typical recommended allocation for a person in their 50s



- 30% Large cap stocks
- 10% Small cap stocks
- 20% International stocks
- 40% Bonds
- 0% Money market

Typical recommended allocation for a person in their 60s



- 15% Large cap stocks
- 5% Small cap stocks
- 10% International stocks
- 65% Bonds
- 5% Money market

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So what do you do now?

✓ Determine risk tolerance

✓ Decide on asset allocation

- Create a portfolio
- Hold for the long term
- Rebalance



Create a portfolio!

- Select a mutual fund family.
 - What is a family?
 - Can you think of examples?
 - Use FINRA and Morningstar to select a family
 - Advantages

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Create a portfolio!

- How to select a mutual fund family?
 - Look at performance history
 - No-load funds (no commissions)
 - Low management fees
 - No 12b-1 fees

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Create a portfolio!

- Set up account on-line or download, fill out, and mail application.
- Read the prospectus!!!
- Transfer money from checking account or write and mail check.
- Indicate asset allocation.
- Confirm receipt of funds.

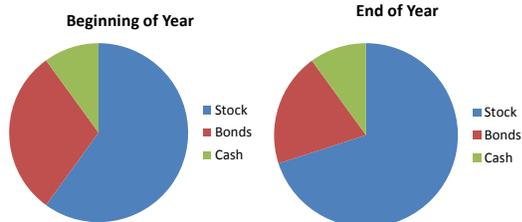
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So what do you do now?

- ✓ Determine risk tolerance
- ✓ Decide on asset allocation
- ✓ Create a portfolio
- ✓ Hold for the long term
- ✓ Rebalance



Rebalance



Target funds

- Overwhelmed?
- Let target fund allocate and rebalance for you





Do I need an investment advisor?

How do I get one?

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On-line brokers

- Trades are easy
- Investing is not
- Can you think of some on-line brokers?
- Questions to ask
 - Delays
 - Types of orders
 - Access



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Potential team members

- Investment Advisors
- Stock Brokers
- Financial Planners

- CPA
- CFA
- CFP

Check the
"letters" at
FINRA link below

<http://www.finra.org/Investors/ToolsCalculators/ProfessionalDesignations/DesignationsLookup/>

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Check up on professionals

- Use FINRA [BrokerCheck](#) to make sure that the investment professionals and their firms are properly registered.
- Talk with several professionals. Ask about their:
 - Registrations or licenses
 - Areas of specialization
 - Products and services
 - Investment experience
 - Professional credentials

<http://www.finra.org/Investors/ToolsCalculators/BrokerCheck/>

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Check up on professionals

- How do they get paid?
 - An hourly fee
 - A flat fee
 - A commission on the investment products they sell you
 - A percentage of the value of the assets they manage for you
 - A combination of fees and commissions.

<http://www.finra.org/Investors/ToolsCalculators/ProfessionalDesignations/Selecting/>

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Good questions for financial planner



- What are your credentials?
- How long have you been in the financial planning field?
- May I see a sample financial plan?
- What services do you offer?
- What are your fees?
- Will there be a written contract?

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Avoid investment fraud



- Cold calling
- Internet fraud
- Pump and dump scam
- Pyramid scheme
- Affinity fraud

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Alabama Securities Commission



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- Assess risk tolerance.
- Allocate your money across stocks, bonds, and cash based on your risk. Rebalance.
- Take advantage of tax-sheltered investments and employer matches.
- Select financial advisor with care.

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Research

- Use your Huntsville/Madison County Library resources to research specific investments



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- Add library slides here
- Start with mutual funds then move to stocks and then to bonds (if time).

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For more details on Mind Your Money plus financial tips,
visit <http://hmcpl.org/mym> and
<https://www.facebook.com/mindyourmoneyhmcpl>