



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



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- 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



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## 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://njges.rutgers.edu/money/riskquiz/>



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## So what do you do now?

### ✓ Determine risk tolerance

- Decide on asset allocation
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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.secterspdr.com/secterspdr/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
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## 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




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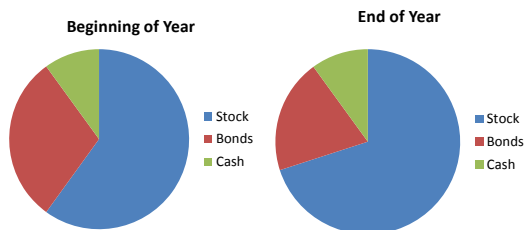
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## Rebalance




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## Target funds

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



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**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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- Mutual funds provide immediate diversification.
- 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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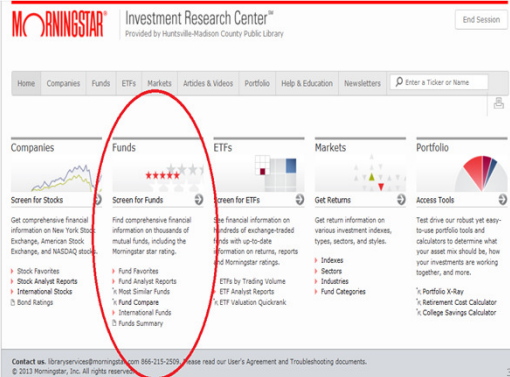
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Begin at the Morningstar home screen to locate the **Funds** section. You will find these options: **Screen for Funds**, **Fund Favorites** and **Fund Analyst Reports**.




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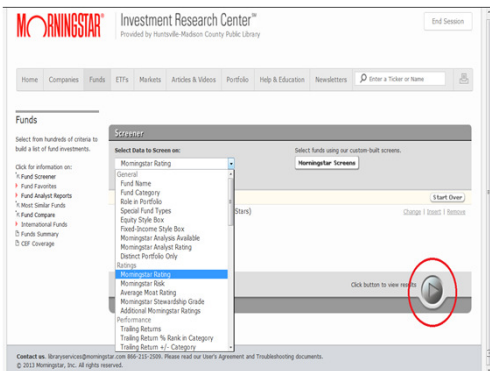
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After selecting **Screen for Funds**, the screener tool will load. Select the drop-down menu to choose the data criteria for the funds you want to examine, such as **Morningstar Rating** and then select the arrow button.




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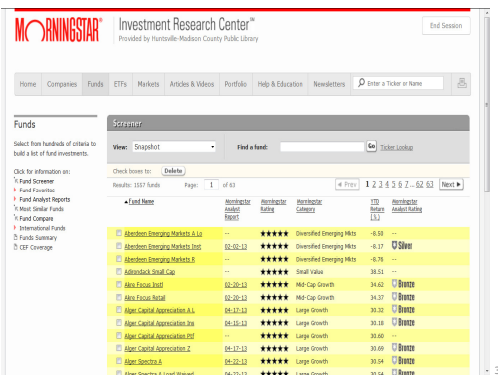
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A result list will display. Next navigate to the fund of your choice & select the fund link to get performance details on the funds.




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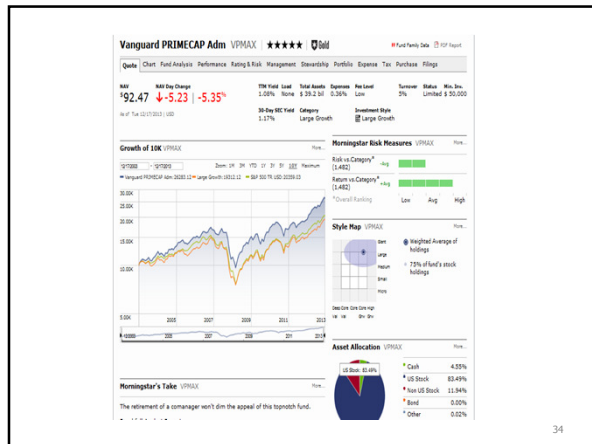
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Another option of the *Fund Screener* is the predefined options provided by the custom-built screen tool. Select the *Morningstar Screens* button for a drop-down menu of criteria options & select the criteria & select open & the select the arrow button.

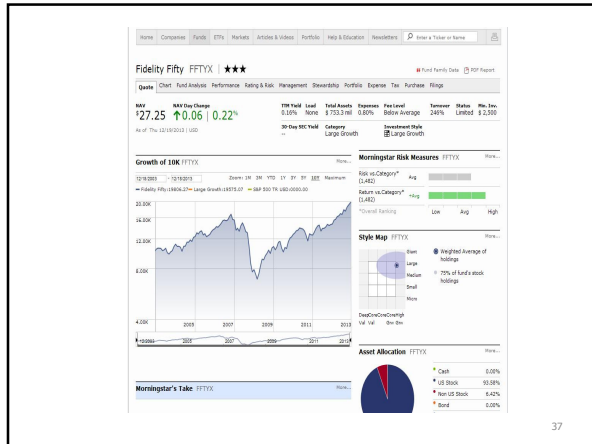
The screenshot displays the Morningstar Fund Screener interface. On the left, there is a sidebar with navigation links: 'Fund Screener', 'Fund Favorites', 'Fund Analyst Reports', 'Most Similar Funds', 'Fund Compare', 'International Funds', 'Funds Summary', and 'CFR Coverage'. The main area is titled 'Screen' and contains a 'Select Data to Screen on:' dropdown menu with 'Fund Name' selected. Below this is a link for 'Search for Data Points | Data Definitions'. A table with columns 'Matches' and 'Screen:' is visible. On the right, there is a 'Select funds using our custom-built screen' dropdown menu with 'Morningstar Screens' selected. A red arrow points to this dropdown. Below it, a 'Select Screen:' dropdown menu is open, showing a list of predefined screens: 'Solid Large-Growth Funds', 'Portfolio Anchors', 'Atlantic Stars', 'Small and Mid-Cap', 'Hidden Gems', 'Top 100 Growth Funds', 'Solid Mid-Growth Funds', 'Below-Foreign Returns', 'Conservative Foreign Funds', 'Great Funds', 'Handful More National Funds', and 'Investment Funds with High Expense Ratios Greater Than 1% of Assets'. A red circle highlights the 'Select' button at the bottom right of the screen. A red arrow points to the 'Select' button. The bottom of the screen shows a 'Number of funds that pass your screen' and a 'Open' button.

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**A result list will display. Next navigate to the fund of your choice & select the fund link to get performance details on the funds.**






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<https://www.facebook.com/mindyourmoneyhmcpl>



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