



# Investing Fundamentals

Developed by Mark B. Robinson CIMA® AIFA®

## ■ You'll Learn About:

- Risk and Return: Cash, Bonds and Stocks
- Reducing Risk: Asset Allocation and Diversification
- Investment Scams and Fraud

15 question quiz at the conclusion

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## ■ Cash: Risk and Return

- Low-risk asset with low return

Examples include:

- 13-week T-bills
- Savings accounts
- Money market funds

## ■ Bonds: Risk and Return

- Higher risk than cash and typically higher returns than cash when measured over multiple-decade periods.

- Two risks:

  - Interest-rate risk

  - Credit risk

## ■ Interest Rate Risk

- As interest rates rise, the price of existing bonds generally decline in value
- As interest rates decline, the price of existing bonds generally rise in value

## ■ Credit Risk

- Credit Risk: deterioration in the financial condition of the issuing corporation or government entity
- Default Risk: inability of the company to make interest payments or repay the loan

## ■ Credit Risk and Return

- Government bonds: lowest credit risk and historically lower returns
- High-quality corporate bonds: higher credit risk than government bonds and historically higher returns than government bonds
- Lower-quality corporate bonds or “junk” bonds: higher credit risk than high-quality corporate bonds and generally higher returns



**Which is the more correct statement?**

**A**

As interest rates rise, the price of existing bonds generally decline in value.

**B**

As interest rates decline, the price of existing bonds generally decline in value.

 Which has less “credit risk”?

**A** Short-term U.S. Government bonds

**B** Lower-quality or “Junk” corporate bonds

## ■ Stocks: Risk and Return

- Higher risk than bonds with generally higher returns when measured over multiple-decade periods.

### Market Cap:

- Small Cap: \$300 million to \$2 billion
- Mid Cap: \$2 billion to \$10 billion
- Large Cap: \$10 billion to \$100 billion
- 'Mega' Cap: \$100 billion and over

## ■ **Stocks: Risk and Return**

- Domestic large cap: generally the lowest risk among stock categories.
- Domestic small cap: historically higher risk than domestic large cap and historically higher returns.
- Foreign-based companies: generally higher risk than domestic stocks (especially for companies in emerging markets) and the potential for equal or higher rates of return.

 Which has the potential for higher long-term returns?

- A** Domestic large cap stocks
- B** Short-term, high-quality corporate bonds
- C** Money market funds



**Which stock category is potentially less risky?**

**A** Emerging markets stocks

**B** Domestic small cap stocks

**C** Domestic large cap stocks

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## ■ Risk

### ■ Three general risks:

- Systematic or overall market risk
- Sector / industry risk
- Company-specific risk

## ■ Asset Allocation

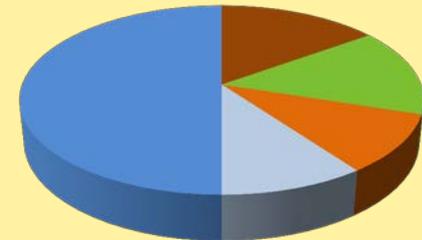
Allocating across asset classes reduces a portfolio's exposure to the risks common to an entire class.

**Asset Classes**



**Asset Allocation**

- Stocks
- Bonds
- Cash
- Real estate
- Commodities



The above example allocation is hypothetical and for educational purposes only. Asset allocation and diversification do not guarantee investment returns and do not eliminate the risk of significant loss.

## ■ **Asset Allocation: Examples of What You Need to Take Into Consideration**

- Your investment goal: what is it?
- Your time horizon: how much time you have to reach your goal?
- Your risk tolerance: how much risk you are willing to take, or how much risk should you avoid?



**What are examples of what you need to take into consideration when allocating your money?**

**A** My goals

**B** My goal's time horizon

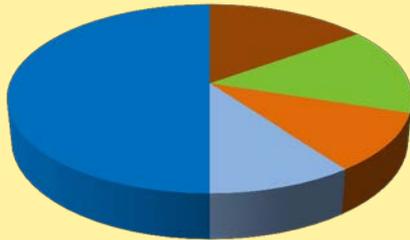
**C** My tolerance for risk

**D** All of the above

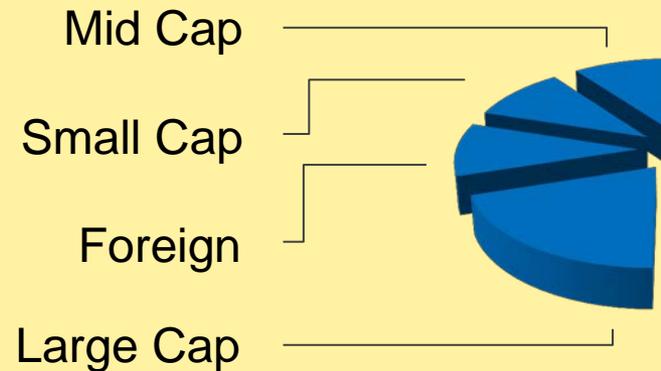
## ■ Diversification

Diversifying within an asset class reduces exposure to risks associated with a particular company, sector, or segment.

**Asset Class: Stocks**



**Diversification**



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Diversification isn't about adding more investments to your portfolio. It's about reducing 'sameness' among your investments.



**Which allocation my offer better diversification?**

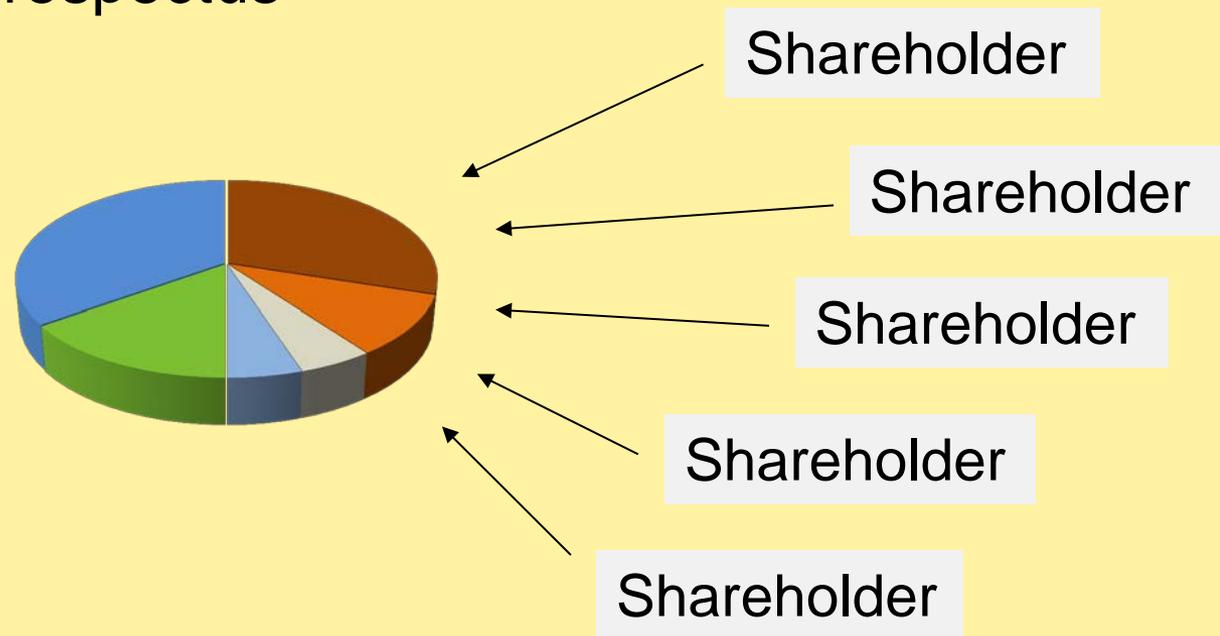
- A** 90% large cap stocks, 5% mid cap stocks and 5% small cap stocks
- B** 50% large cap stocks, 10% foreign stocks and 30% corporate bonds and 10% U.S. Treasuries
- C** 80% corporate bonds, 10% Treasury bills and 10% cash

## ■ **Ways to Invest in Stocks and Bonds**

- Individual stocks and bonds
- Mutual funds
- Exchange traded funds or ETFs

## ■ Mutual Fund

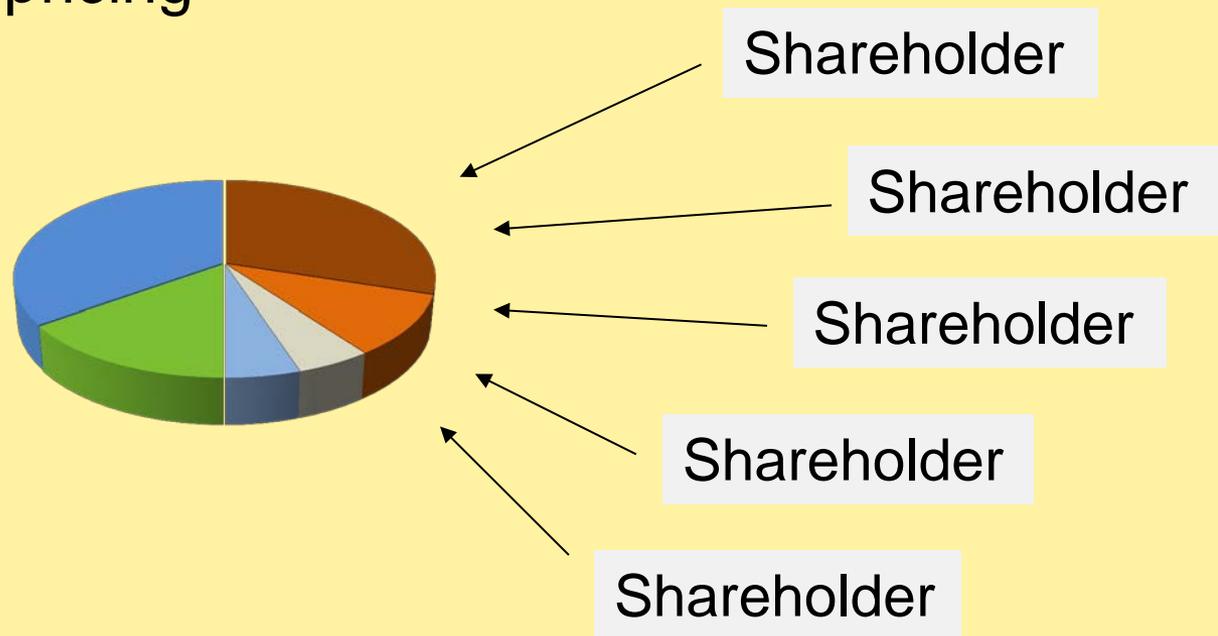
- Invests in a basket of securities
- Stated investment objective
- Priced at the market close
- Sold by prospectus



Mutual funds are not FDIC insured, offer no bank guarantee, may lose value, are not insured by any federal government agency and are not a deposit. Investing in mutual funds involves considerable risks including the loss of principal. Prior to investing, consider your investment objectives and risk tolerance, understand the risks associated with each investment, and carefully read all prospectuses or equivalent disclosure statement(s). The market indexes referenced above are unmanaged and are composed of individual stocks and/or bonds. An investment cannot be made directly into an index.

## ■ Exchange Traded Fund or ETF

- Invests in a basket of securities
- Broad-market indices, sectors, themes
- Purchase like a stock
- Intra-day pricing



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## ■ Diversification and Risk Reduction

- A broadly-diversified mutual fund or ETF can help minimize sector and company-specific risk

- Systematic or Market Risk

- Industry or Sector Risk

- Company-specific Risk



**If you were invested 100% in the stock market, which investment would generally be considered less risky than the others?**

**A**

Broadly-diversified large cap stock mutual fund

**B**

“Sector” or “Specialty” mutual fund

**C**

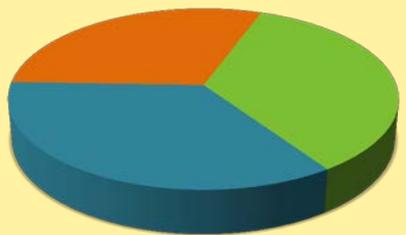
One individual stock



# Which example asset allocation may be considered more appropriate?

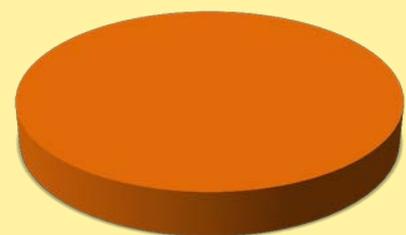
“I have to make a down payment in 13 months and I want to take as little risk as possible with my money.”

35% Stocks  
35% Bonds  
30% Cash



**A**

0% Stocks  
0% Bonds  
100% Cash or equivalents



**B**

The above example allocations are for educational purposes and may not be suitable for you. These example allocations do not constitute professional investment advice or a recommendation to pursue a specific investment strategy. Asset allocation and diversification do not guarantee investment returns and do not eliminate the risk of significant loss.



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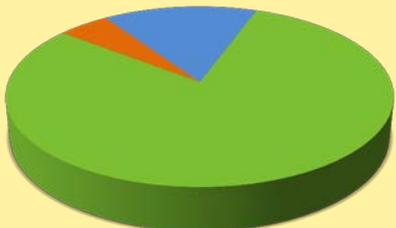
“I’m in my 30s and my goal is to grow my money over the long term. I’m willing to assume a lot of risk to meet my goal.”

25% Stocks  
25% Bonds  
50% Cash



**A**

80% Stocks  
15% Bonds  
5% Cash



**B**

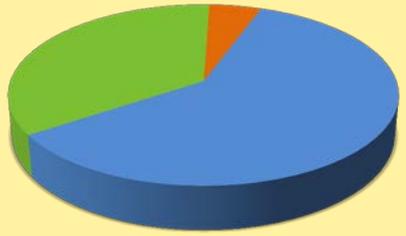
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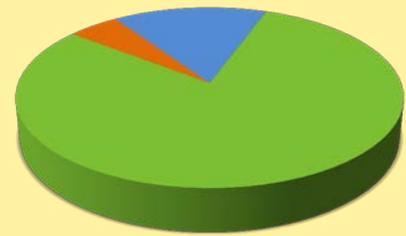
“I’m in my late 60s and my goal is to take income from my investments while having some potential for growth over the long term.”

35% Stocks  
60% Bonds  
5% Cash



**A**

80% Stocks  
15% Bonds  
5% Cash



**B**

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 Some types of investments are better suited for shorter-term goals and others may be better suited for longer-term goals.

**A** True

**B** False

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## ■ Target

- 45 to 70 years of age
- Financially-literate and educated
- Above-average income and confident

## ■ Tactics

- Persistency
- Create credibility, scarcity and urgency
- Get to know you personally
- Persuasive and disarming

## ■ **Ways to Protect Yourself**

- Read all disclosure documents
- Seek advice from an independent source
- Be skeptical and ask questions
- Never write a check payable to the salesperson

## ■ 'Red Flags'

- "Guaranteed returns!"

- "Double your money!"

- "No risk!"

- "Can't miss opportunity!"

- "Must act now!"

## ■ Popular Ways the Public is Defrauded

- Short-term promissory notes
- Prime bank investments
- Offshore investments to avoid taxes
- Nigerian advance fee letters



**An investment is likely to be legitimate if:**

- A** The salesperson has a friendly facebook page
- B** The company name sounds prestigious and the sales literature is high quality
- C** Other investors have made quick money
- D** None of the above

## ■ **Where to Turn:**

If any investment opportunity sounds “too good to be true”, it probably is. Before you invest, contact:

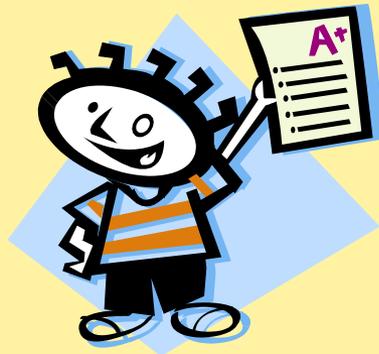
■ **DIFS 877-999-6442**

■ **LARA-Securities 517-241-6345**

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It's quiz time!





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Reinventing MI Retirement

## Q & A