US Debt Clock

http://www.usdebtclock.org/
Portrait of a Millionaire

- Average income is approximately $250,000; Median income is approximately $131,000.
- 97% are homeowners. Current market value is approximately $320,000; 50% in same house for 20 years.
- 80% are first generation affluent.
- 50% of wives work outside the home. Of those, teacher is the number one occupation.
- Wives are meticulous budgeters.
Millionaire Portrait - continued

- Only 17% attended private elementary and high schools.
- 50% spend less than $399 for suits, 75% spend less than $199 for shoes.
- 81% purchase their cars; 46% buy new or last year’s model; only a minority ever lease a vehicle.
- They are fastidious investors. They average 20% of household real income, but at least 15%.
What’s Your Investment Mix?

- The right blend is the key to retirement planning
  - Asset allocation is the strategy of diversifying your account over a variety of asset classes (investment categories) or investments. It’s based on the principle that your investments in various asset classes will likely react to changing market trends in different ways. For example, while one investment may decline in value due to market fluctuation, another investment may simultaneously increase in value and offset the decline.
  - Asset allocation may help you reduce your overall risk and increase your potential for returns. In fact, studies show that asset allocation is the primary driver of portfolio performance.
How money is allocated among asset classes can be more significant to performance than the selection of individual securities within the asset class.

This chart illustrates the findings of a study conducted on the performance results of some of the nation’s largest pension funds. The study found that over 93% of the variation in total plan return can be explained by asset allocation.

Theoretical Return and Risk Chart

- Money Market
- Short Duration Bonds
- Intermediate Duration Bonds
- Municipal Bonds
- Global Bonds
- High Yield Bonds
- International Bonds
- Real Estate
- Large Cap Value Equity
- Large Cap Core Equity
- Global Equity
- Small/Mid Cap Value Equity
- Small/Mid Cap Growth Equity
- Emerging Markets Bond
- Emerging Markets Equity
- Venture Capital

Expected Risk (Standard Deviation)

Expected Rate of Return
Range of Asset Allocation Models

Sample models with percentages

Conservative:
- 65% Domestic
- 15% Mid Cap
- 13% Small Cap
- 2% Stable Value/Money Market

Moderate Conservative:
- 65% Domestic
- 13% Mid Cap
- 10% Small Cap
- 15% Stable Value/Money Market

Moderate:
- 50% Domestic
- 24% Mid Cap
- 24% Small Cap
- 4% Stable Value/Money Market

Moderate Aggressive:
- 33% Domestic
- 35% Mid Cap
- 8% Small Cap
- 9% Stable Value/Money Market

Aggressive:
- 25% Domestic
- 22% Mid Cap
- 11% Small Cap
- 10% Stable Value/Money Market

International:
Approved Investment Structure on a Risk/Return Spectrum

1 Qualified Default Investment Alternative (QDIA).
Reasons for Companies to Sell Common Stocks

- To raise money (capital) for start-up cost, expansion, and/or ongoing business activities
- No repayment required (unlike debt)
- Dividends (returns) are not mandatory
Reasons for Investors to Buy Common Stocks

- Owners of the company have a claim on the company’s cash flow

- Financial Return
  - Dividend income in cash or additional shares
  - Dollar appreciation by selling stocks which have increased in value
Classification

- Large Cap: More than $10 billion in market capitalization
- Mid Cap: Between $2 billion to $10 billion
- Small Cap: Between $300 million and $2 billion
- Micro Cap: Between $50 million to $300 million
- Penny Stock: Trades at a relatively very low price, usually outside of the major market exchanges
- Blue Chip: Well recognized, well-established and financially sound company

Beginning Guide to Investing
Classification (continued)

- Cyclical: Highly dependent on cycles of the economy

- Growth: Earnings are expected to grow at an above-average rate relative to the market

- Value: Pays regular, often steadily increasing dividends

*Value Stocks: “Growth stocks without the growth”*
Reasons for Companies to Issue Bonds (Debt)

- To get funds for start-up cost, expansion, and/or ongoing business activities
- Private companies which cannot sell stocks
- Interest paid is a tax deductible expense
Reasons for Investors to Buy Bonds

- Interest is generally paid twice a year (payments are based on the interest rate and the face value of the bond)
- In case of bankruptcy the bondholders’ claims are senior to stockholders’ claims
- Financial reward:
  - Fixed interest income
  - Sell bonds at a higher price if the interest rate on the bond is higher than the market rate
  - Bond face amount will be repaid at maturity
Types of Bonds

Government Bonds:
- Treasury Bills: matures in less than one year (4-, 13-, 26- or 52-weeks)
- Treasury Notes: matures in one to 10 years (2-, 5- or 10-years)
- Treasury Bonds: matures in more than 10 years (30 years+)
- Treasury Notes and Bonds pay interest every 6 months
- Usually safe, but like companies, countries can default on payments also

Municipal Bonds:
- Known as "munis", next in terms of risk (cities usually don't go bankrupt)
- Advantage - Returns are tax free (federal and state* (*in which issued))
Corporate Bonds:

- A short-term bond is less than 5 years
- An intermediate bond is 5-12 years
- A long-term bond is > 12 years
- Characterized by higher yields because of higher risk of a company defaulting than a government
- Company's credit quality/rating is very important: the higher the quality, the lower the interest rate (yield) the investor receives
- Variations on corporate bonds:
  - Convertible bonds: the holder can convert into stocks
  - Callable bonds: the company can redeem an issue prior to maturity
Investing in Mutual Funds

- Reasons to invest:
  - Basket of securities providing relative diversification
  - Professional management

- Financial rewards:
  - Income dividend: earnings paid to shareholders from dividends or interest income
  - Capital gains: sell shares at a price > purchase price
Exchange-traded funds (ETF): Funds that invest in a basket of stocks usually contained in a specific stock index

Load Fund: Charges a commission at the time of the fund's purchase, at the time of its sale, or as a "level-load" for as long as the investor holds the fund
No-Load Fund: Shares are sold without a commission or sales charge because the shares are distributed directly by the investment company, instead of going through a secondary party.
Fix Your 5 Biggest Money Mistakes

- Jumping in and out of stocks at the wrong time
- Taking “set it and forget it” to the extreme
- Thinking risk is Enemy No. 1
- Failing to plan for the long term
- Getting stuck in the past
Investing

- Fidelity
- CNN Money
- Market Watch
- Reuters
- Yahoo Finance
- E*Trade
- Bloomberg
- Morningstar
- Bankrate.com
- Basic.ESPlanner.com – (Retirement)