

# Why Personal Financial Planning Makes Sense

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# Introduction

- Session One: Managing Your Money
- Session Two: Protection
- **Session Three: Investments**



# Speaker

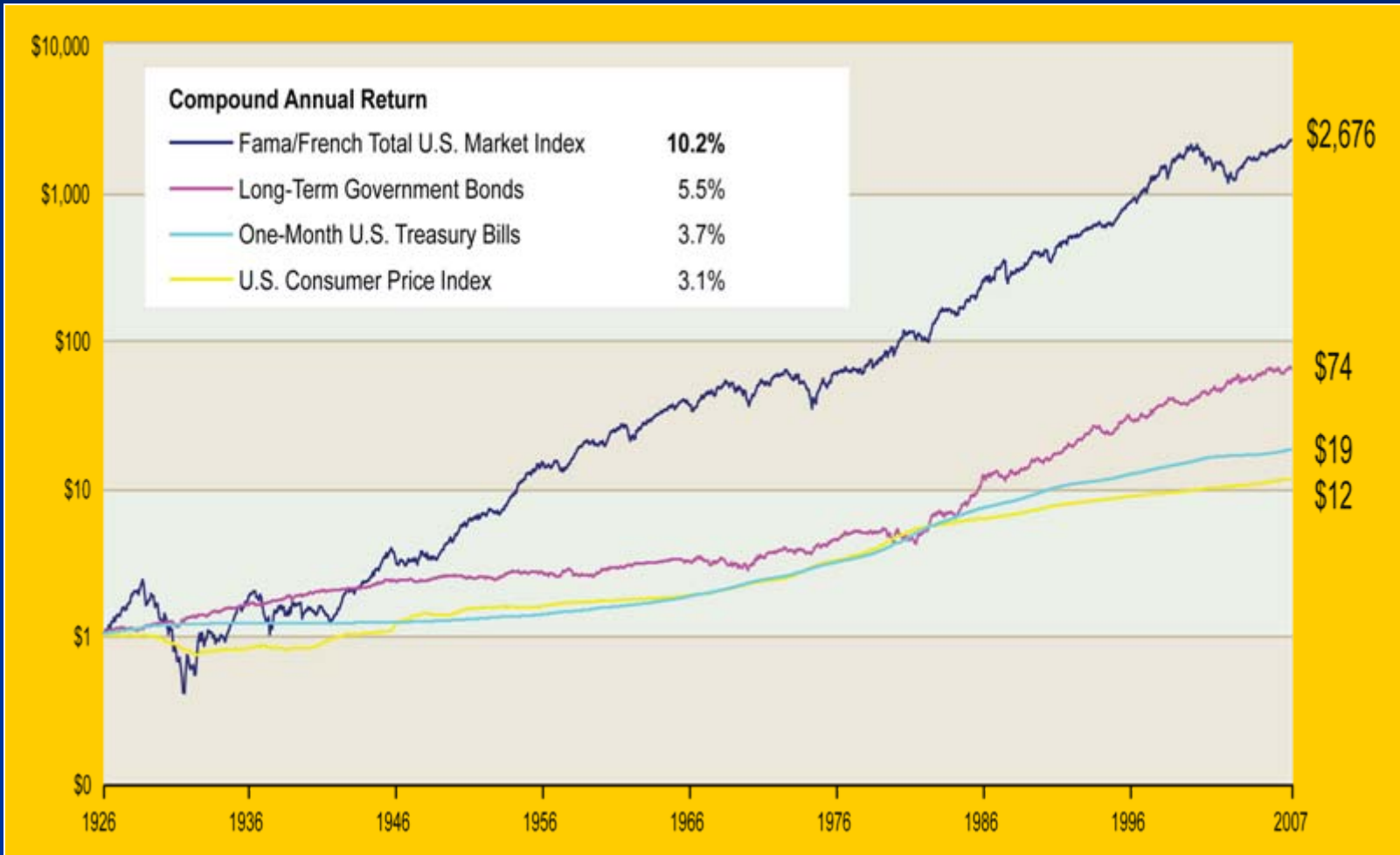
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# Investments



Risks associated with investing in stocks potentially include increased volatility (up and down movement in the value of your assets) and loss of principal. Indexes are unmanaged baskets of securities that investors cannot directly invest in. Past performance is no guarantee of future results. Hypothetical value of \$1 invested at the beginning of 1927 and kept invested through December 31, 2007. 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. Total returns in U.S. dollars. Long Term Government Bonds, One-Month US Treasury Bills, and US Consumer Price Index (inflation), source: Morningstar's 2006 Stocks, Bonds, Bills, and Inflation Yearbook (2007); Fama/French Total U.S. Market Index provided by Fama/French from Center for Research in Security Prices (CRSP) data. Includes all NYSE securities (plus Amex equivalents since July 1962 and NASDAQ equivalents since 1973), including utilities.



# Definitions

- Cash
- Fixed Income
- Equity



# Definitions

## Fixed Income

- Fixed Interest Accounts
- Bonds

Government Bonds

Corporate Bonds

Municipal Bonds

*Evidence that you own some of their debt*



# Definitions

## Equity

- Real Estate
- Oil Wells
- Timber
- Stocks

*Evidence that you own part of a company*



# Definitions

## Mutual Fund

A mutual fund is a company that brings together money from many people and invests it in stocks, bonds or other assets. The combined holdings of stocks, bonds or other assets the fund owns are known as its *portfolio*. Each investor in the fund owns shares, which represent a part of these holdings.

*US Securities and Exchange Commission*



# Mutual Fund



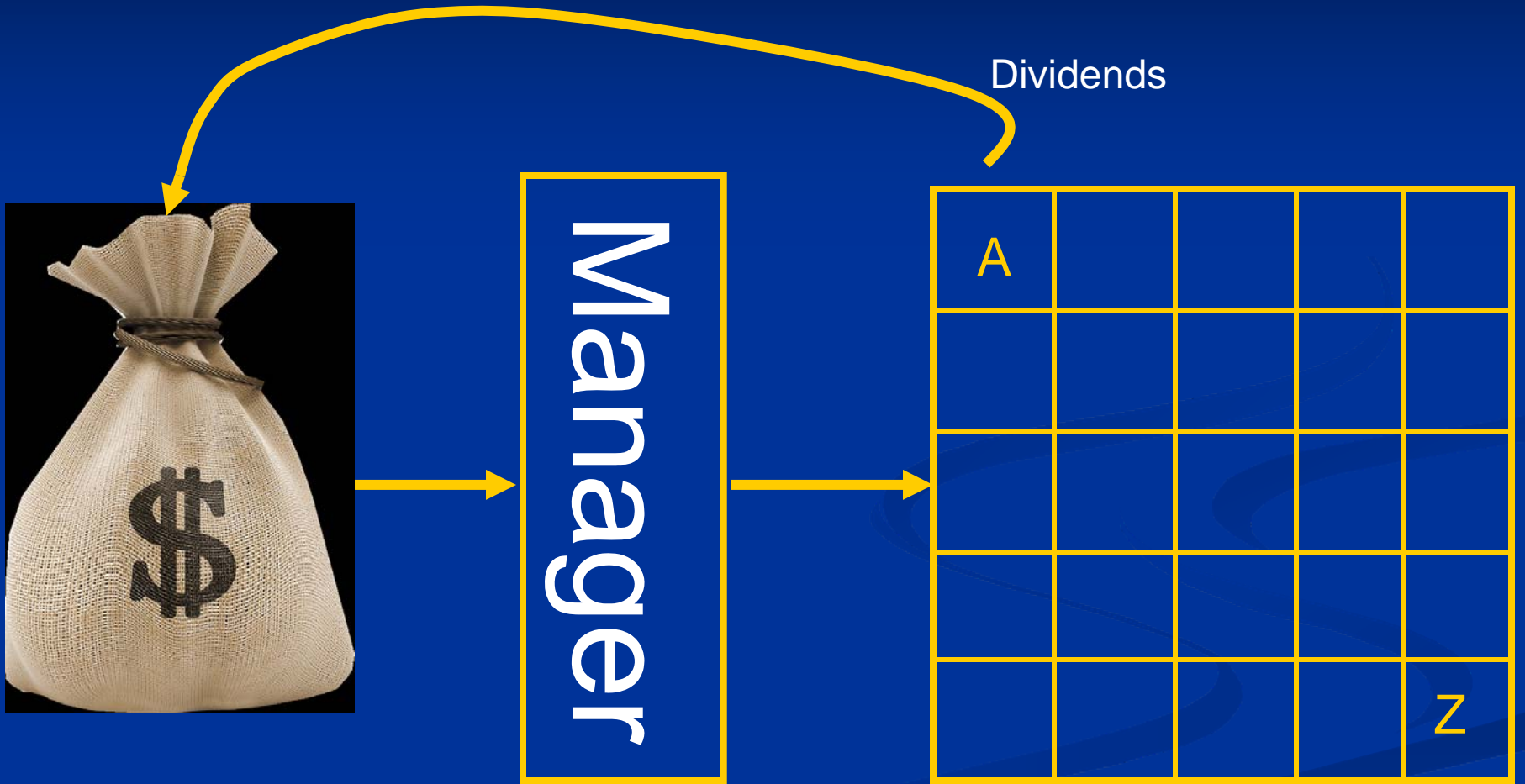
Manager



A				
				Z

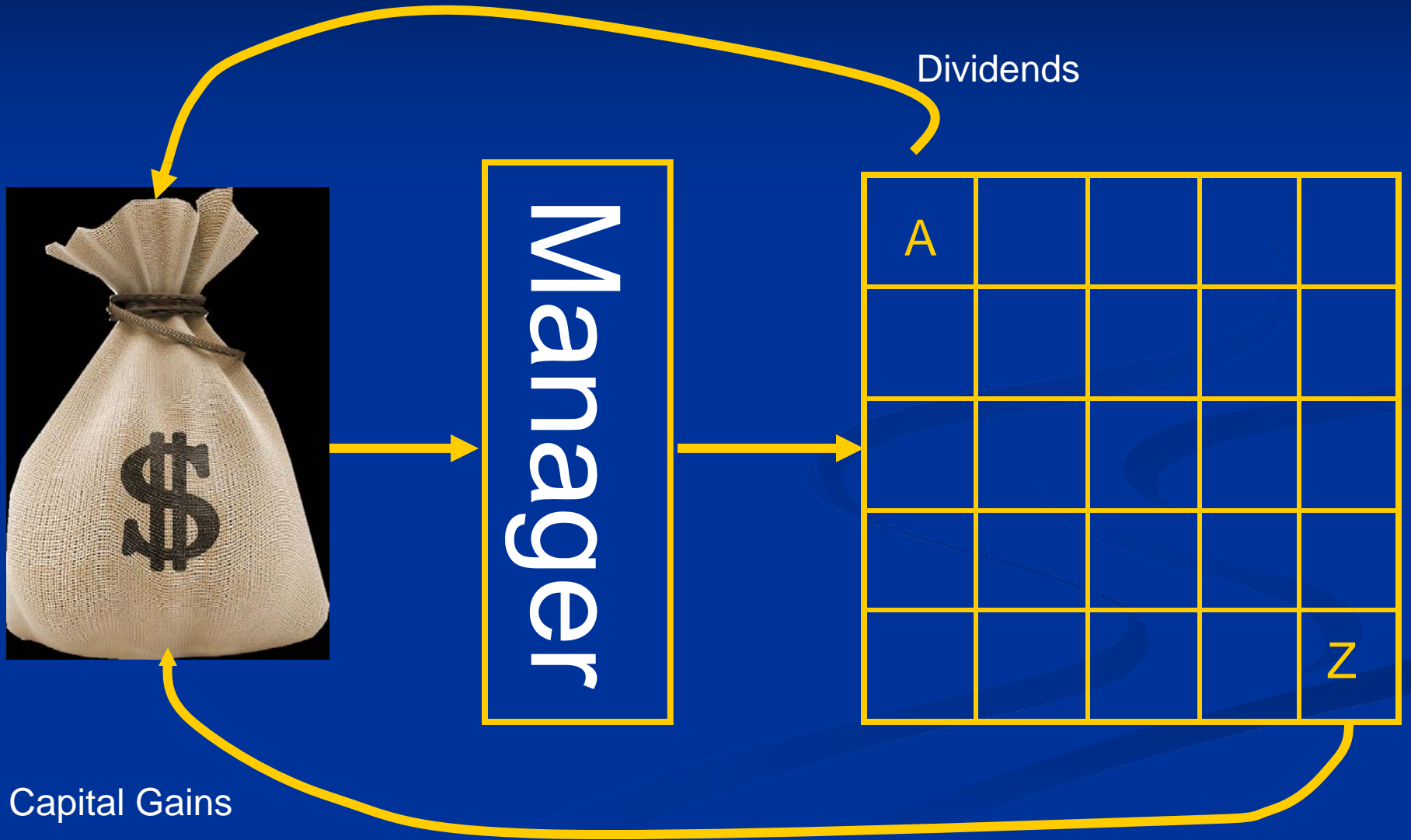


# Mutual Fund





# Mutual Fund



Dividends

Manager

A				
				Z

Capital Gains



# Characteristics

■ Bonds

■ Stocks



# Characteristics



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Investor Behavior is the  
**DOMINANT**  
Factor affecting Real  
Lifetime Returns



# The Average American Investor

1987 – 2007

Average Stock Mutual Fund

10.8%



# The Average American Investor

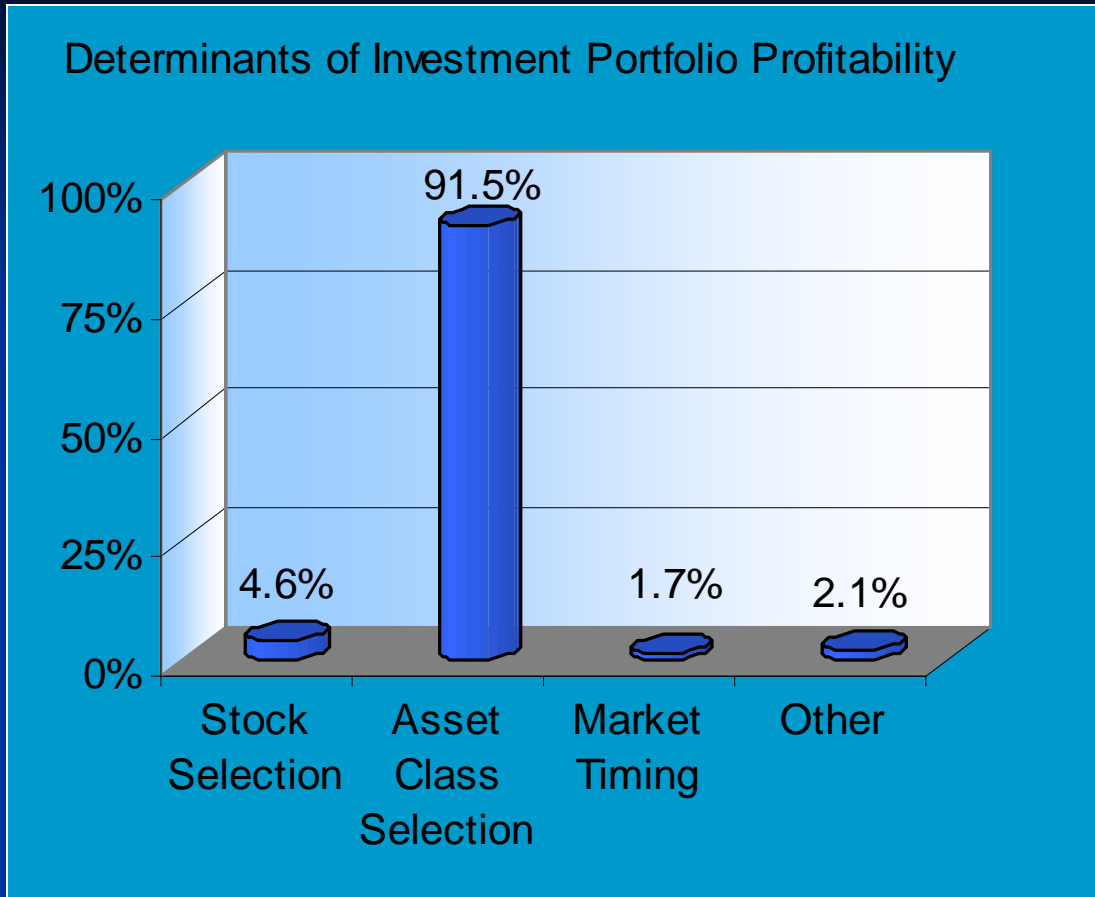
1987 – 2007

Average Stock Mutual Fund 10.8%

Average Mutual Fund Investor 4.5%



There is no statistical  
evidence for the  
persistence of  
performance



Note Past performance is not indicative of future results.

Source: Brinson, Singer and Beebower, "Explanation of Total Return Variation," *Financial Analysts Journal*, May/June 1991.



# Common Retirement Accounts

- 401(k)
- 403(b)
- Traditional IRA
- Roth IRA
- Roth 401(k)



# Lessons

- Embrace the volatility of stocks – it is what gives them their high return over time
- The historical record shows that the appreciation of stocks is a *persistent* trend interrupted by *temporary* declines
- If you invest systematically over time you will buy more stocks when they are cheap and fewer when they are expensive. You will outperform your own investments.



# Finally

- Use your plan to guide your asset allocation and your behavior.
- Rebalance your investments once per year back to your plan asset allocation
- Ignore the media noise and be guided by your plan. If your goals have not changed why should your portfolio?



# References

## ■ Cash

- <http://www.bankrate.com/>

## ■ Fixed Income

- <http://www.investinginbonds.com/>
- <http://www.savingsbonds.gov/>

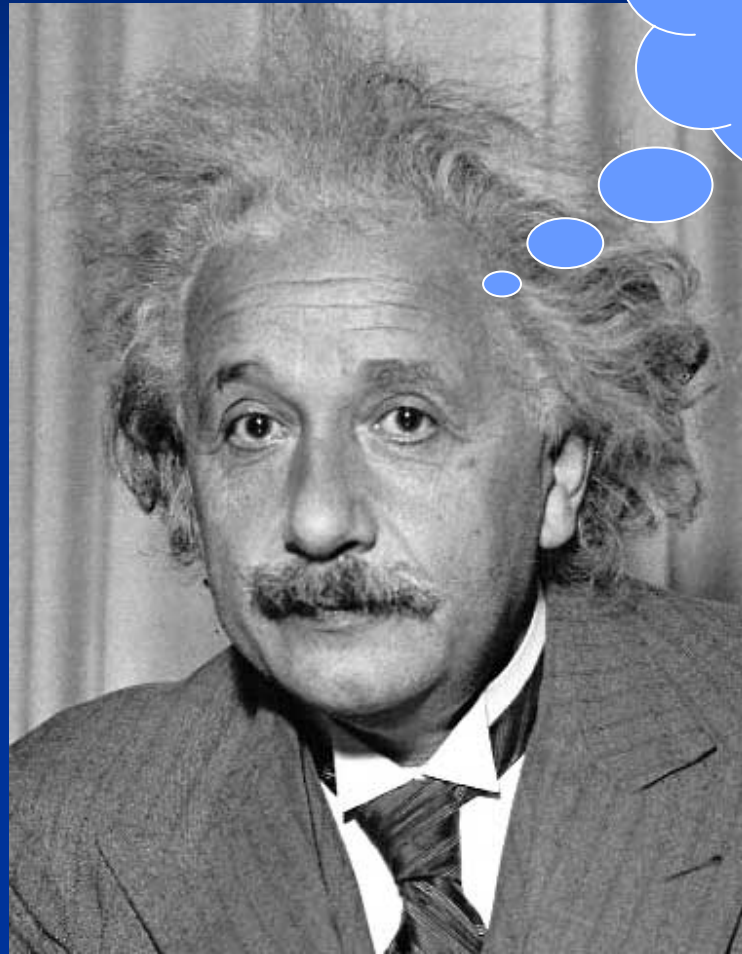
## ■ Equities

- <http://www.wealthtrack.com/>
- <http://www.morningstar.com/>



# Questions?

ETF = MC<sup>2</sup>?





# Summary

- Goal and Objectives
- Session One: Managing Your Money
- Session Two: Protection
- Session Three: Investments

*Carpe Diem*