



ESSENTIAL MONEY SKILLS & INVESTING 101

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ESSENTIAL MONEY SKILLS



WHAT WE WILL COVER

1. What is the best financial decision of your life?
2. Should I buy or rent? How much should I save for a down payment? How much house can I afford?
3. What is your biggest financial regret?
4. How much should I have in an emergency fund?
5. What percent of my income should I set aside for retirement?
6. Is it better to save in a Roth IRA or my company's 401(k)?
7. How do I get started investing?
8. What is your advice on paying off student loans and getting out of debt?
9. What is socially responsible and ESG (environmental, social, governance) investing?
10. What is the best way to ask for a raise? How much money should I be making at my age?



WHAT IS THE BEST
FINANCIAL
DECISION OF
YOUR LIFE?

Write response here.



BUYING A HOUSE AT A YOUNG AGE

I bought my house in Logan Square at age 24 for \$80,000. In 1997, I was living in Wicker Park and my landlord wanted to raise my rent. I was paying \$450 a month and realized I would be better off long-term by owning.

It took a year to find a property that was move-in ready, not far from public transportation, and safe for a single woman. Also, it was hard finding a bank willing to give a mortgage to a woman just starting out in the workforce. One of my tax returns was from when I was a student and showed income of only \$8,000. Eventually, after many denials, I found a mortgage agent at LaSalle Bank who was willing to work with me and figured out I qualified for an FHA loan.

The process tested my perseverance, but buying a house allowed me to lock in low housing costs that made it affordable to go to grad school and start my own business.



SHOULD I BUY OR RENT?

HOW MUCH SHOULD I SAVE FOR A DOWN PAYMENT?

HOW MUCH HOUSE CAN I AFFORD?

Go to a real estate listing website, find a property for sale and calculate the monthly mortgage payment assuming 30 years. Is the monthly mortgage payment greater than your rent? **Y / N**

To avoid Private Mortgage Insurance (PMI) you need at least _____ % of the purchase amount for a down payment.

How much you can afford depends on various factors, mostly income and existing debt. Banks might approve a monthly payment up to 35% of your gross (before tax) income, but don't take out more loan than you need.



WHAT IS YOUR BIGGEST FINANCIAL REGRET?

Write response here.



WAITING UNTIL I WAS 28 TO APPLY TO GRAD SCHOOL

Getting an MBA results in a raise for many professionals, so larger returns on an MBA education is more probable when the degree is earned early. At the University of Chicago Booth School of Business, median salaries for graduates were \$20,000 more than what I was making in 2000. I was working in financial technology at the time and was used to getting \$20,000 to \$30,000 bonuses and regular salary bumps.

I thought, “What’s the rush?” I am making good money now.

What I didn’t realize until I was close to 30 was that I had a narrow skillset and although my income was good, my skills did not have as much value outside of my employer.

If I had obtained my MBA sooner, it probably would have given me more career options and higher income earlier in my career. I knew I wanted an MBA for years, but I let the procrastination take over my decision-making.



HOW MUCH SHOULD I HAVE IN AN EMERGENCY FUND?

At least _____ months of basic expenses in cash savings.

Should you invest your emergency fund? **Y /N**

FDIC insurance on deposit is \$250,000 per depositor and per bank? **Y /N**



2020 ACCOUNT ORGANIZATION (EXAMPLE)

EMERGENCIES & SHORT-TERM

Emergency Fund
Example: \$5,000 monthly expenses x 3 = \$15,000
 Increase cash to >22% of purchase price for down payment if buying a house.

Taxable Account
Example: \$15,000
 5 year time frame, Low risk

- \$7,000 High quality bond mutual funds, bond ladder
- \$3,000 Corporate bond funds, high yield bond funds
- \$5,000 Dividend paying blue-chip stocks

Health Savings Account
 Available with High Deductible Health Plan. NOT "use it or lose it." Maximums: +\$1,000 catchup > age 55

- Individuals \$3,550
- Family \$7,100

RETIREMENT

401(k)
 \$19,500 annual contribution + \$6,500 if > age 50
 Employer match
 Invest for growth, reduce risk (% stocks) closer to retirement

Roth IRA
 \$6,000 annual contribution + \$1,000 if >50
 Tax-free distributions: invest more aggressively

Taxable
 Pay taxes every year on dividends and interest income (lower tax rate than ordinary income).

Annuities
 Better for age 50+
 Use for risk management
 Beware of fees

COLLEGE

529
 \$15,000 per child/beneficiary to avoid gift tax. IRS permits "front-loading" 5-years.
 \$15,000 x 5 = \$75,000 upfront. Assumes no other gifts.
 Invest for growth, reduce risk (% stocks) closer to enrollment
 One account per child or change beneficiaries

Roth or Traditional IRAs
 Assets not counted in financial aid FAFSA. Might be counted on CSS form. Income counted when distribute. Use last year of college.

Whole Life Insurance
 Borrow from cash value. Use after saved max in 529 and IRAs. More suitable for families with very high level of assets due to liquidity risk.

The Roth IRA offers tax deferral on any earnings in the account. Withdrawals from the account may be tax free, as long as they are considered qualified. Limitations and restrictions may apply. Withdrawals prior to age 59 ½ or prior to the account being opened for 5 years, whichever is later, may result in a 10% IRS penalty tax. Future tax laws can change at any time and may impact the benefits of Roth IRAs. Their tax treatment may change. Prior to investing in a 529 Plan investors should consider whether the investor's or designated beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's qualified tuition program. Withdrawals used for qualified expenses are federally tax free. Tax treatment at the state level may vary. Please consult with your tax advisor before investing.





WHAT PERCENT OF MY INCOME SHOULD I SET ASIDE FOR RETIREMENT?

Financial planners recommend saving at least _____% of gross income for retirement.

Depending on my lifestyle, I might need to save more than the maximum in my 401(k) **Y / N**

I should review my 401(k) investments at least:

- Daily
- Every month
- Once a Year
- When new investments are added or dropped



IS IT BETTER TO SAVE IN A ROTH IRA OR MY COMPANY'S 401(K)?

Is one of your short-term goals:

- Buying a house
- Going to grad school
- Taking a vacation
- Starting a family

The Roth IRA has an income-based eligibility requirement of

_____ for singles and
_____ for married tax
filers.

Can a person with earnings save in both a Roth IRA if eligible and a 401(k)? **Y / N**



HOW SHOULD I
MANAGE CREDIT
CARDS?

HOW OFTEN
SHOULD I USE
CREDIT CARDS?

SHOULD I CLOSE OLD
ACCOUNTS?

Write response here.



WHAT IS YOUR ADVICE ON GETTING OUT OF DEBT?

- Pay a bit more than the minimum required each month.
- Plan on using every bonus and gift money to pay down debt. Don't delay saving for retirement until all debt paid off.
- Determine a sustainable level of spending that leaves some room for paying off debt and saving.
- Identify the pressures on your budget and how to avoid them in the future.
- Consider doing a side-hustle if your employer allows it.
- Understand the toxic emotions around money that can lead to bad decisions.
- Write down your strategy.





WHAT IS THE BEST
WAY TO ASK FOR A
RAISE?

HOW MUCH
MONEY SHOULD I
BE MAKING AT MY
AGE?

Write response here.



INVESTING 101



WHAT WE WILL COVER

1. Investment time horizon
2. Short-term versus long-term perspectives
3. What determines a stock price?
4. Stock markets always recover
5. Asset Allocation: no diversification, basic allocation, fully diversified
6. What is socially responsible, sustainable ESG investing?



TIME HORIZON: WHEN WILL YOU NEED CASH?

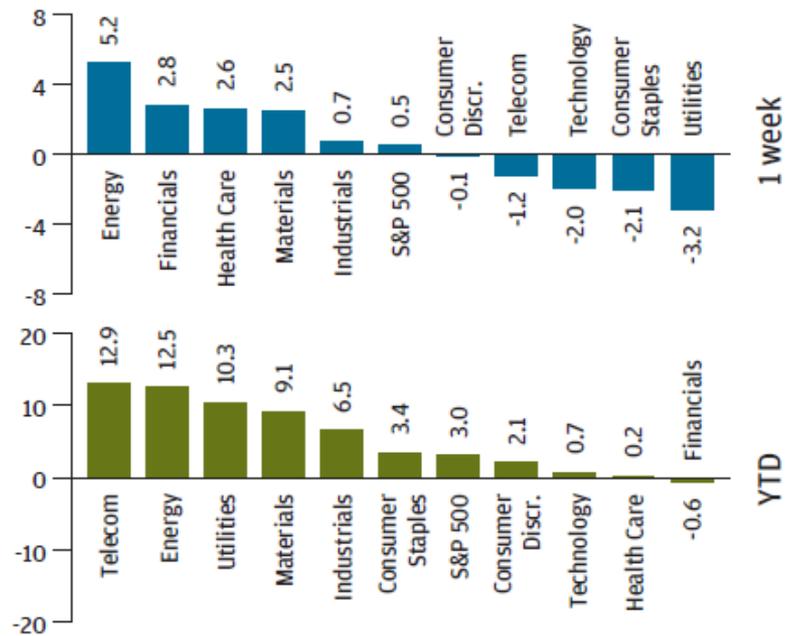
TIMEFRAME	WITHIN NEXT 3 YEARS?	IN 3 TO 15 YEARS	MORE THAN 7 YEARS
PRODUCTS	Cash, CDs, money market accounts or funds	Short-term and intermediate-term bonds, stocks	Mostly US stocks and some foreign and emerging markets, real estate
GOALS	<ul style="list-style-type: none"> • Emergencies • Vacation • New car • House down payment • Moving expenses • New baby • Medical expense • Start your own business 	<ul style="list-style-type: none"> • Wedding • College • Buy a business or second home 	<ul style="list-style-type: none"> • College • Retirement • Long-term care • Family support



SHORT-TERM VERSUS LONG-TERM

- Short-term trends say nothing about longer-term potential of a company or industry.
- Day to day price movements could be driven by chat room chatter, tax changes, news, or investor preferences for risk-taking.

S&P 500 SECTOR RETURNS



WHAT DETERMINES A STOCK'S PRICE?

Stock price movements are determined by three things:

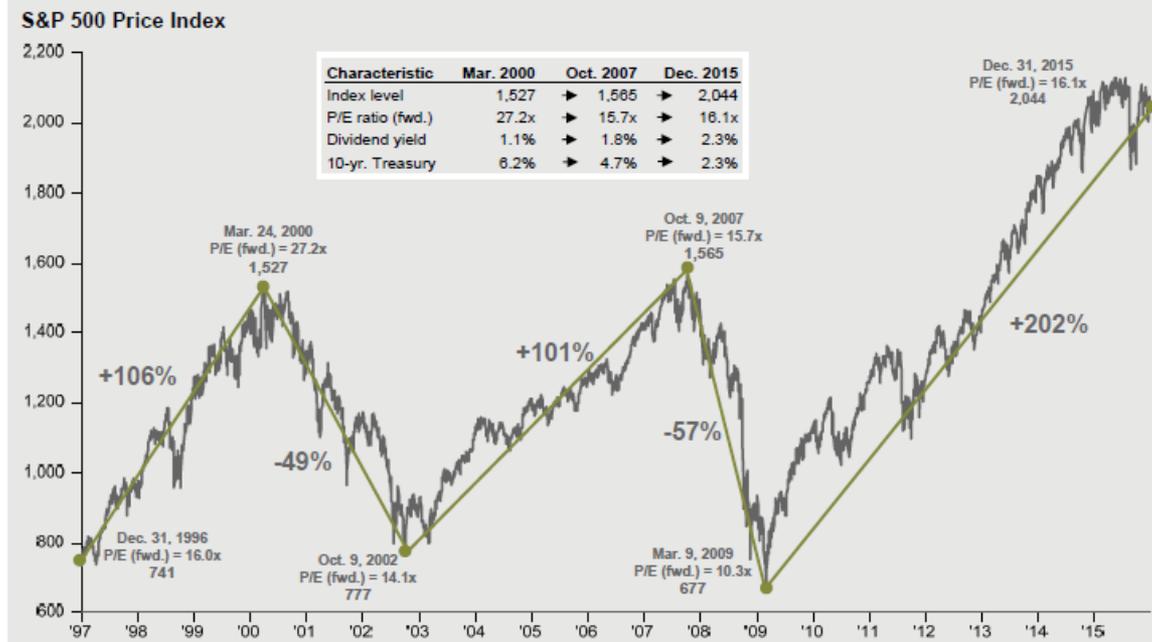
1. Fundamentals, such as earnings.
2. Technicals, such as charts, assumes mean reversion
3. Emotions a.k.a. “Monkey Brain”



STOCK MARKETS ALWAYS RECOVER

S&P 500 Index at inflection points

GTM - U.S. | 4



Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat.
Forward price to earnings ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.
Guide to the Markets - U.S. Data are as of December 31, 2015.

J.P.Morgan
Asset Management

WHAT IS AN ASSET CLASS?

FROM INVESTOPEDIA:

An asset class is a group of securities that exhibits similar characteristics, behaves similarly in the marketplace and is subject to the same laws and regulations.

The three main [asset](#) classes are

- [equities](#) (stocks)
- fixed income (bonds)
- [cash equivalents](#) (money market instruments)

Some investment professionals add [real estate](#) and [commodities](#), and possibly other types of investments, to the asset class mix.

Asset classes are often combined together. Each asset class is expected to reflect different risk and return investment characteristics and perform differently in any given market condition. Investors interested in maximizing return often do so by reducing portfolio risk through asset class diversification.

Read more: [Asset Class https://www.investopedia.com/terms/a/assetclasses.asp#ixzz56x2zgXZF](https://www.investopedia.com/terms/a/assetclasses.asp#ixzz56x2zgXZF)



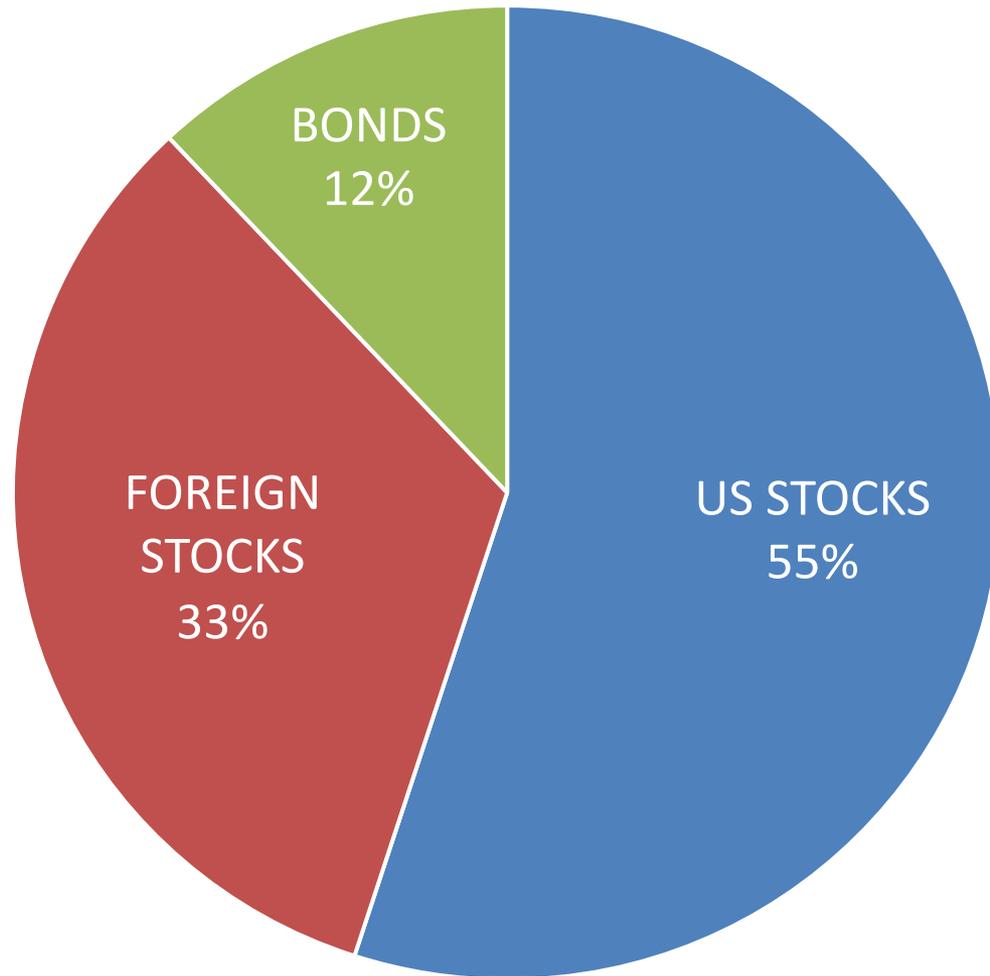
NO DIVERSIFICATION

100%
STOCKS



BASIC DIVERSIFICATION

Hypothetical example

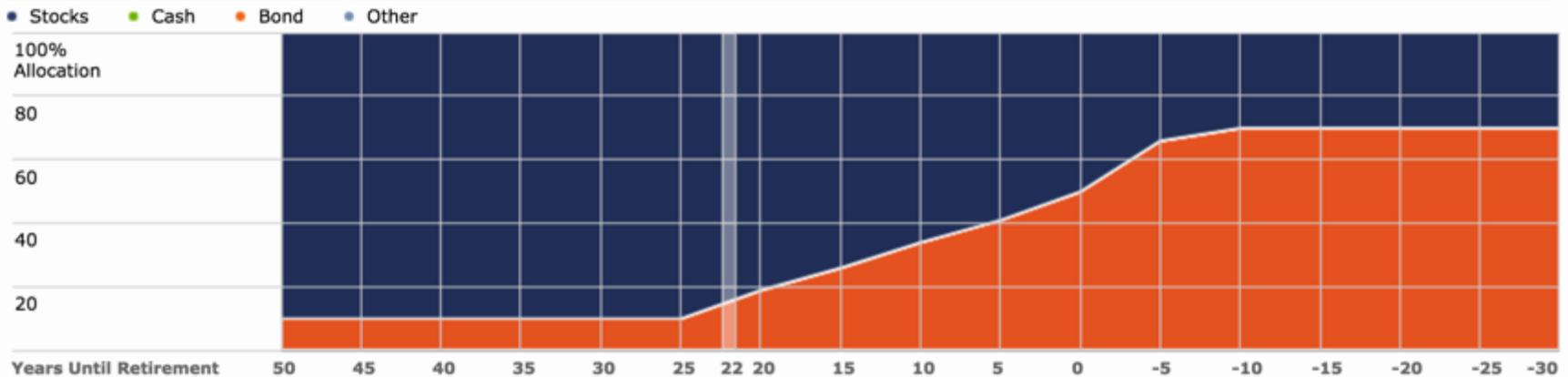


TARGET DATE FUNDS (Part 1)

Asset allocation determined by years to retirement.

- Example: Vanguard Target Date 2040 fund. $2040 - 2020 = 20$ years to retirement. Therefore, bond allocation about 20%
- Assumes bonds less risky than stocks. Risk profile of asset classes could change over time.

Glide Path VIRSX



*Grey bar reflects the selected investment's target asset allocation.

Gradually then suddenly rebalances from stocks to bonds as retirement date approaches.



TARGET DATE FUNDS (Part 2)

PROS

- Basic diversification better than leaving in cash for your workers.
 - When you are 20+ years from retirement, target date funds have more stocks and less bonds.
 - Gradually then suddenly rebalances from stocks to bonds as retirement date approaches
- Choice architecture works for people who want to simplify decision making.
 - Target Date funds are designed to be the only holding in your account.
- Offers diversification for investors starting out or small amounts (\$50 to \$1,000 a month).

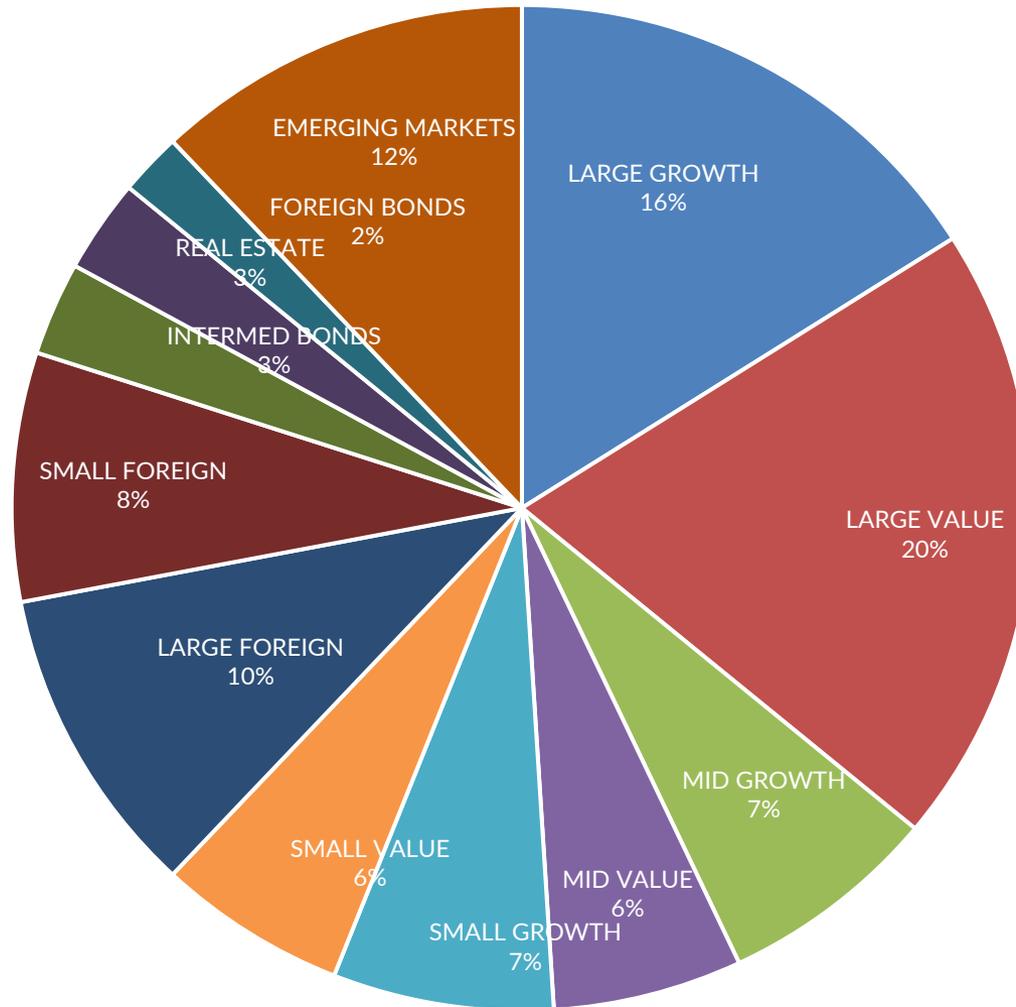
CONS

- Could have higher weight to foreign and emerging markets than suitable for your risk tolerance or outlook.
 - Split allocation between target date fund with 100% US stock fund
- Normally, no real estate, commodities or global bonds.
- Vanguard is a passive and lower costs and American Funds active management (human beings screening companies for management quality).
 - Passive (picking biggest 100 companies works best when rising tide lifts all boats).
 - Active (being more selective) better defensive strategy when economy in recession.



FULLY DIVERSIFIED

Hypothetical example



WHAT IS SOCIALLY RESPONSIBLE AND ESG (ENVIRONMENTAL, SOCIAL, GOVERNANCE) INVESTING?

Companies with women in their board of directors and executive positions overall tend to outperform male-only executive teams. **True / False**

ESG investment portfolios have lower returns than conventional portfolios. **True / False**

Part of good governance is obeying the law. **True / False**

Environmental solutions companies might be subject to government policy risks. **True / False**

Insurance companies no longer insure coal mines. **True / False**



Business this week

Print edition | The world this week >

Mar 28th 2018

Remington filed for bankruptcy protection. The gunmaker, founded in 1816, piled on debt when investors pulled out following the Sandy Hook school massacre in 2012, in which the gunman used a Bushmaster rifle, a brand owned by Remington.



EXCLUSIONARY SCREENING

Avoiding investments in companies or industries on the basis of moral values and standards (i.e., tobacco), and social norms (i.e., human rights), historically referred to as SRI



BEST-IN-CLASS SELECTION

Selecting securities based upon strong or improving ESG-factor performance relative to the company's industry peers



ACTIVE OWNERSHIP

Entering into a dialogue with the management teams of the portfolio holdings on ESG issues, and exercising ownership rights (i.e., voting proxies, submitting shareholding proposals) to promote change



THEMATIC INVESTING

Focusing investments on specific environmental or social themes, such as clean energy, water, education, or healthcare



IMPACT INVESTING

Selecting securities to promote social and environmental benefits in addition to earning a financial return



ESG INTEGRATION

Systematically integrating ESG considerations, where material, into investment due diligence and financial analysis



Source: LPL Research, CFA Institute, "Environmental, Social, and Governance Issues in Investing: A Guide for Investment Professionals," 2015.

YOUR GOALS AND ACTION ITEMS

GOALS	ACTION ITEMS
1.	1.
2.	2.
3.	3.
4.	4.
5.	5.



THANK YOU

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Investing involves risk including loss of principal.

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