

Why Invest in Stocks?

SFPL – Financial Capability Month



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Agenda

- Who is Better Investing?
- What is a stock and bond?
- Investment concepts
- Discussion of stocks, bonds, mutual funds and ETFs
- What to invest in?
- How to get started
- Summary





- We're a member driven community**
- 4000+ investment clubs
 - 80,000+ investors
 - 501(c)(3) non-profit organization
 - Serving individual and investment clubs for 65 years
 - Pioneer of modern investment clubs

We're volunteer based with

- ▣ 700+ volunteer educators
- ▣ 64 chapters nationwide



Our Mission: Creating successful life long investors

www.betterinvesting.org

What is a Stock?

- A form of security that indicates the holder has a proportionate ownership in the issuing corporation (A slice of the company)
- Corporations issue (sell) stock to raise funds to operate their businesses





*Proportionate ownership
of a company*



*Paid dividends before
ordinary shareholders*

You get paid prior to common shareholders.

Basic Concepts

- Stocks are bought and sold predominantly on stock exchanges
 - New York Stock Exchange (NYSE) & NASDAQ
- Many stocks do not pay dividends, but instead reinvest profits back into growing the company
- Historically, stocks have outperformed most other investments over the long run

Ibbotson SBBI Stocks, Bonds, Bills, and Inflation (1926-2017)



Rights of A Shareholder

- You are entitled to share in your portion of the company's profits over time
- Attend shareholder meetings
- Vote in shareholder meetings (Usually)
 - By proxy or in person
- Receive dividends if and when they are distributed
- Sell your shares
- Be aware the company can sell new shares and dilute your ownership



Stock

Ownership

Benefits from the growth of the company.

Profits are paid out in the form of dividends.

Bond

Loan

Benefits from the interest amounts paid for the loan.

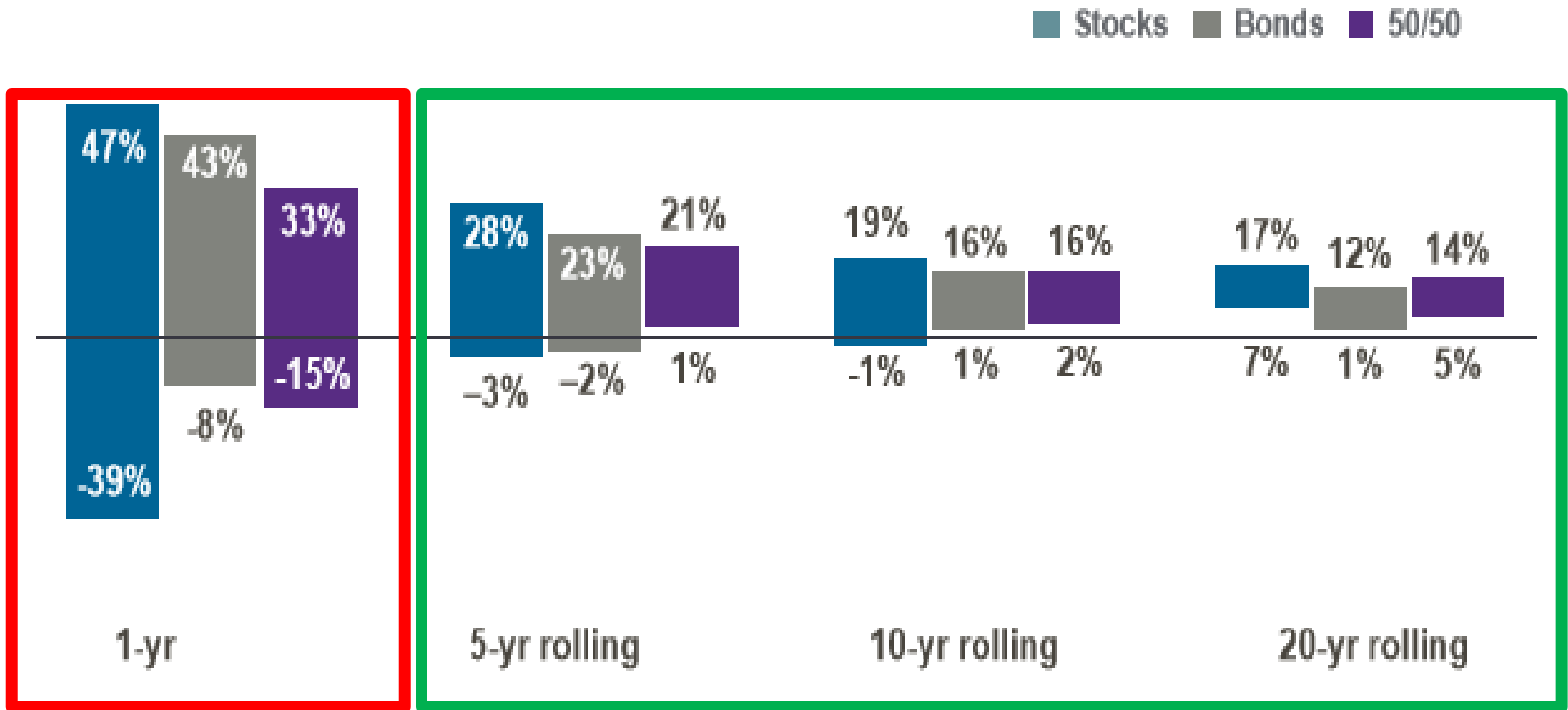
Interest payments are made in the form of coupon payments.

Bonds

- **Bonds** are different from stocks
- Bondholders are creditors to the corporation, entitled to interest and repayment of principal
- Creditors in a bankruptcy have legal priority over other stakeholders and are made whole first
- Bonds typically have a fixed duration; they expire on the date specified in the bond
- The return you get on a bond is typically a fixed rate of interest established by the bond and paid by the bond on a periodic basis

Range of Rolling Returns

Range of stock, bond and blended total returns
Annual total returns, 1950-2016

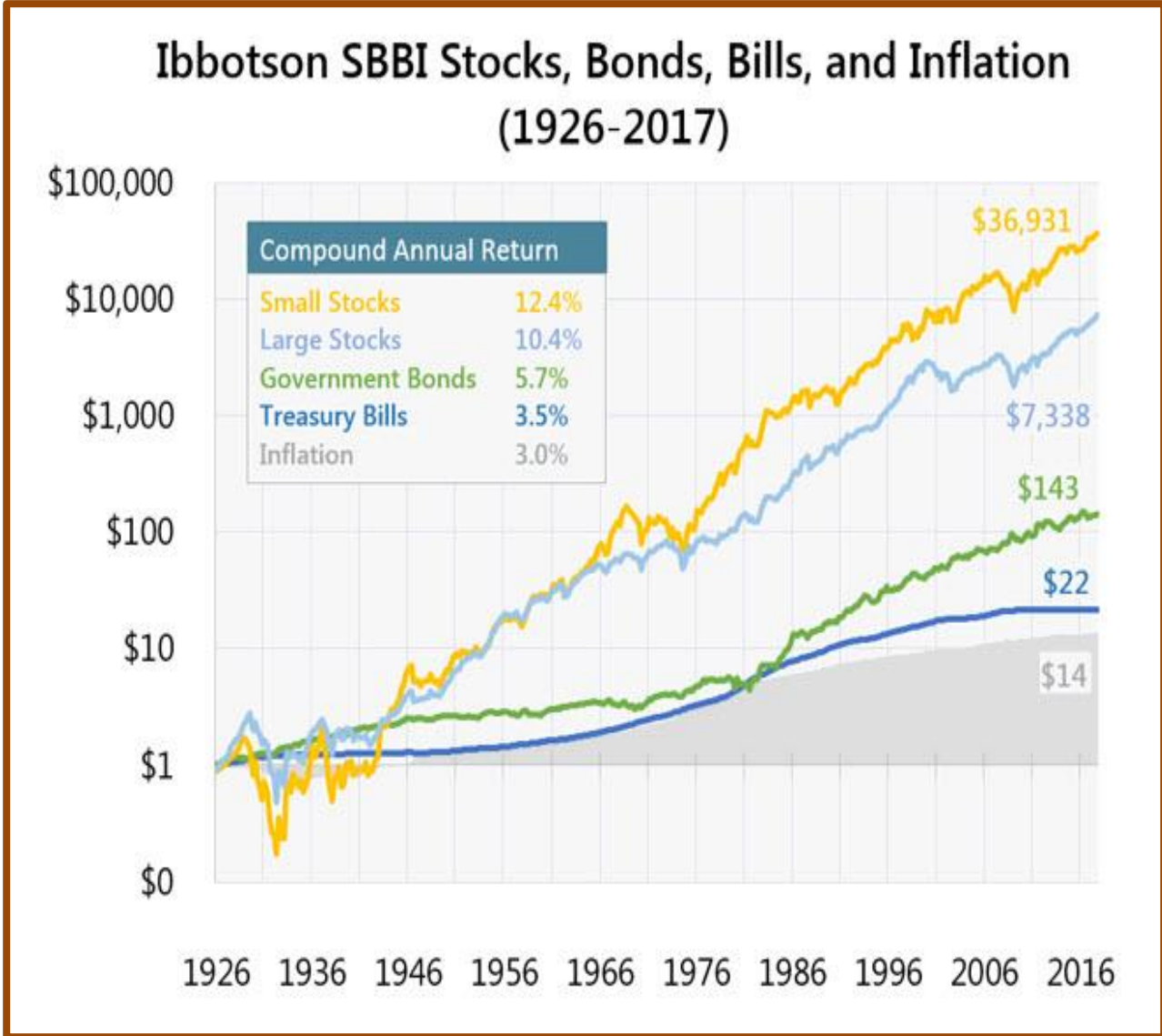


Investing Theory and Concepts

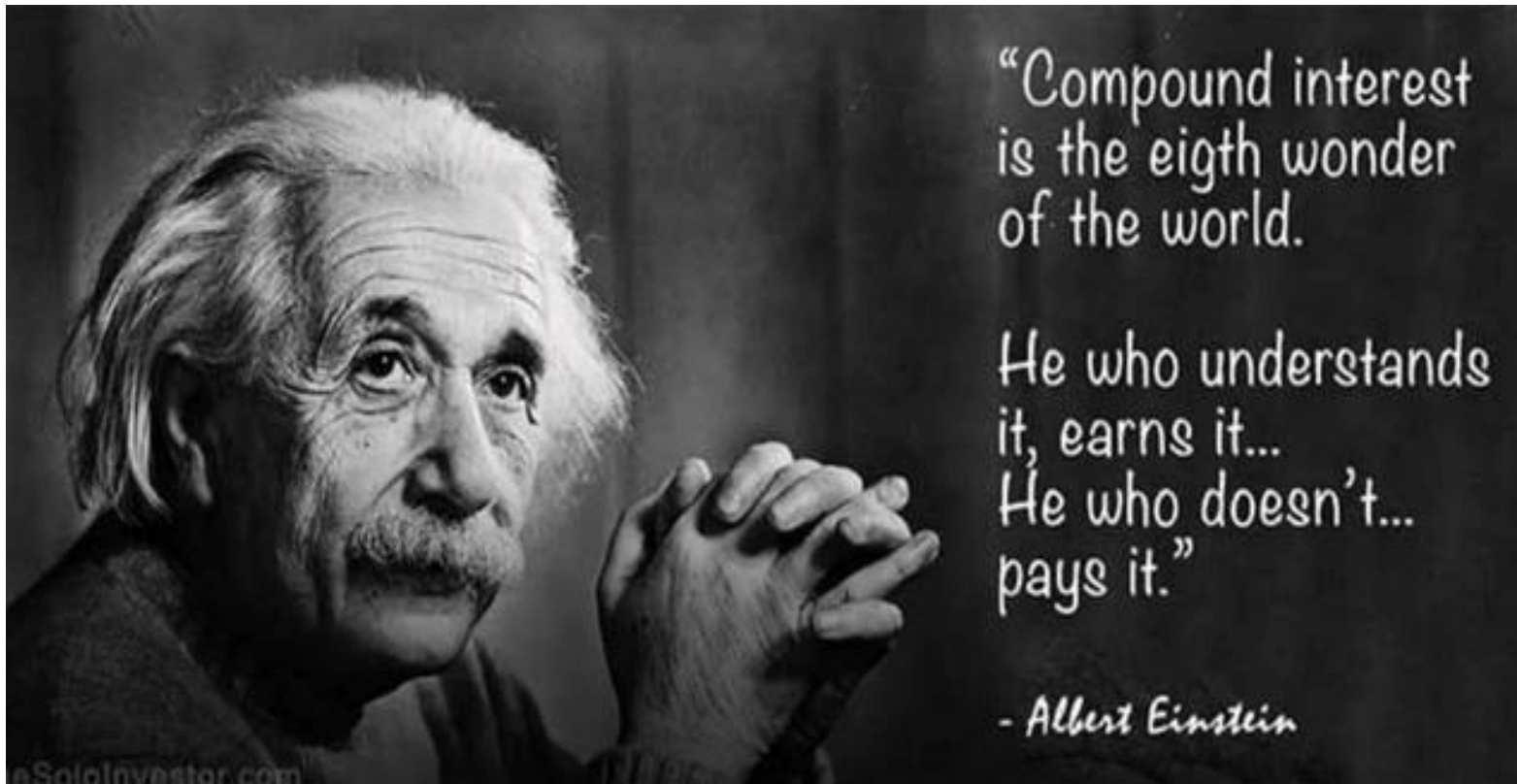


Historical Returns of Asset Classes

Stocks deliver the best return on investment over the long term.

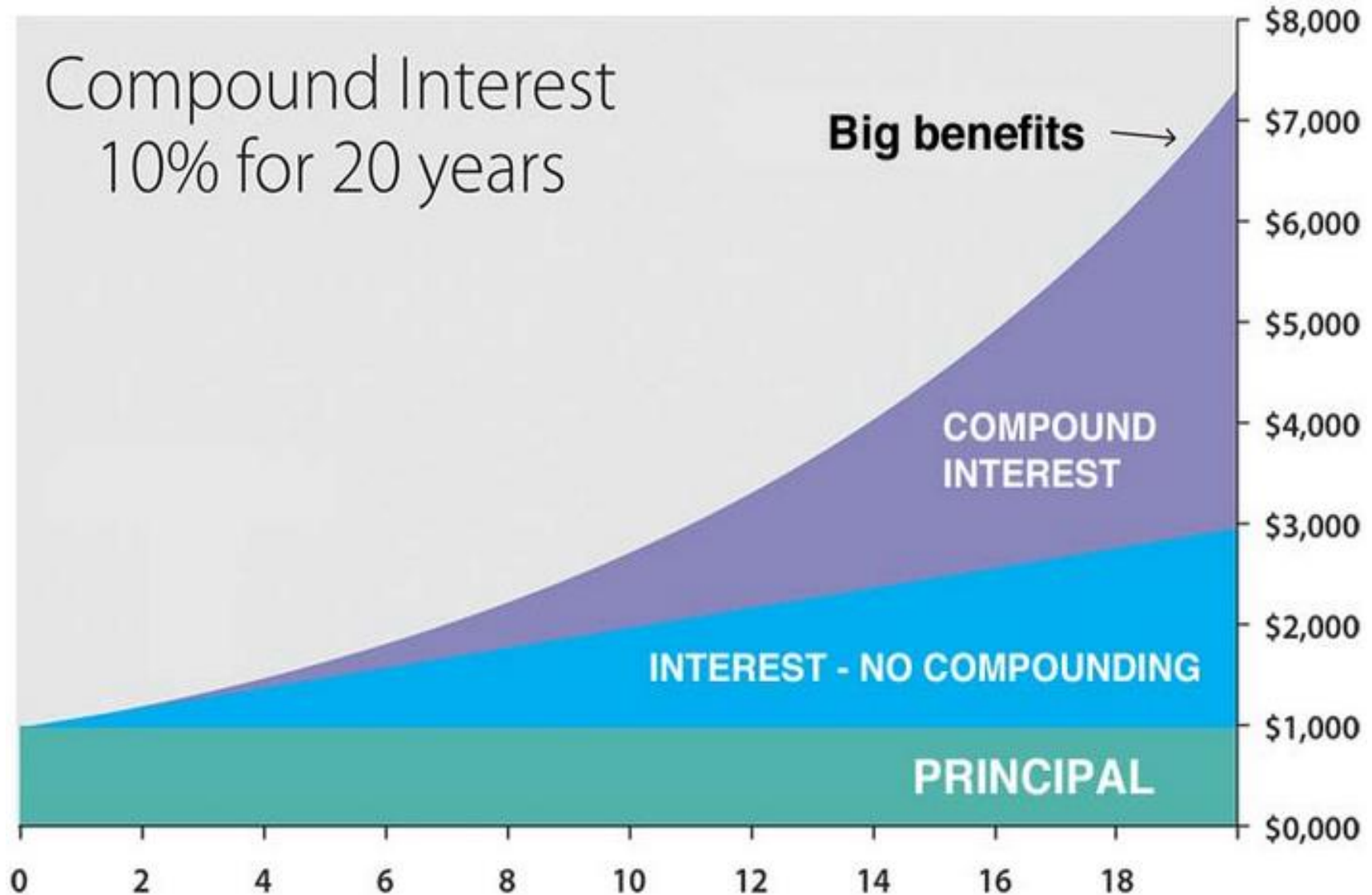


Compound Interest



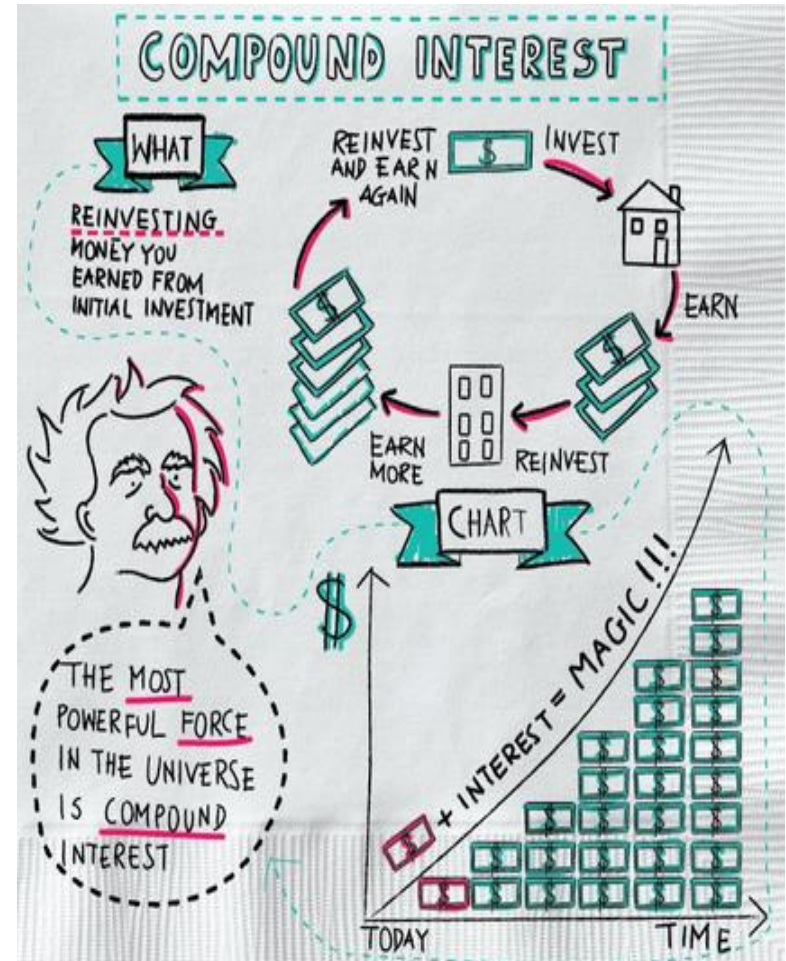
- Compound interest is the most powerful force in the universe.”
- The power behind compound interest: ***Time***

Simple vs. Compound Interest

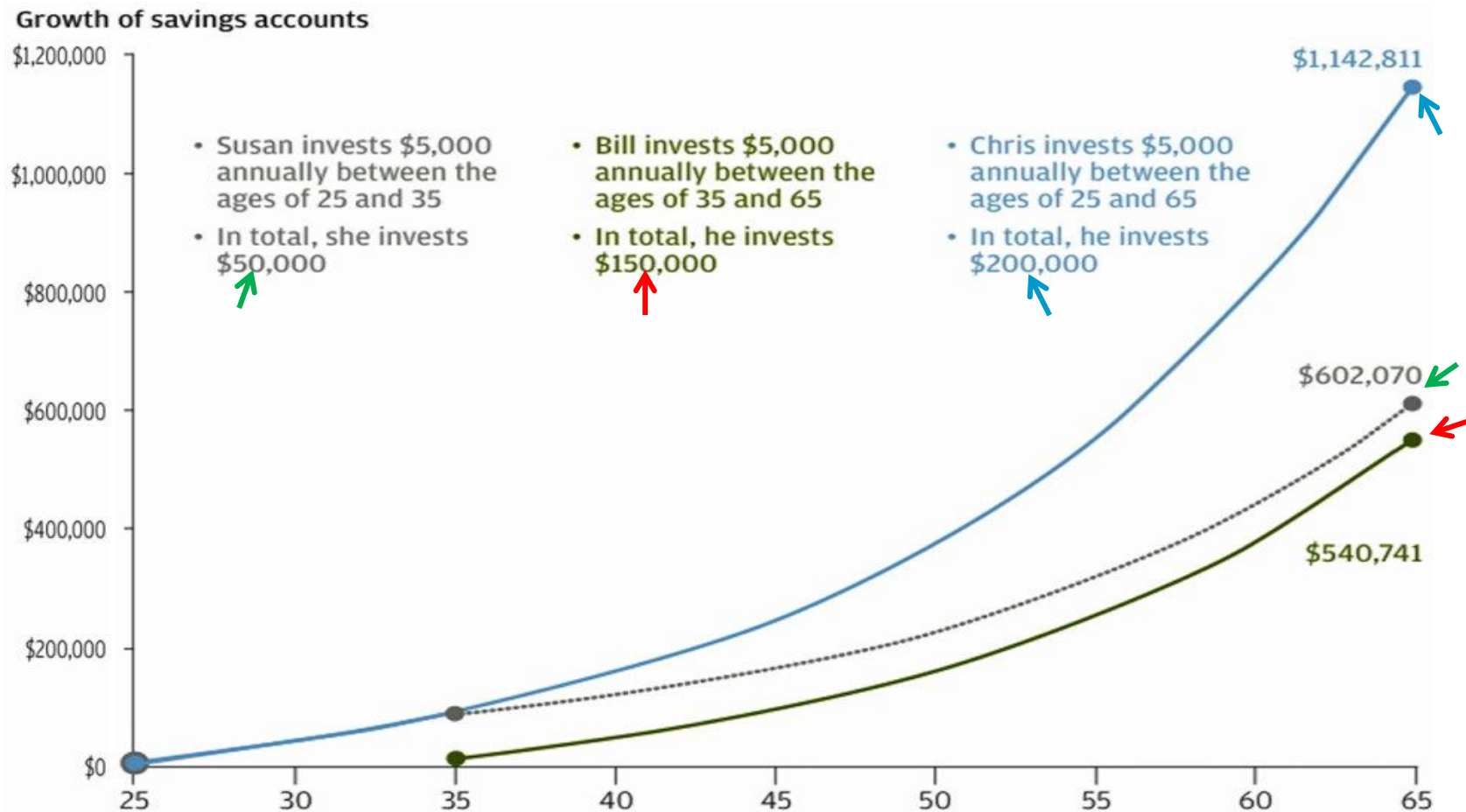


Takeaways from Compound Interest

- It's never too late to start saving
- The longer the time frame, the greater the effect of compound interest
- Reinvest all earnings, dividends and profits
- Interest rates/rate of return are never constant



Starting Early and Consistently is Key

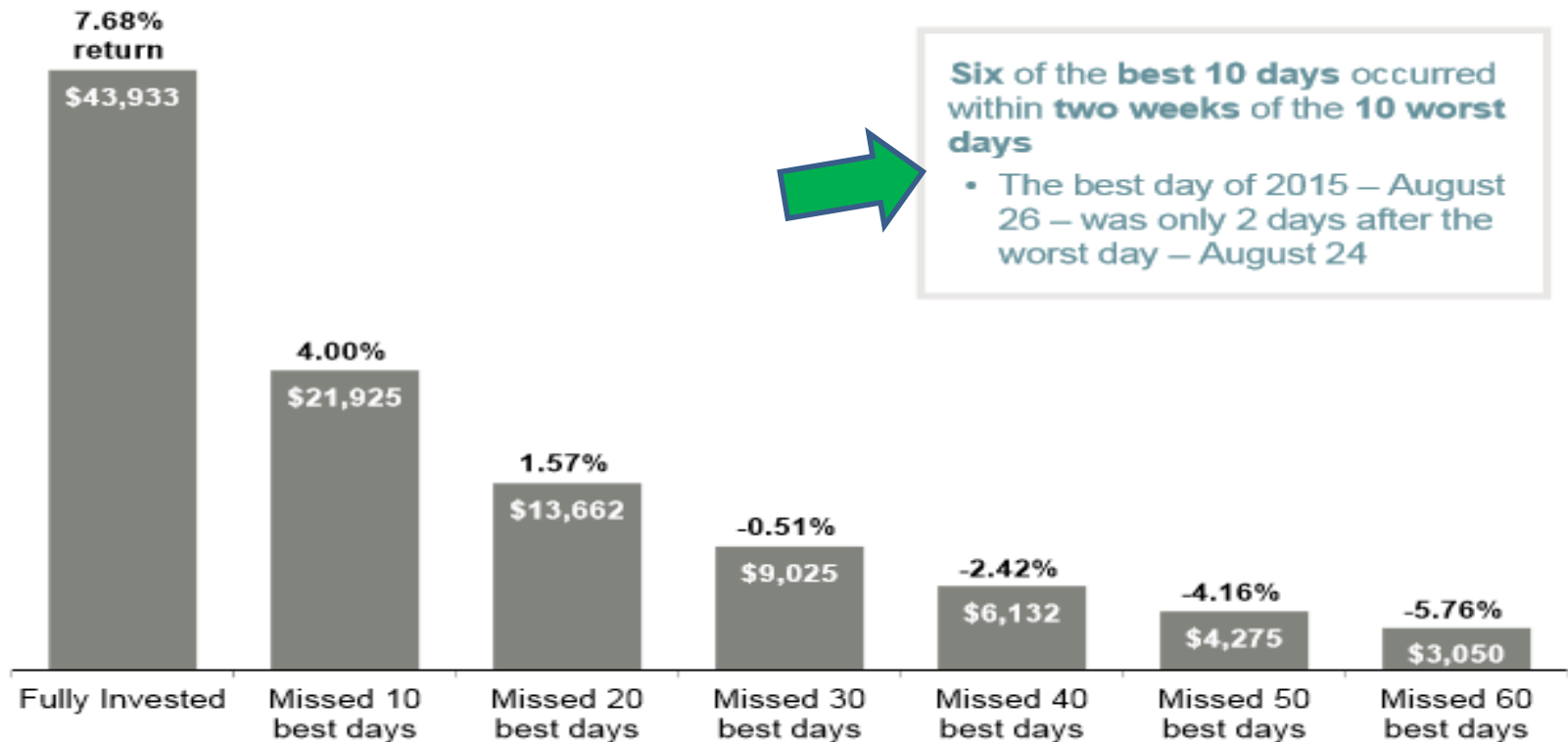


Source: J.P. Morgan Asset Management, Long-Term Capital Market Assumptions.

Being Out of the Market

Returns of the S&P 500

Performance of a \$10,000 investment between January 1, 1997 and December 30, 2016



Invest According to a Plan

Have you established a financial plan?

- Long-term goals:
 - Retirement, kids' college fund, second home
- Short-term goals:
 - Down payment on a home, vacation, new car, boat
- How much money do you have now?
- How much money will you need?
- How much time before you need it?

YOU SHOULD HAVE A PLAN!



Inflation Eats Purchasing Power



Inflation erodes the value of the dollar over time. So, you need to invest in securities that beat inflation.

What to Invest In?



What to Invest in?

- Mutual Funds
- ETFs (Exchanged Traded Funds)
- Individual Stocks
- Mutual funds and EFTs are good for the inexperienced investor – more diversified than a single holding
- Once you have become comfortable with the concept of investing, you may want to diversify into individual stocks
- Individual stocks offer the potential for great returns
- Stocks require that you have the 3-T's
 - Time – Talent – Temperament

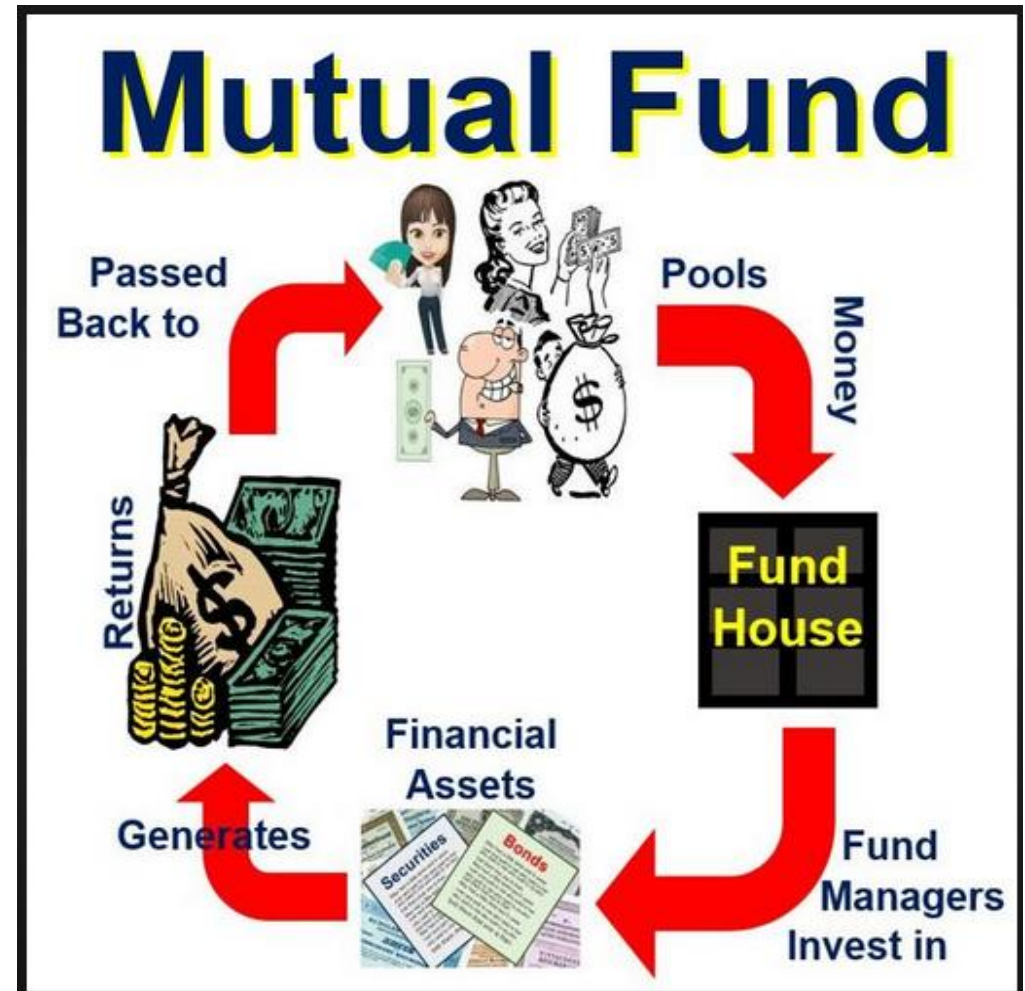
What Are Mutual Funds?

Investors pay for shares in the fund

MF invests the money based on the fund guidelines

Net asset value or share price based on value of investments less cost and liabilities

Read the prospectus



What to Invest in?

Mutual Funds vs. ETFs

Mutual Funds

- Purchased and sold at end of trading day
- Good for periodic savings plans
 - Like monthly transfer from checking account
- No load, front-end load and back-end load

Exchange Traded Funds

- Purchased and sold (traded) throughout the trading day
- May be more tax efficient
- Commissions may be charged
- Typically they follow an index

Otherwise, they are very similar.
Can be baskets of stocks, bonds or other assets.

Actively Managed Funds (Mutual Funds/Active ETFs)

- Managers of Actively Managed Funds pick stocks they believe will outperform the market
 - Many fund managers trade too much
 - Most are not tax-efficient
- Fund holders pay for this “expertise”
 - Expense ratios (range from 0.5% up to 2% or more)
 - Transaction or trading costs (buying and selling) are an additional expense
- Over the long-term (10 years), 85-90% of active managers fail to beat the S&P 500 index
 - Source: Morningstar.com



Passively Managed Funds

Index Mutual Funds and ETFs

- An index fund tracks its specific index, such as the S&P 500 Index or Total Stock Market Index
- Very low expense ratios (0.01% to 0.2%)
- Offer tax-efficiency due to low turnover
- Market cap-weighted index (most common)
 - The highest market value stocks get the largest weights
- Equal-weighted index
 - Equal amount of weight to each stock in the index
- Price-weighted index – the DOW

Indexes Outperform

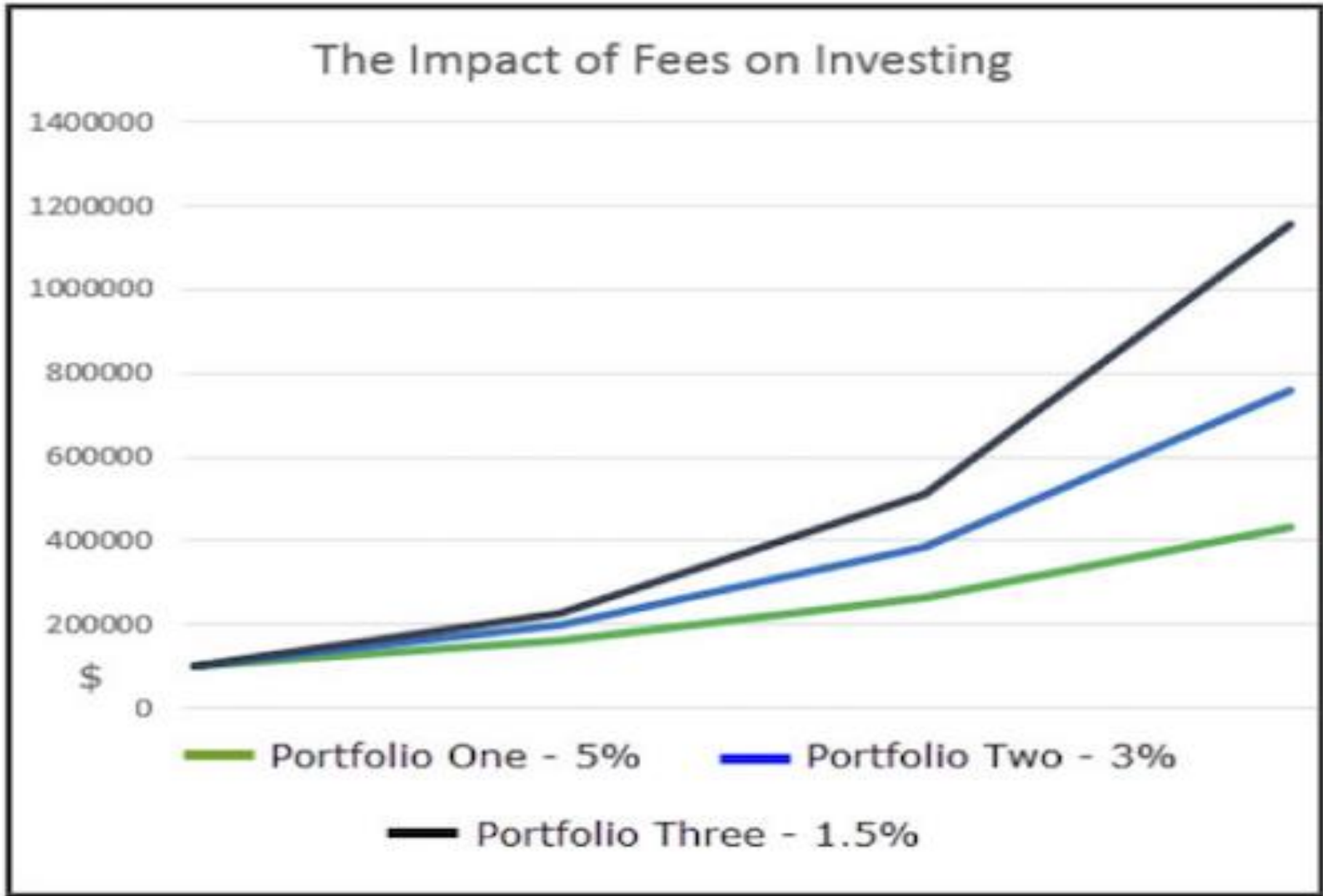


According to Standard and Poor's - over the past 15 years* (Data as of June 30, 2019) the

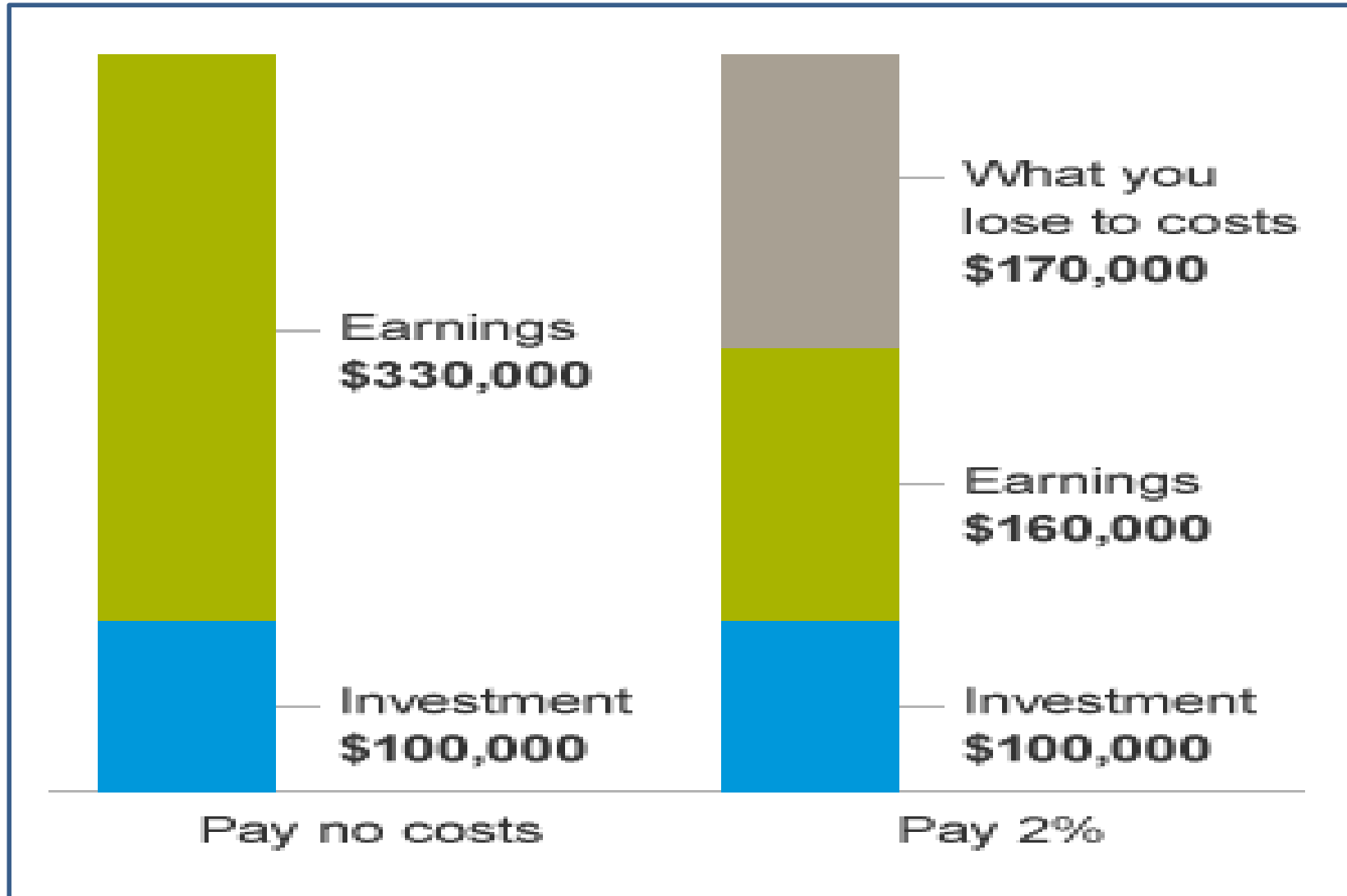
- S&P 500 has outperformed **89.83%** of large-cap funds
- S&P MidCap 400 has outperformed **90.33%** of mid-cap funds
- S&P SmallCap 600 has outperformed **90.25%** of small-cap funds
- Over 10 or 15 years, **88% or more** of active managers across all categories underperformed their respective benchmarks*

*source: SPIVA U.S. Scorecard 2019

Impact of Fees



Cost of Fees



Investing Outside of Your Employer's Retirement Plan



The Simplest Plan

Invest in a Total Stock Market Index Fund

- You will be well-diversified domestically
- It will be extremely low cost
- Reinvest the earnings and you won't need to do anything
- You will likely achieve the stock market rate of return



*Securities are for
educational purposes
only*

Almost-as-Simple Plan

- Invest 50% in Total Stock Market Index Fund
- Invest 40% in Small/Mid Cap Index Fund
- Invest 10% in International Index Fund

- You will be globally diversified
- It will be very low cost
- Reinvest earnings and do nothing
- You will achieve stock market returns



An Example of an Equity Plan

- 50% - Vanguard Total Market Index Fund
 - “VTI” - 0.03% Expense ratio (\$3 per \$10,000)
- 25% - Vanguard Developed Market Index Fund
 - “VEA” - 0.05% expense ratio
- 5% - Vanguard FTSE Emerging Markets Index Fd.
 - “VWO” - 0.08% expense ratio
- 20% in Vanguard REIT Index Fund
 - “VNQ” - 0.12% expense ratio

Expense ratios updated as of March 2023

*Securities are for
educational purposes
only*



Learn How to



in Stocks

Our Investment Philosophy ...

- Investments (Stocks) should be viewed on a long term basis
- Focus on company performance, both proven and potential, not emotional market swings
- Earnings are the ultimate driver of stock price
- Buy a stock when it is selling at a reasonable price
- BetterInvesting can help determine that price

****Anyone can be a Successful Long Term Investor***

Advantages of Investing in Individual Stocks

- If you have **TIME – TALENT – TEMPERAMENT**
- Individual Stocks have potential for great returns by having control over -
 - What to buy
 - When to buy and sell
 - How much to pay
 - Other taxes and fees
- To learn more, BetterInvesting offers:
 - **TOOLS – TECHNIQUES – and TRAINING**

Learn

- The investment basics so you can understand what you own and sleep at night
- How to find and evaluate the stocks to buy
- To keep emotions at bay by understanding market trends
- How individual stocks may have the potential for great returns
- To invest in yourself

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STOCK TO STUDY: The TJX Companies, Inc. — Fashioning Long-Term Growth (p. 28)

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Learn About Our Online Stock Comparison Guide (p. 23)

First-Year Clubs
Shining a Light on Investing (p. 39)

Financial Planning
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Stock Analysis
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A Club's Core Beliefs

- Investment clubs provide a safe and supportive way to learn how to invest.
- Together we can do more
- Successful stock investing is possible for everyone



See An Investment Club In Action

- www.betterinvesting.org/chapters/san-francisco-bay-area/visit-a-club

San Francisco Bay Area Chapter
Local Events
Contacts
Model Investment Club
Visit-A-Club
Investment Club Support
News & Articles
Volunteering



Visit-A-Club

The Visit-A-Club program provides individuals an opportunity to visit an investment club that welcomes guests. Below is information for individuals looking for a club to visit and is followed by information for clubs to apply to the program.

For Individuals:

If you are interested in visiting an active investment club that invests according to BetterInvesting principles, check clubs that welcome visitors in your area. Read our [Visitor FAQs](#) and "[What Makes a Good Club](#)" before visiting a club.

[Participating clubs from this Chapter](#)



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Visiting Clubs and our SF Model Club

- Learn about BetterInvesting's tools and resources for stock analysis
- Learn how clubs operate from the model club or one of the clubs from our Visit-A-Club list
- www.betterinvesting.org/chapters/san-francisco-bay-area
- SF Model club meets monthly, typically virtually
- We meet: Second Thursday of month at 5:45 pm
- Anyone is welcome.
- For details, email: contact@sanfran.betterinvesting.net



Summary

- Take time to learn how to invest and some basic concepts, your future depends on it
- Time is your friend when investing
- Learn how to use stocks, bonds, mutual funds and ETFs
- Planning your financial future is key
- Visit BetterInvesting.org

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Share the Wealth of **BetterInvesting**
with
your family and friends!
Make a difference in their lives!!!



“Friends Don’t Let Friends Retire Broke”

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Questions or Comments?



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