

Financial Empowerment for Women Fitness ✦ Foundation ✦ Fluency

presented for

The Christopher Wren Society

by

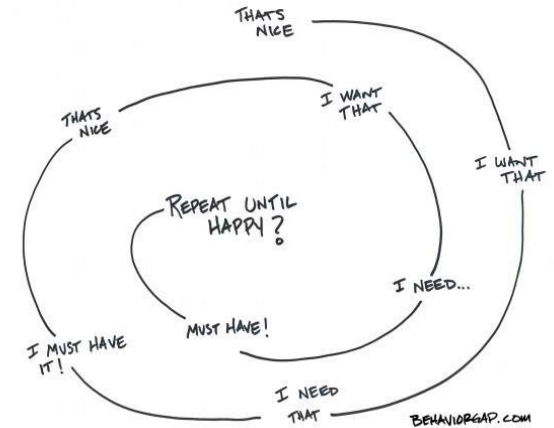
Peter H. Gore CFA, CFP[®], MBA

Benjamin Sadtler

Sherri Powers

Recall – Day #1

- Sherri
 - Fitness
 - Financial Archetypes
- Ben
 - What is Money?
 - Income Statement / Balance Sheet
 - Risk / Reward



Recall – Day #2

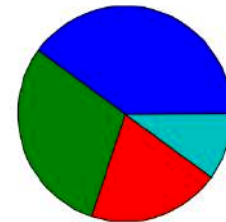
- Types of Investments
 - Cash
 - Real Assets (Real Estate & Commodities)
 - Financial Assets (Stocks & Bonds)
- Stocks versus bonds
- Taxes!
- Types of mutual funds
 - A vs. C vs. I shares
 - ETFs
- Questions?



Today's Agenda

Bringing it all together

- Costs of Doing Business
- Risk Profile
- Portfolio Composition
- Life Planning



The Costs of Doing Business

Arrangement:	Commission "Brokerage"	Advisory Fee	Hourly Rate	DIY Online/Direct
How's it work?	Client pays per-transaction charge when trades are made	Client pays percentage fee annually for advice and trading services	Client pays fixed hourly rate for financial service (typically a financial plan)	Investor manages accounts online, makes independent trading decisions
Why's it good?	No trades? No charges	<ul style="list-style-type: none"> • Advisor is incentivized to grow account • Advice and trading costs are bundled • Financial planning is also typically included 	<ul style="list-style-type: none"> • Predictable cost • Only pay for what you need 	<ul style="list-style-type: none"> • Least expensive (probably) • No "sales pitch" from advisor
Why's it bad?	<ul style="list-style-type: none"> • Possible incentive to unnecessarily trade to generate commissions (churning) • Not likely to offer Fin Planning. 	May be expensive for buy-and-hold strategy or for DIYers	<ul style="list-style-type: none"> • Typically does not include trading or no ongoing investment advice 	<ul style="list-style-type: none"> • Very little advice • 800-number if questions
What's it cost?	<ul style="list-style-type: none"> • Depends on size of trade (fixed & variable costs) • Minimum \$50-\$100 per trade 	Between 2% and 0.5% depending on account size (larger account = smaller % fee)	\$150-\$300 per hour	<ul style="list-style-type: none"> • \$5 - \$20 per trade • 1%-2% for "models"

Sources: [CNN Money](#), [Investopedia](#)

Investor Behavior



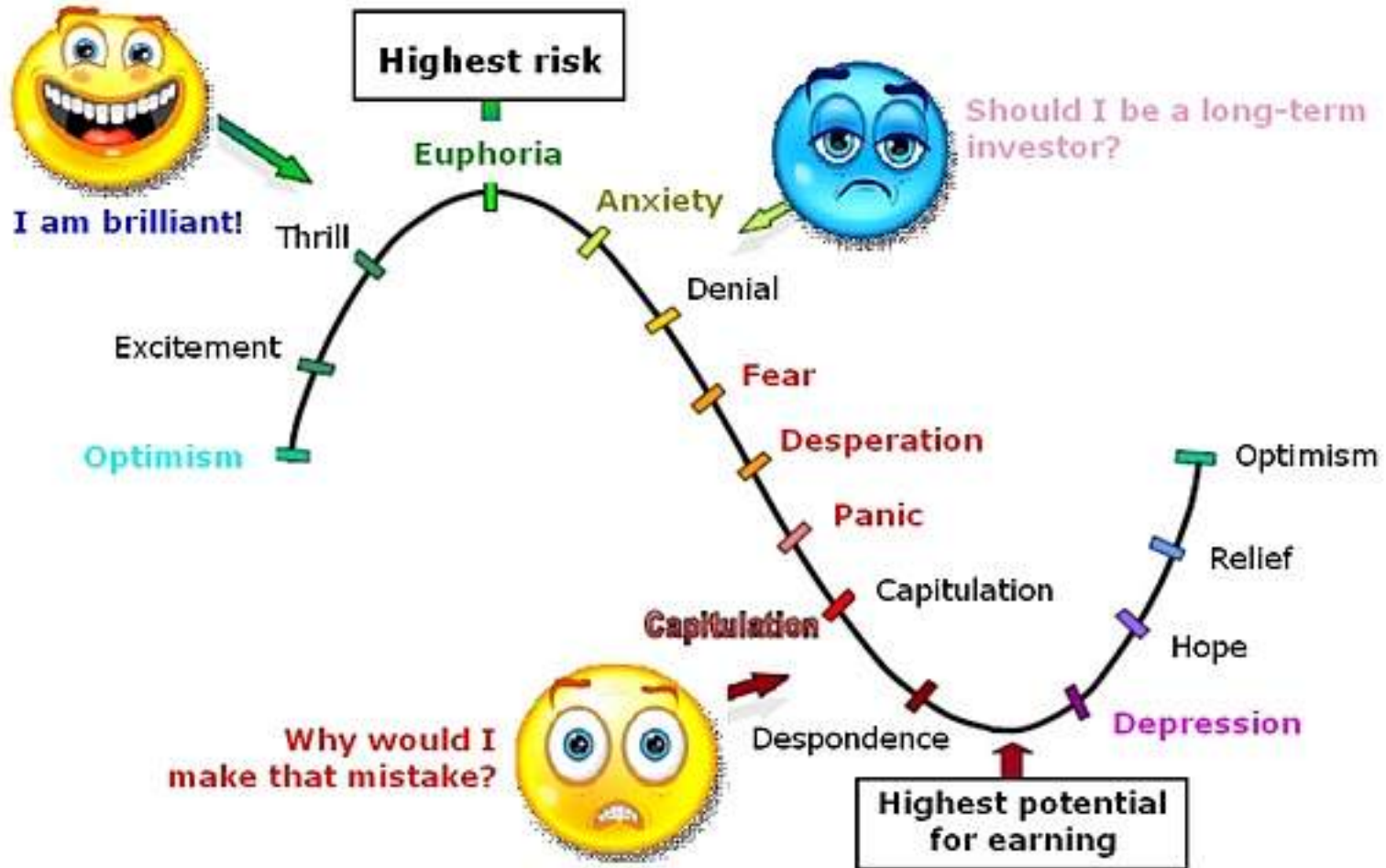
"Imagine that in some private business you own a small share that cost you \$1,000. One of your partners, named Mr. Market, is very obliging indeed. Every day he tells you what he thinks your interest is worth and furthermore offers either to buy you out or to sell you an additional interest on that basis. Sometimes his idea of value appears plausible and justified by business developments and prospects as you know them. Often, on the other hand, Mr. Market lets his enthusiasm or his fears run away with him, and the value he proposes seems to you a little short of silly."

Benjamin Graham

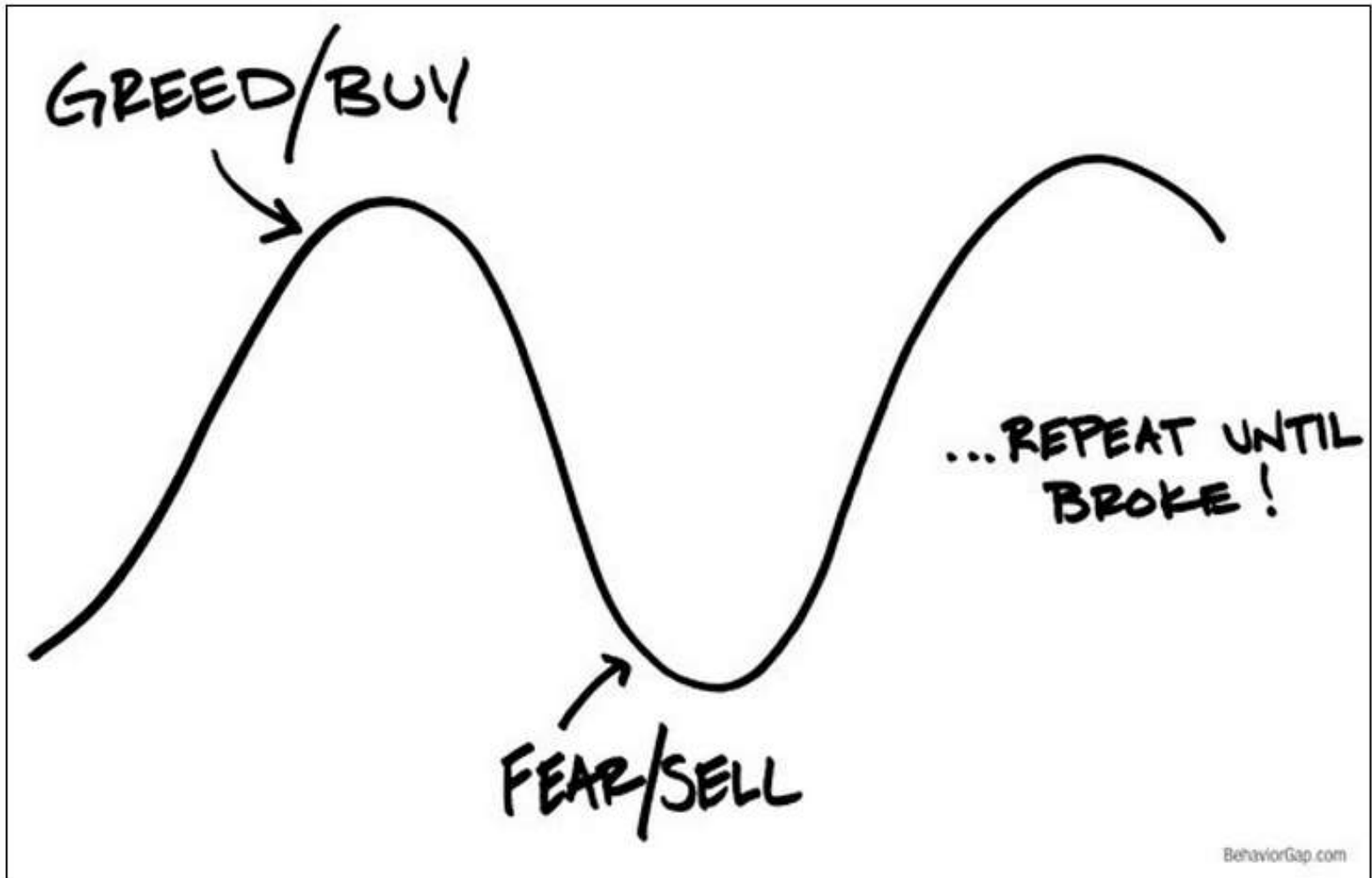
Be FEARFUL when other are GREEDY
And GREEDY when others are FEARFUL!

Warren Buffett

Emotions! - Behavioral Investing

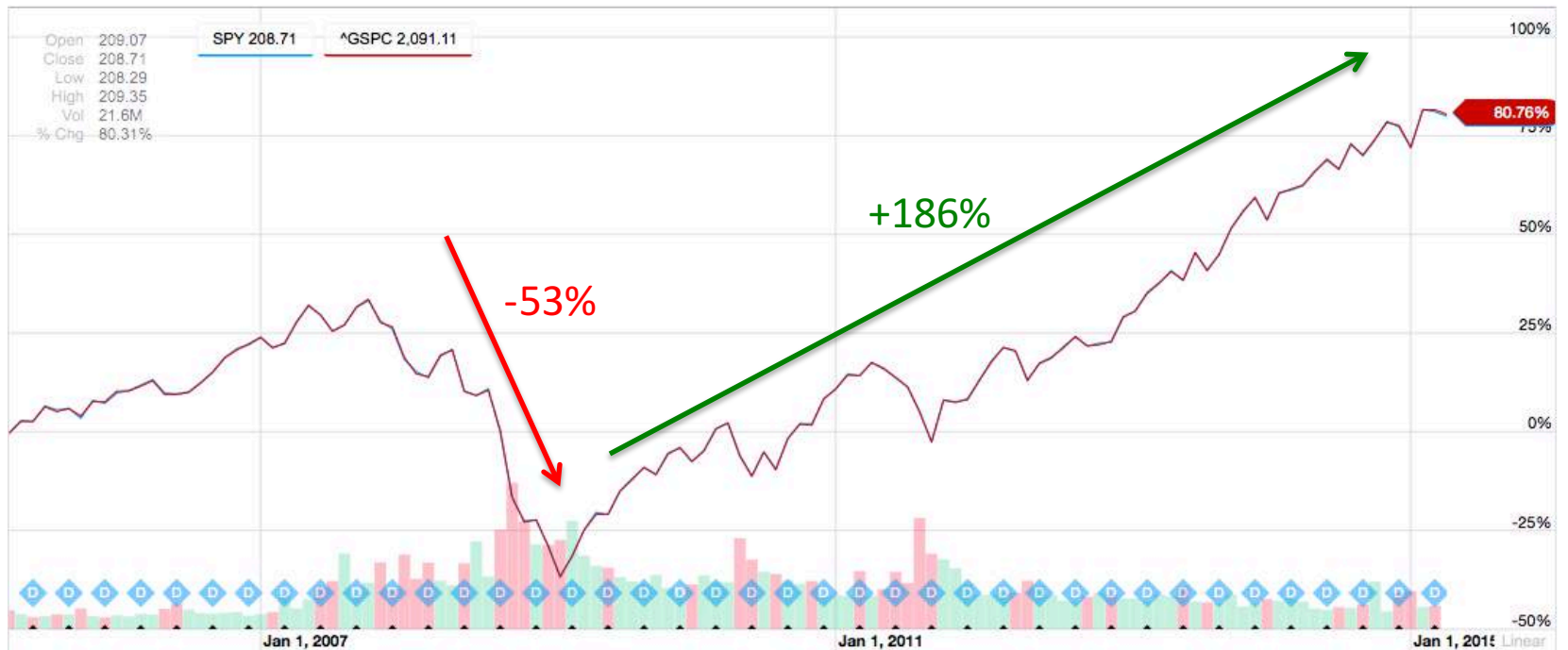


Emotions! - Behavioral Investing



Real World Example

GET ME OUT!





The Madness

“We don’t have to be smarter than the rest.
We have to be more disciplined than the rest.”

Warren Buffet

Finding the Portfolio that's Right for You!

Emotions! – Risk Tolerance

Risk Profile - The lowest level of risk that you are comfortable accepting, while being able to meet your growth goals

1. Very Conservative... 7-12 points
2. Conservative... 13-18 points
3. Moderate... 19-24 points
4. Moderately Aggressive... 25-30 points
5. Aggressive... 31-35 points

Risk Profile: Very Conservative

- Cautious investor, low risk tolerance
- Short time horizon
- Stability and liquidity
- Capital preservation / income production

Risk Profile: Conservative

- Modest capital appreciation, income production
- Moderate time horizon
- Slightly higher risk tolerance
- Some fluctuation in portfolio value

Risk Profile: Moderate

- Relatively stable growth
- Low level of income
- Higher risk tolerance, longer time horizon
- Steady portfolio growth
- Some fluctuation in value, but less than overall market

Risk Profile: Moderately Aggressive

- Relatively high risk tolerance
- Longer time horizon
- Above-average growth
- Expected fluctuations to portfolio value
- Growth, small amount of income

Risk Profile: Aggressive

- High risk tolerance
- Long investment time horizon
- High growth
- Substantial fluctuations in portfolio value
- Very little or no income

General Investment Philosophy




Income - Only	Growth - Only	Total Return
Emphasis on yield (interest from bonds, dividends stocks, preferred stocks, etc.).	Emphasis is on appreciation of asset value.	There are two components of return: income AND capital appreciation
Concept is to avoid selling stocks to fund cash needs.	Concept is to purchase undervalued securities and allow them to appreciate	Wealth is drawn from wherever it makes the most sense so as to maintain the integrity of the portfolio
Totally dependent on investment yields & interest rates	Totally focused on asset valuation & business cycle	Promotes buying low and selling high.
Yields dictate asset allocation decisions	Anticipated growth of security, sector, style dictate allocation decisions	Promotes tax efficiency
CONSERVATIVE	AGGRESSIVE	MODERATE

Morningstar Models

Asset Class	Very Conserv.	Consv.	Moderate	Mod. Agg.	Aggressive
US Stock	12%	26%	36%	46%	56%
Intl. Stock	5%	11%	15%	19%	22%
Bonds	65%	50%	35%	25%	10%
Alternatives	3%	3%	9%	10%	12%
Cash	15%	10%	5%	0%	0%
Avg. Return	4.26%	5.68%	7.17%	8.18%	9.07%
Avg. Risk	6.03%	8.37%	11.26%	13.49%	15.78%

Stock and Bond Portfolios

Probability of gain or loss over one-, five-, and ten-year rolling periods, 1970–2013

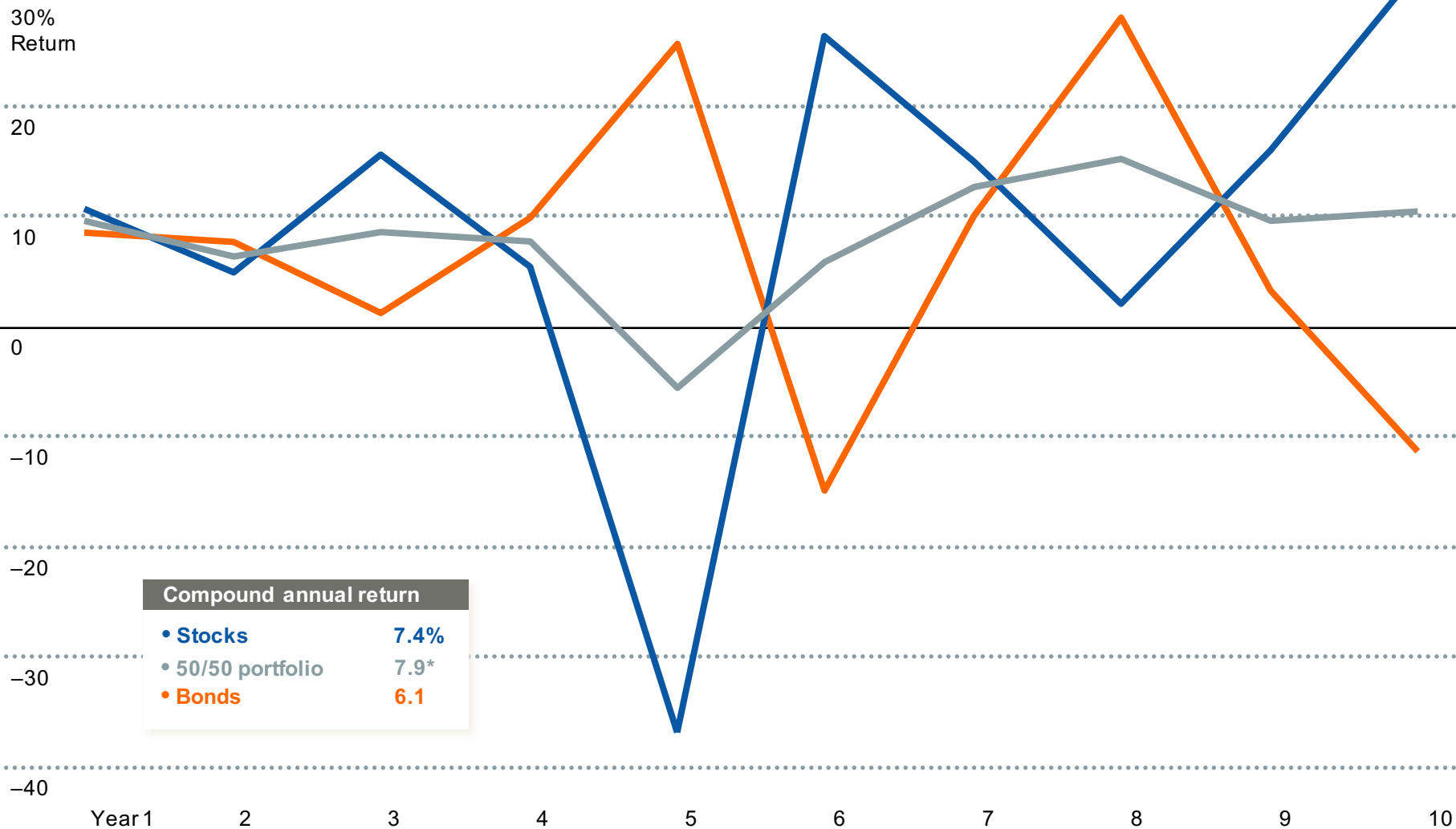
		Large loss			Large gain	
		< -10%	-10% to 0%	0% to 10%	> 10%	
 Aggressive portfolio	Year(s) 1	9%	11%	23%	57%	
	5	0%	3%	40%	58%	
	10	0%	0%	40%	60%	
 Moderate portfolio	Year(s) 1	5%	14%	25%	57%	
	5	0%	0%	48%	53%	
	10	0%	0%	43%	57%	
 Conservative portfolio	Year(s) 1	0%	11%	50%	39%	
	5	0%	0%	58%	43%	
	10	0%	0%	51%	49%	

Percentages are rounded to the nearest whole; may not add up to 100% exactly.

•**Past performance is no guarantee of future results.** This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. ©2014 Morningstar. All Rights Reserved.

Diversification: The Key to Portfolio Creation

The Case for Diversifying 2004–2013



•Past performance is no guarantee of future results. *The return of the portfolio is higher than the returns of the constituent asset classes due to a phenomenon called "the rebalancing bonus," which occurred due to the unusual behavior of stocks and bonds over the time period analyzed. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2014 Morningstar. All Rights Reserved.

Style Winners and Losers

2004 – 2013

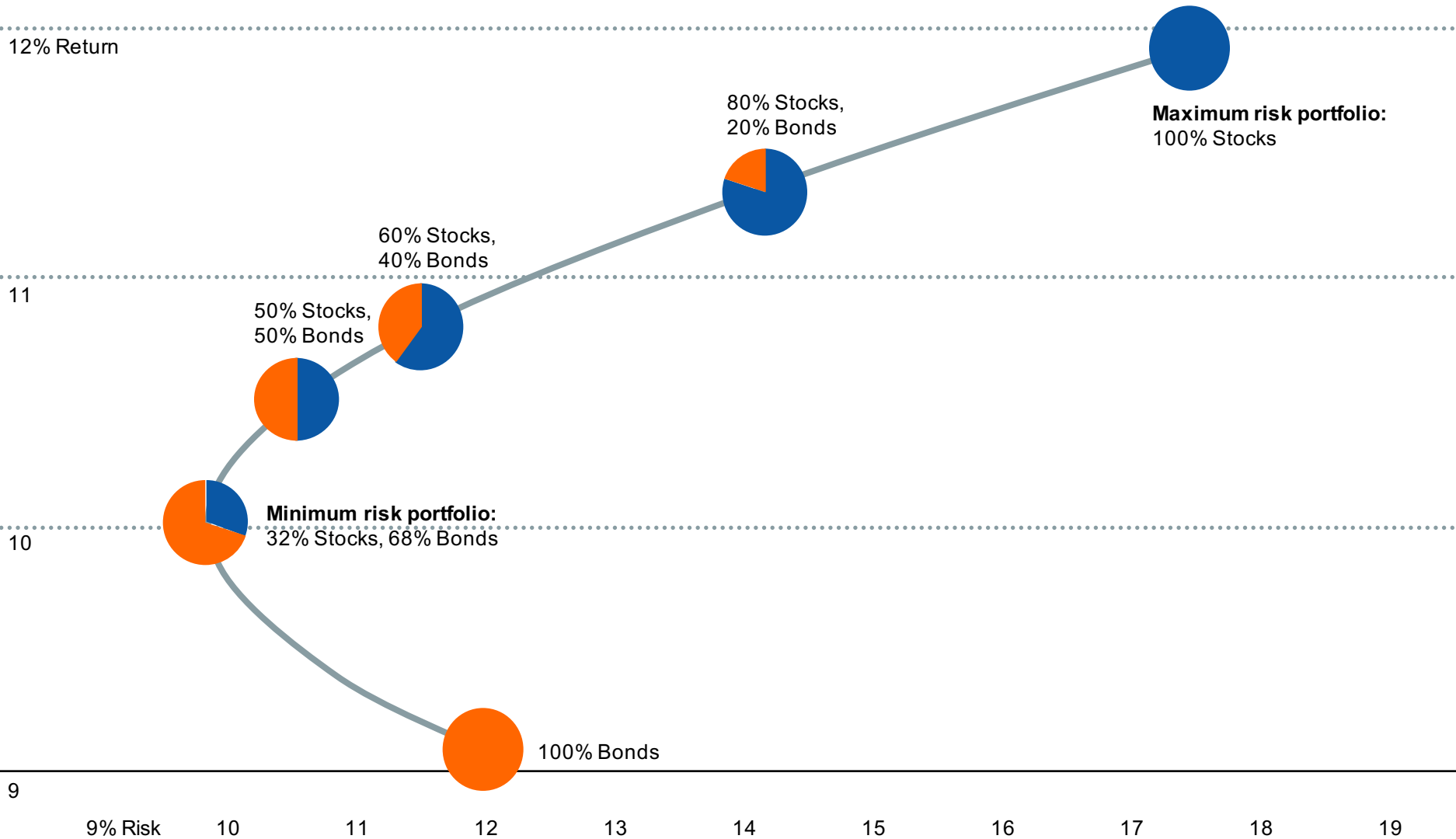
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Highest returns	24.3 MV	16.3 MG	25.8 LV	19.7 MG	-31.7 SV	44.4 LG	31.3 SG	2.2 LV	18.3 SV	42.2 MV
	24.0 SV	11.5 MV	20.0 SV	12.3 LG	-35.9 MV	42.0 MG	27.7 MG	1.6 LG	18.0 LG	41.9 SG
	15.5 MG	8.2	18.8 MV	11.1 SG	-36.1 LV	40.3 SV	26.0 SV	-0.7	17.6 MV	35.9
	15.2	7.0 LV	15.0	4.8	-38.6	36.0 MV	22.2	-1.0 SG	16.2	35.7 SV
	14.0 LV	5.8 SG	10.0 SG	-0.4 LV	-39.9 SG	34.5	20.6 MV	-1.8 SV	15.8 MG	34.1 MG
	13.5 SG	5.1 SV	9.6 MG	-5.5 MV	-41.9 LG	33.0 SG	14.7 LV	-2.3 MG	14.5 SG	32.5 LG
Lowest returns	0.2 LG	3.4 LG	5.7 LG	-8.1 SV	-46.3 MG	11.4 LV	12.9 LG	-2.6 MV	12.9 LV	28.9 LV

• Large growth (LG)
• Large value (LV)
• Mid growth (MG)
• Small growth (SG)
• Mid value (MV)
• Small value (SV)
• Diversified portfolio (DP)

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Stocks and Bonds: Risk Versus Return

1970–2013



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Life Planning

Non-traditional approach to financial planning

Takes into consideration

- YOUR vision and goals
- YOUR relationship with money
- YOUR priorities
- YOUR timeline

It's never too late for Life Planning!

Your Vision—Three Questions

Imagine that you are financially secure and that you have all the money you need for the rest of your life.

- How would you live your life?
- Would you change anything?
- What would you do?

Let yourself go. Don't hold back on your dreams. Will you change your life and how will you do it?

Your Vision—Three Questions

This time you visit your doctor who tells you that you have only 5 – 10 years left to live. The good news is that you won't ever feel sick. The bad news is that you will have no notice of the moment of your death.

- What will you do in the years you have remaining?
- Will you change your life and how will you do it?

Your Vision—Three Questions

This time your doctor shocks you with the news that you have only one day left to live. Notice what feelings arise as you confront your very real mortality. Reflecting on your life, on all your accomplishments as well as on all the things that will remain undone, ask yourself:

- What did I miss?
- Who did I not get to be?
- What did I not get to do?