
Introduction to SWS



SWS programs

- **Education program in the fall**
 - Seminar Series
 - Investment Project
 - Mentorship opportunities
- **Research Teams**
 - Becoming an expert in an industry
 - Giving stock pitches
- **Investment Board**
 - Practical experience in investing and managing a portfolio
- **Executive Board**
 - Running the day-to-day operations of SWS



Requirements of SWS Members

- Attendance at all Seminars (10 weeks)
- Completion of Investment Project
 - Must sign-up after Week 3; thereafter, you will be placed in Investment Project groups and assigned a stock to cover
 - Must complete Mini-Projects throughout the 10 weeks
 - Mandatory meetings with your point person
 - Investment Report and Presentation due at end
- Attend one stock pitch presentation from Research Teams at an Investment Board meeting





smartwomansecurities

October 3, 2007

Introduction to Investing

PRESTON MCSWAIN
DIRECTOR OF PRIVATE ASSET MANAGEMENT
NEUBERGER BERMAN

What is investing?

- To commit money or capital in order to gain a financial return (dictionary.com)
- There are many different ways to invest—
 - Saving, or putting your money in the bank, is one type of investment.
 - So is investing in the stock market by purchasing stocks, bonds, options, etc.
- Investing is a means to your ends...
..... Not a contest

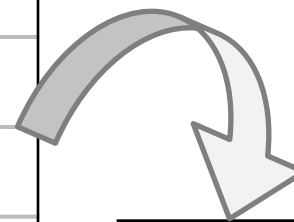


Why do we invest?

- **Power of Compounding**

- Start with \$1,000
- Put it in an investment that earns 10% each year
 - o 10% of \$1,000 = \$100, so after the first year, you then have \$1,100
 - o Approximately every seven years, your money doubles
 - o “Rule of 72”: $72 \div \text{Annual percentage rate} = \text{Amount of time to double your money}$
 - i.e., $72 \div 10 = 7.2$ years

After 7 years	\$2,000
After 14 years	\$4,000
After 21 years	\$8,000
After 28 years	\$16,000
After 70 years	\$1,004,000



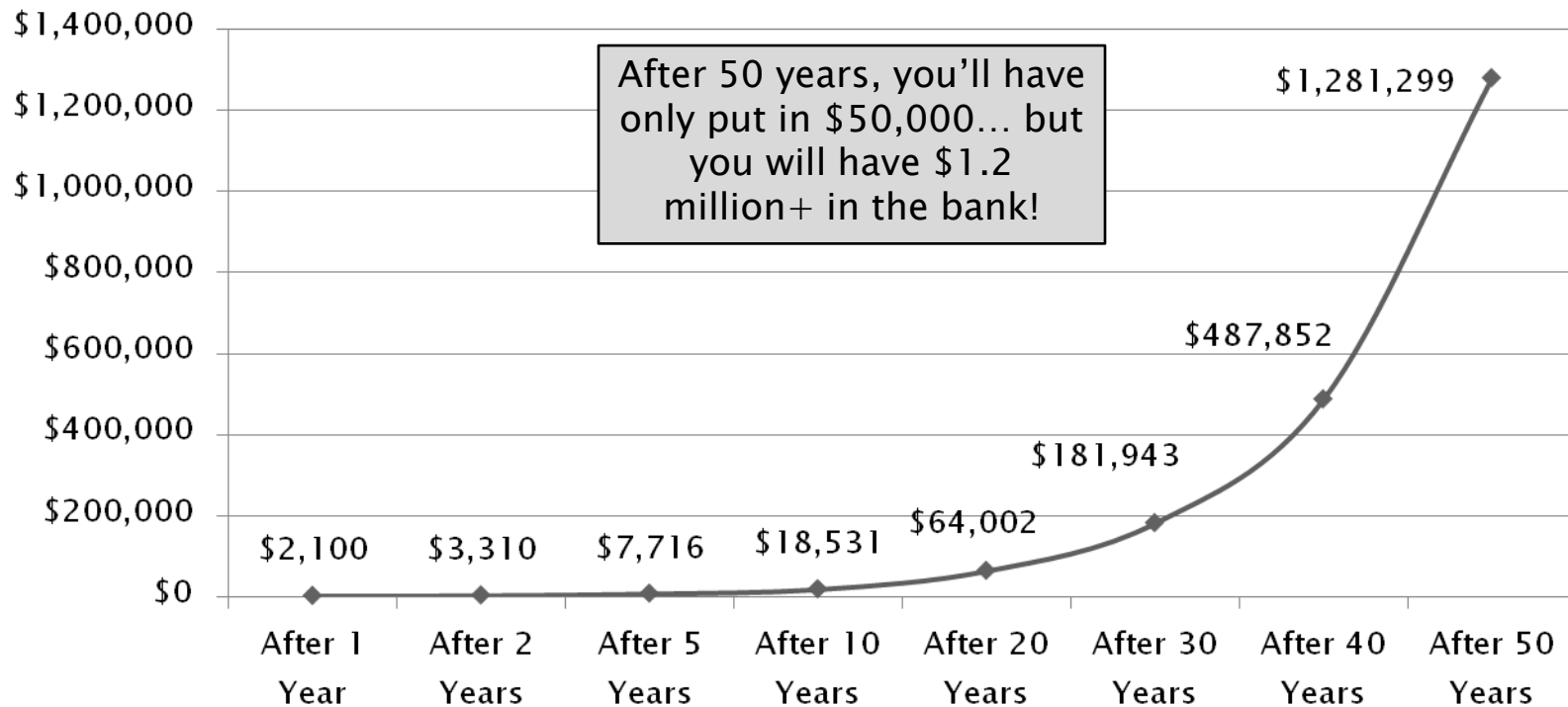
All with an initial investment of only \$1,000!



Why do we invest?

- Time value of money

- Start with \$1,000, earning 10% each year ... but also **ADD** \$1,000 every year

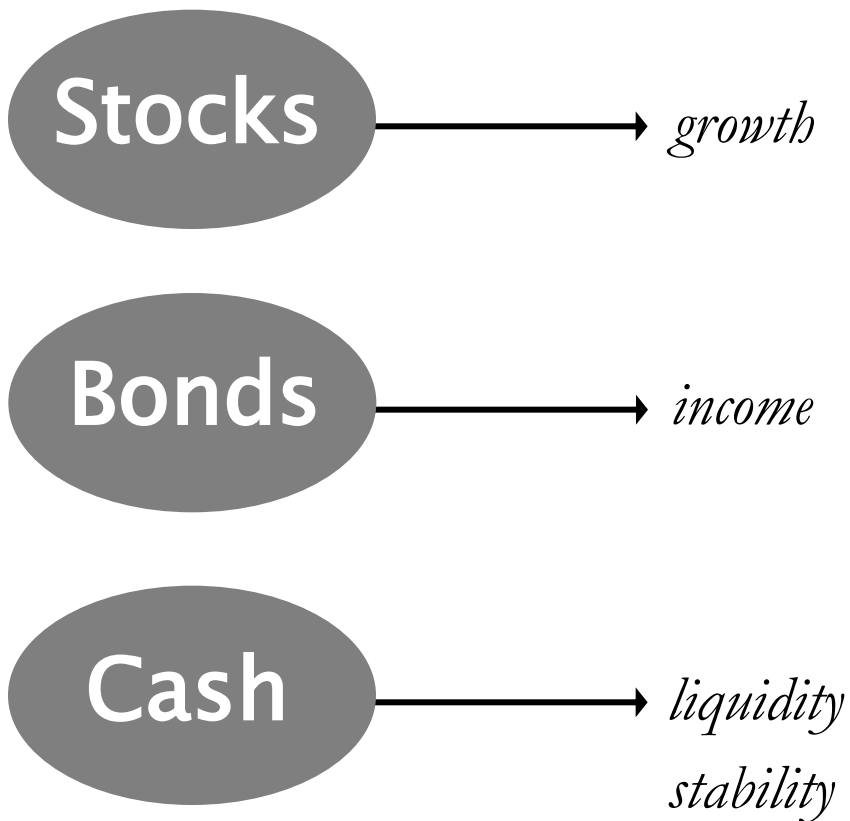


Different types of investments

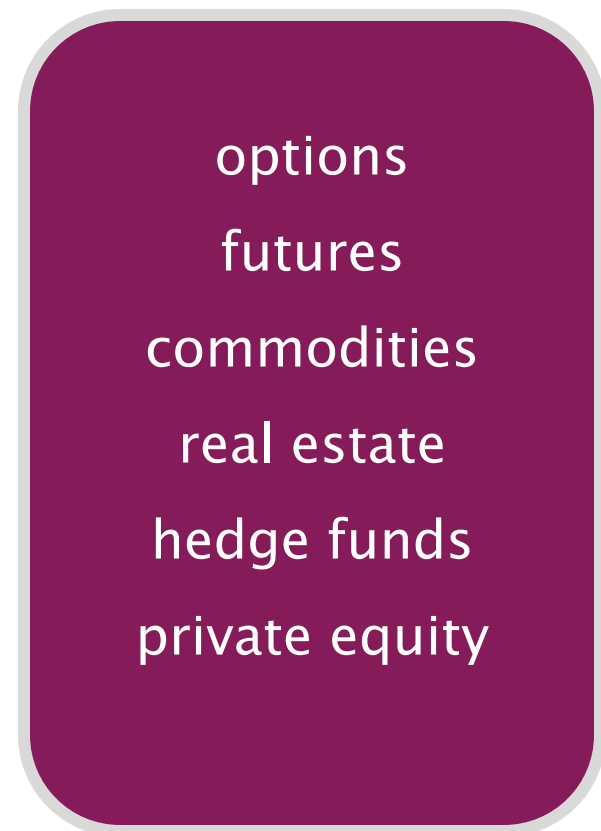


Ways to invest your money

three main asset classes



alternative investments



Stocks (Primary Source for Growth)

- A stock is a piece of ownership in a “public” company
 - Anyone can purchase this stock
 - Shares = how much of a company you own
- As the company’s business grows, the per share value of the stock grows to reflect this
 - Many companies also pay back dividends to shareholders (for example, a company may pay out \$1 per share each year) as an incentive to purchase the stock
- Your investment return = Dividends + Rising value of shares (also called “capital gains”)



Bonds (Primary Source for Income)

- A bond is an “I.O.U.”
 - You are loaning money to someone (Federal Government, Municipal Authorities, or Corporations)
- You expect the initial loan amount will be returned to you at a stated time in the future, with periodic interest payments.
 - This is a reason why bonds are also referred to as “fixed income”
 - You also receive additional regular “payments” for use of your money, often called “coupons”

- Types of bonds (taxable fixed income)
 - Bank CDs = safety and insurance
 - U.S. Treasuries = safety
 - Corporate bonds = high/medium quality
 - High yield bonds = lower quality/high volatility (“junk bonds”)
- Tax-exempt
 - Municipal bonds - federal, state, local



Cash (Primary Source for Stability & Liquidity)

- Also known as “money market” accounts
 - Checking/Savings Accounts with interest
 - Bank Money Market Funds
 - Mutual Fund Money Market Funds
 - o Taxable
 - o Tax-exempt
 - Short-Term Bonds (less than one year)
 - o Treasury Bills
- Low yield/return... but you know your money will be there when you need it

You may have checking or savings accounts at banks like Bank of America or Citizens Bank.

Do you know what return you're earning from the bank?

0.05%

Checking Account at Bank of America

0.20%

Regular Savings Account at Bank of America

(As of July 2007)

Alternative Investments

- Mutual Funds
- Index Funds
- Derivatives
- Other
 - Commodities
 - Real Estate
 - Hedge Funds
 - Private Equity

Mutual Funds, Index Funds, and Derivatives (options, futures) are generally focused on returns from stocks (or a group of stocks)

There are many other types of investments; these are just some that you may have heard before

We will talk more about investing in mutual funds and index funds in Week 3



Diversification and Risk



Risk and return

- These are two important components when judging investments
 - The previous examples about the time value of money were based on earning a 10% return every year
 - But 10% return a year is not always possible
- Not all investments have the same risk; thus, not all investments yield the same return
 - For example, Treasury Bonds (issued by the US Treasury) are considered low risk, and therefore offer a lower return
- Higher risk leads to higher returns
 - You must be compensated for taking on higher risk investments whose growth is harder to predict (more volatile) than lower risk investments
- Returns are relative to the market
 - If your return is 10% a year, but the market return is 15% a year, then you are doing worse than the market
 - Other factors, such as inflation, must be considered as well. If inflation is 10% and your investment return is 10%, your “real” return is 0%



Risk Tolerance Spectrum

High Risk



Small Company Stocks

International Stocks

Large Company Stocks

Corporate Bonds

Government Bonds

Cash Equivalents

High Return



Low Risk

Low Return



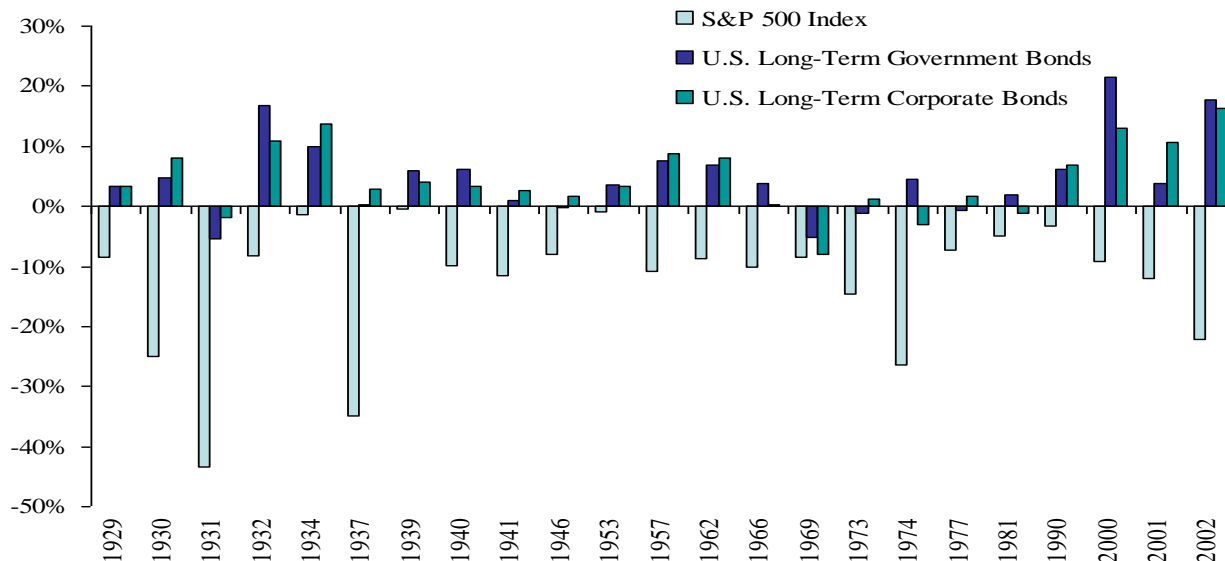
So, what to invest in?

- Now that we know some of the main categories of investments, what should we invest in?
 - Depends on your risk profile
 - No one allocation is best
 - Diversification is key in handling risk
 - Don't just buy stocks, but diversify by buying stocks, bonds, and keeping cash to provide balanced returns
 - Also have a diverse mix within any one asset class
 - For example, within stocks, you may have large-cap and small-cap, growth and value, and stocks from different sectors



Diversification

- Diversify to:
 - Capitalize on low-correlation of asset classes or sectors
 - Diminish single-class investment risk in the event of a downturn
 - Offset losses in one asset class or sector with gains in another
 - o Example: When stocks are negative, bonds tend to be positive



Source: Ibbotson Associates. Selected years shown represent all calendar years from 1929 to 2005 in which the S&P 500 Index had a negative total return. U.S. Long-Term Government Bonds are represented by the 20-year U.S. Government Bond and U.S. Long-Term Corporate Bonds are represented by the Citigroup U.S. Broad Investment Grade Index. Past performance is not indicative of future results. Please note that indices are unmanaged and do not take into account any fees or expenses of investing in the individual securities that they track, and that individuals cannot invest directly in an index. Data about the performance of these indices are prepared or obtained by Neuberger Berman and include reinvestment of all dividends and capital gain distributions. See Appendix for complete description of each index. The data presented herein represents securities industry market data as of the dates specified. It does not represent Neuberger Berman performance nor does it reflect the fees and expenses associated with managing a portfolio. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. This material is not intended to be a formal research report and should not be construed as an offer to sell or the solicitation of an offer to buy any security. A bond's value may fluctuate based on interest rates, market conditions, credit quality and other factors. You may have a gain or loss if you sell your bonds prior to maturity. Of course, bonds are subject to the credit risk of the issuer. Government bonds and Treasury Bills are backed by the full faith and credit of the United States Government as to the timely payment of principal and interest.

No Asset Class Leads Every Year

Annual Percentage Returns (1986–2005)

1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
MSCI EAFE	MSCI EAFE	MSCI EAFE	S&P/BARRA 500 Growth	LB Aggregate Bond	S&P MidCap 400	Russell 2000	MSCI EAFE	MSCI EAFE	S&P/BARRA 500 Growth	NAREIT-Equity TR	S&P/BARRA 500 Growth	S&P/BARRA 500 Growth	S&P/BARRA 500 Growth	NAREIT-Equity TR	NAREIT-Equity TR	LB Aggregate Bond	Russell 2000	NAREIT-Equity TR	MSCI EAFE
69.94	24.93	28.59	36.40	8.95	50.10	18.41	32.94	8.06	38.13	35.26	36.52	42.16	28.25	26.36	13.93	10.27	47.25	31.58	14.02
S&P/BARRA 500 Value	S&P/BARRA 500 Growth	Russell 2000	S&P MidCap 400	S&P/BARRA 500 Growth	Russell 2000	NAREIT-Equity TR	NAREIT-Equity TR	NAREIT-Equity TR	S&P 500	S&P/BARRA 500 Growth	S&P 500	S&P 500	MSCI EAFE	S&P MidCap 400	LB Aggregate Bond	NAREIT-Equity TR	MSCI EAFE	MSCI EAFE	S&P MidCap 400
21.67	6.50	24.89	35.54	0.20	46.05	14.59	19.65	3.17	37.43	23.96	33.36	28.58	27.3	17.51	8.42	3.81	39.17	20.70	12.55
NAREIT-Equity TR	S&P 500	S&P/BARRA 500 Value	S&P 500	S&P 500	S&P/BARRA 500 Growth	S&P MidCap 400	Russell 2000	S&P/BARRA 500 Growth	S&P/BARRA 500 Value	S&P 500	S&P MidCap 400	MSCI EAFE	Russell 2000	LB Aggregate Bond	Russell 2000	S&P MidCap 400	NAREIT-Equity TR	Russell 2000	NAREIT-Equity TR
19.16	5.23	21.67	31.49	-3.17	38.37	11.91	18.91	3.13	36.99	23.07	32.26	20.33	21.26	11.63	2.49	-14.51	37.14	18.33	12.16
S&P 500	S&P/BARRA 500 Value	S&P MidCap 400	S&P/BARRA 500 Value	S&P MidCap 400	NAREIT-Equity TR	S&P/BARRA 500 Value	S&P/BARRA 500 Value	S&P 500	S&P MidCap 400	S&P/BARRA 500 Value	S&P/BARRA 500 Value	S&P MidCap 400	S&P 500	S&P/BARRA 500 Value	S&P MidCap 400	MSCI EAFE	S&P MidCap 400	S&P MidCap 400	S&P/BARRA 500 Value
18.47	3.68	20.87	26.13	-5.12	35.70	10.53	18.6	1.31	30.94	21.99	29.98	19.12	21.04	6.09	-0.61	-15.66	35.61	16.48	6.33
S&P MidCap 400	LB Aggregate Bond	S&P 500	Russell 2000	S&P/BARRA 500 Value	S&P 500	S&P 500	S&P MidCap 400	S&P/BARRA 500 Value	Russell 2000	S&P MidCap 400	Russell 2000	S&P/BARRA 500 Value	S&P MidCap 400	Russell 2000	S&P/BARRA 500 Value	Russell 2000	S&P/BARRA 500 Value	S&P/BARRA 500 Value	S&P 500
16.21	2.75	16.81	16.24	-6.85	30.55	7.67	13.96	-0.64	28.44	19.2	22.36	14.67	14.72	-3.02	-11.71	-20.48	31.79	15.71	4.91
LB Aggregate Bond	S&P MidCap 400	NAREIT-Equity TR	LB Aggregate Bond	NAREIT-Equity TR	S&P/BARRA 500 Value	LB Aggregate Bond	S&P 500	LB Aggregate Bond	LB Aggregate Bond	LB Aggregate Bond	NAREIT-Equity TR	LB Aggregate Bond	S&P/BARRA 500 Value	S&P 500	S&P 500	S&P/BARRA 500 Value	S&P 500	S&P 500	Russell 2000
15.29	-2.03	13.49	14.53	-15.35	22.56	7.40	9.99	-1.82	18.48	16.49	20.29	8.67	12.72	-9.11	-11.88	-20.85	28.70	10.87	4.55
S&P/BARRA 500 Growth	NAREIT-Equity TR	S&P/BARRA 500 Growth	MSCI EAFE	Russell 2000	LB Aggregate Bond	S&P/BARRA 500 Growth	LB Aggregate Bond	LB Aggregate Bond	NAREIT-Equity TR	MSCI EAFE	LB Aggregate Bond	Russell 2000	LB Aggregate Bond	MSCI EAFE	S&P/BARRA 500 Growth	S&P 500	S&P/BARRA 500 Growth	S&P/BARRA 500 Growth	S&P/BARRA 500 Growth
14.50	-3.64	11.95	10.80	-19.51	16.00	5.07	9.75	-2.92	15.27	6.36	9.68	-2.55	-0.83	-13.96	-12.73	-22.10	25.67	6.13	3.46
Russell 2000	Russell 2000	LB Aggregate Bond	NAREIT-Equity TR	MSCI EAFE	MSCI EAFE	MSCI EAFE	S&P/BARRA 500 Growth	S&P MidCap 400	MSCI EAFE	LB Aggregate Bond	MSCI EAFE	NAREIT-Equity TR	NAREIT-Equity TR	S&P/BARRA 500 Growth	MSCI EAFE	S&P/BARRA 500 Growth	LB Aggregate Bond	LB Aggregate Bond	LB Aggregate Bond
5.68	-8.77	7.89	8.84	-23.19	12.49	-11.85	1.68	-3.57	11.55	3.61	2.06	-17.51	-4.62	-22.08	-21.21	-23.59	4.11	4.34	2.43

Source: Standard & Poor's, Frank Russell Co., Morgan Stanley, Merrill Lynch & Co., Lehman Brothers Holdings Inc. and Callan Associates.

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Intro to Stocks



What are stocks?

- Stocks are also often referred to as equities
- Types of stock:
 - Common, Preferred, and Treasury
 - Common stock is the most prevalent and is the type most issued by companies

- Attributes of stocks

- Size

- Large-cap
 - Mid-cap
 - Small-cap

- Market Cap

- \$5 billion+
 - \$1–5 billion
 - below \$1 billion

- Investment style

- Value
 - Growth

**Market Cap = How many shares
outstanding x Current price
of one share of stock**

- Domestic and International



Stock classifications

type of stock

what kinds of investment

example

growth

A growth stock is a company with incredible growth potential because of its market, product, segment or situation. For example, pharmaceutical companies manufacturing specific drugs may be considered growth stocks. Growth stocks are generally hard to identify and are usually riskier

Google
(GOOG)

value

Refers to a stock that is undervalued in terms of its trading price v. book value. Typically, such a stock has been sold off by investors for reasons such as litigation, product issues, marketing. Book value of the company based on tangible assets, however, exceed the current market price

tobacco
companies

blue-chip

Refers to a company with a well established reputation that has a long record of financial stability. Usually these companies pay out dividends. “Blue-chip” designation is debatable

General
Electric
(GE)

income

Income stocks are companies with a reliable track record of paying out dividends on a regular basis. Income stocks are very popular with retirees or investors who want a steady inflow of income

utilities



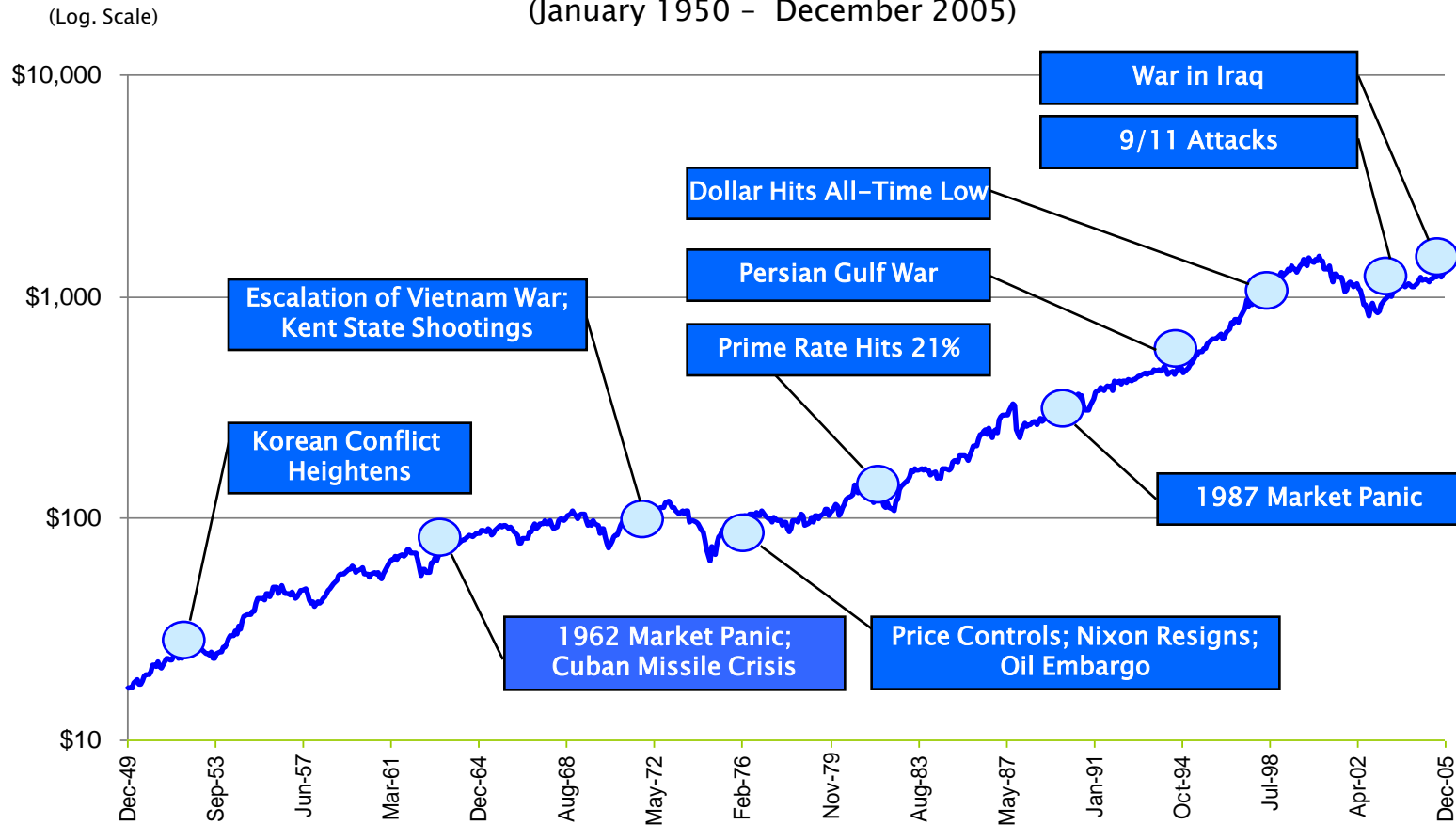
Performance of Investing in Stocks



Taking a Long Term View

S&P 500 Index – Month-End Values

(January 1950 – December 2005)

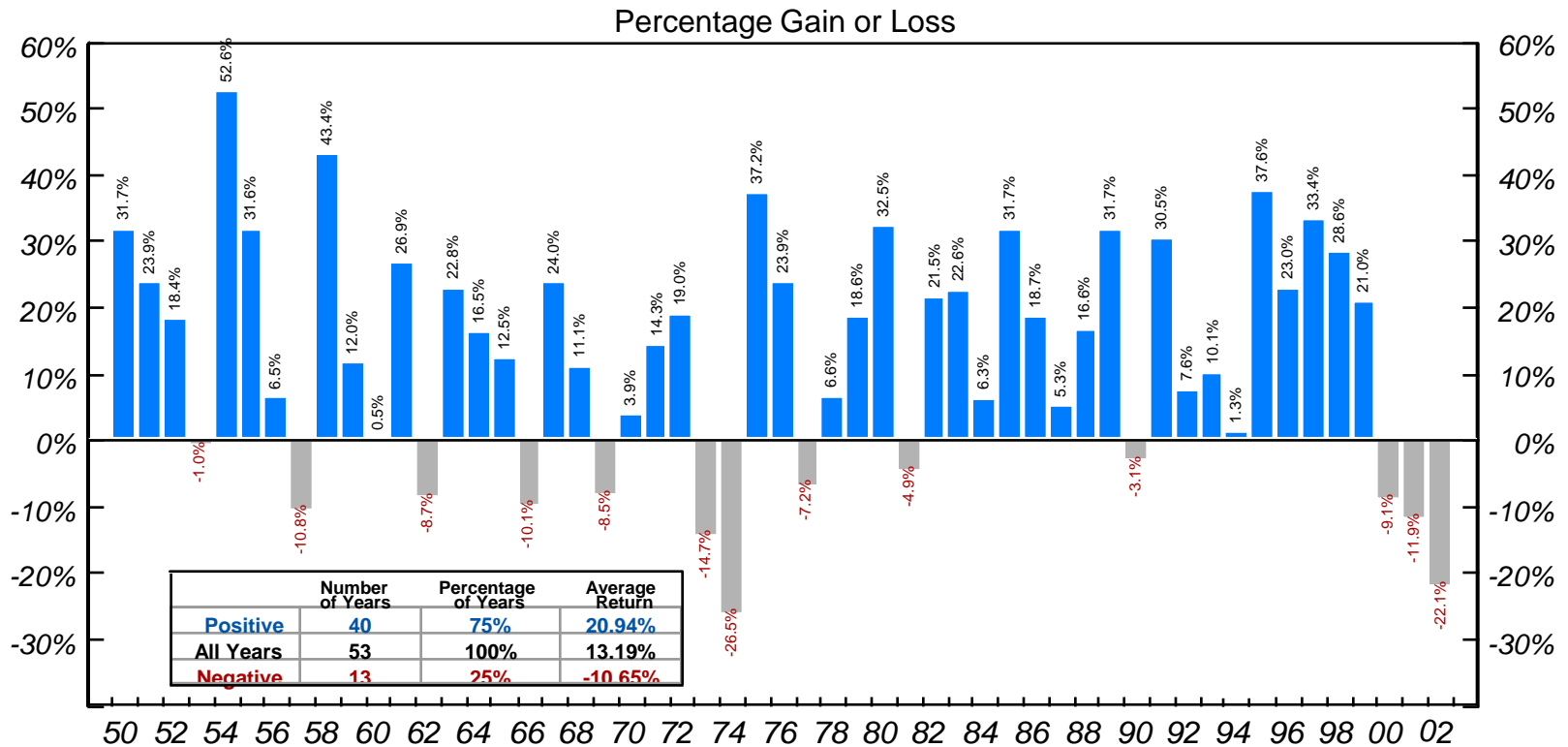


Source: Neuberger Berman and Standard & Poor's. Please see Additional Disclosures page for complete index description. The data presented herein represents securities industry market data as of the dates specified. It does not represent Neuberger Berman performance nor does it reflect the fees and expenses associated with managing a portfolio. Indices are unmanaged, and the figures for the index shown do not reflect any fees or expenses. Investors cannot invest directly in an index. We strongly recommend that these factors be considered before an investment decision is made. Past performance is no guarantee of future results.

Please note: This chart is presented in a logarithmic scale, which shows the index's gains or losses on a percentage basis, for ease of comparison.



Stocks Can Be Negative But ...



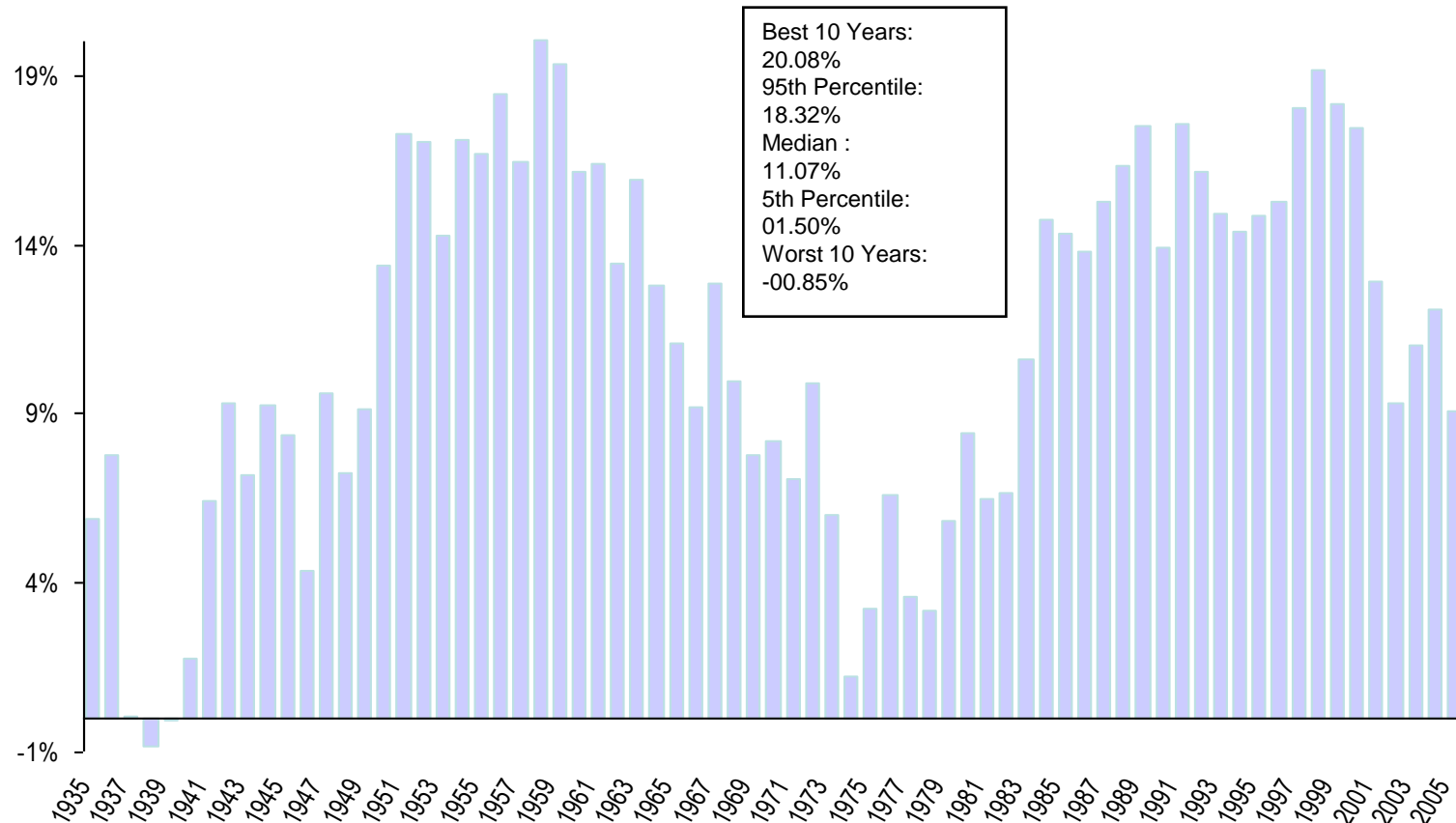
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... Make Money Over Time And ...

S&P 500: 10-Year Rolling Returns Annualized, 1935-2005

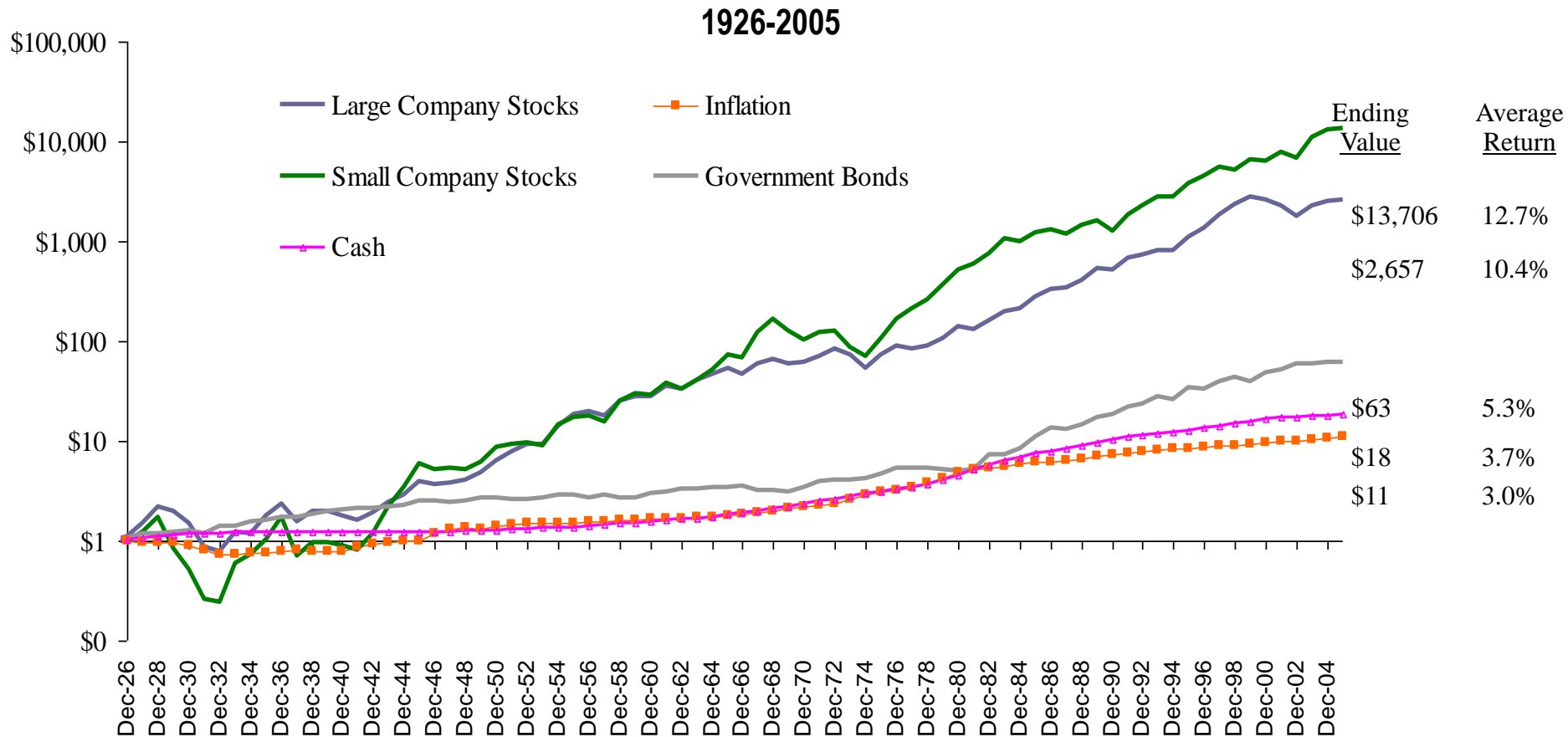


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Over the Long Term Outperform



Hypothetical value of \$1 invested in 1926.

Source: Ibbotson Associates, Neuberger Berman. Past performance is not indicative of future results.

Small Company stocks represented by the fifth capitalization quintile of stocks on the NYSE for 1926-1981 and performance of the Dimensional Fund Advisors (DFA) Small Company Fund thereafter, Large Company Stocks represented by the S&P 500 Index which is an unmanaged group of securities and considered to be representative of the stock market in general; Government Bonds represented by 5-year US Government Bonds; Cash is represented by the 30-day U.S. Treasury Bill. Please note that indices are unmanaged and do not take into account any fees or expenses of investing in the individual securities that they track, and that individuals cannot invest directly in an index. Data about the performance of these indices is prepared or obtained by Neuberger Berman and includes reinvestment of all dividends and capital gain distributions. See Appendix for complete description of each index.



Key takeaways

- SWS focuses on stocks so that students can have the actual experience of researching stocks and managing an equities investment portfolio
- However, the best portfolios are diversified across various asset classes, including bonds and cash
- Investment returns depend on the risk each investor is willing to take
- Try to maintain a long-term view with regards to investing



Coming up in our next seminars...

Week 2

- How the stock market works
- Different types of investors
- Maximizing investment returns
- Examples of great gains...and great losses
- Profile of famous investors

Week 3:

- Opening your personal investment account
- Comparing brokers, fees, etc.
- Understanding taxes and other practical considerations



Q&A

