



smartwomansecurities

Date

# Practical Guide to Investing Now

Speaker  
Position  
Company

# Announcements

- Please enter any SWS related announcements here.



# Tonight's Agenda

- Market Update
- Investing in Stocks – Issues to Consider
- How to Invest
- Types of Accounts and How to Get Started
- Introduction to Investing Summary



# Market Update

- Have speaker comment on what happened in the markets for past week.
- We encourage speakers to create a slide of important occurrences (see next slide for example).



# Market Update Example Slide

- S&P200 gained 2.3% on the week; DJIA was up 2.1% while the NASDAQ was up 2.9% as investors seemed less concerned about risks in the credit markets
- There were mixed technology results as Apple & Microsoft posted solid positive Q3 earnings; rising concerns about semiconductor valuations
- Merrill Lynch wrote down \$7.9b in losses from subprime losses, although the stock rallied on reports that CEO Stan O'Neal would be ousted
- Bank of America announced 3,000 job cuts in the corporate & investment banking division
- Crude oil futures climbed above \$92; some analysts expect it to surpass \$100



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# Investing in Stocks (Issues to Consider)

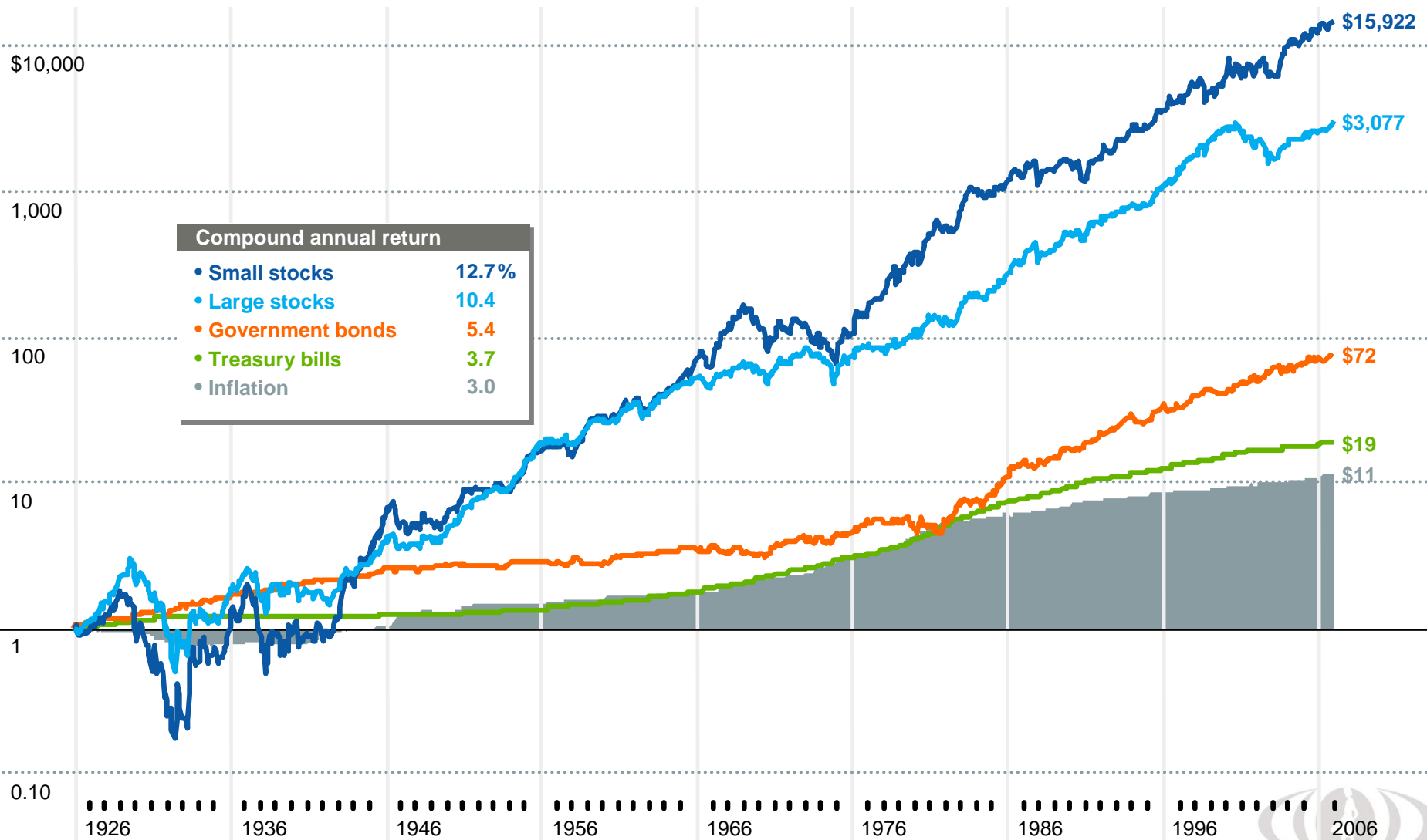


# Stocks

- Size or Market Capitalization
  - Large-cap \$5 billion+
  - Mid-cap \$1-5 billion
  - Small-cap below \$1 billion
- Investment Style
  - Value (Buy Undervalued Companies)
  - Growth (Buy Rapid Growth)
- Domestic and International
  - Over 50% of Global Market Cap is Outside the U.S.



# The Potential of Stocks

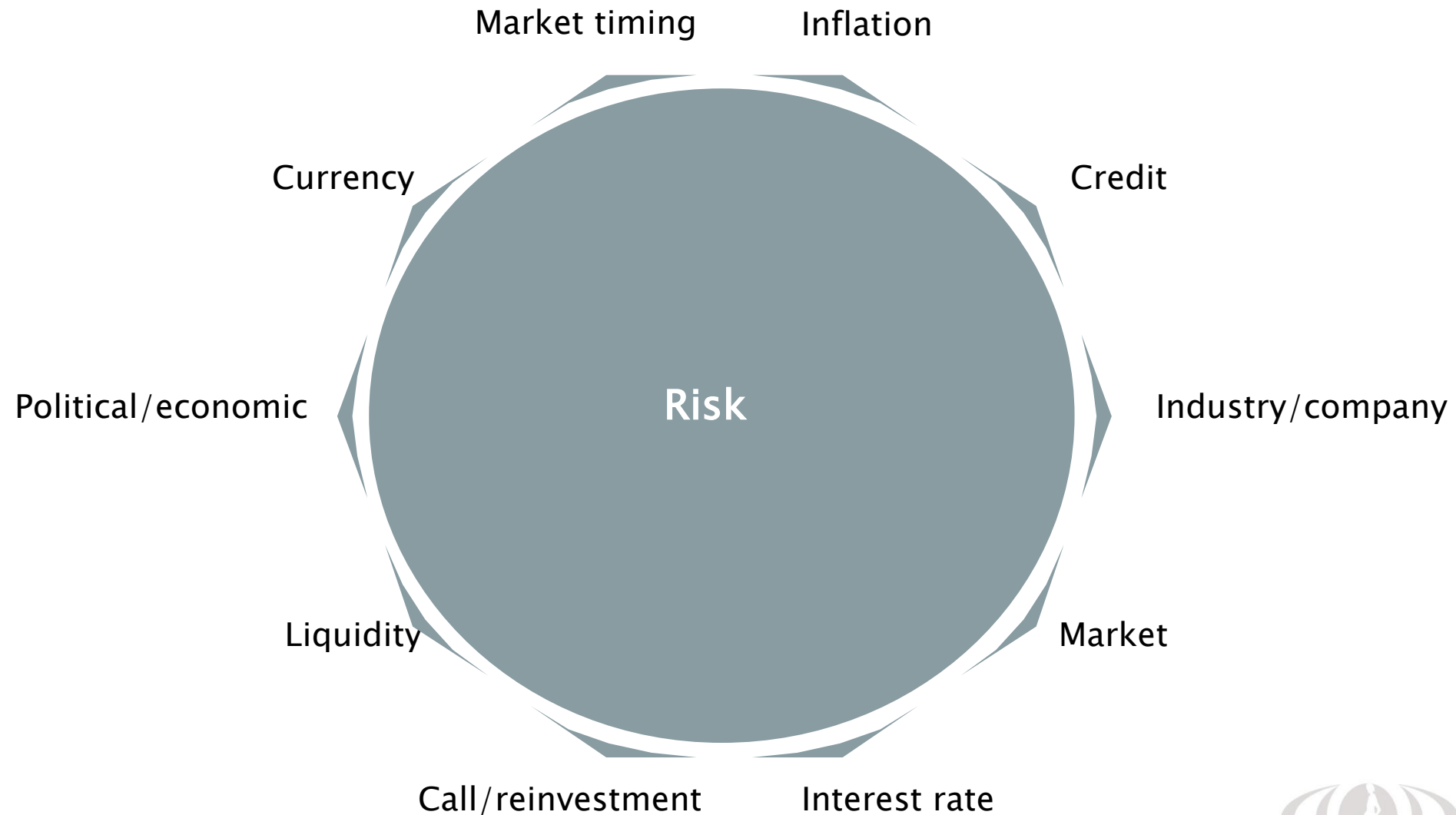


# Returns From Stocks

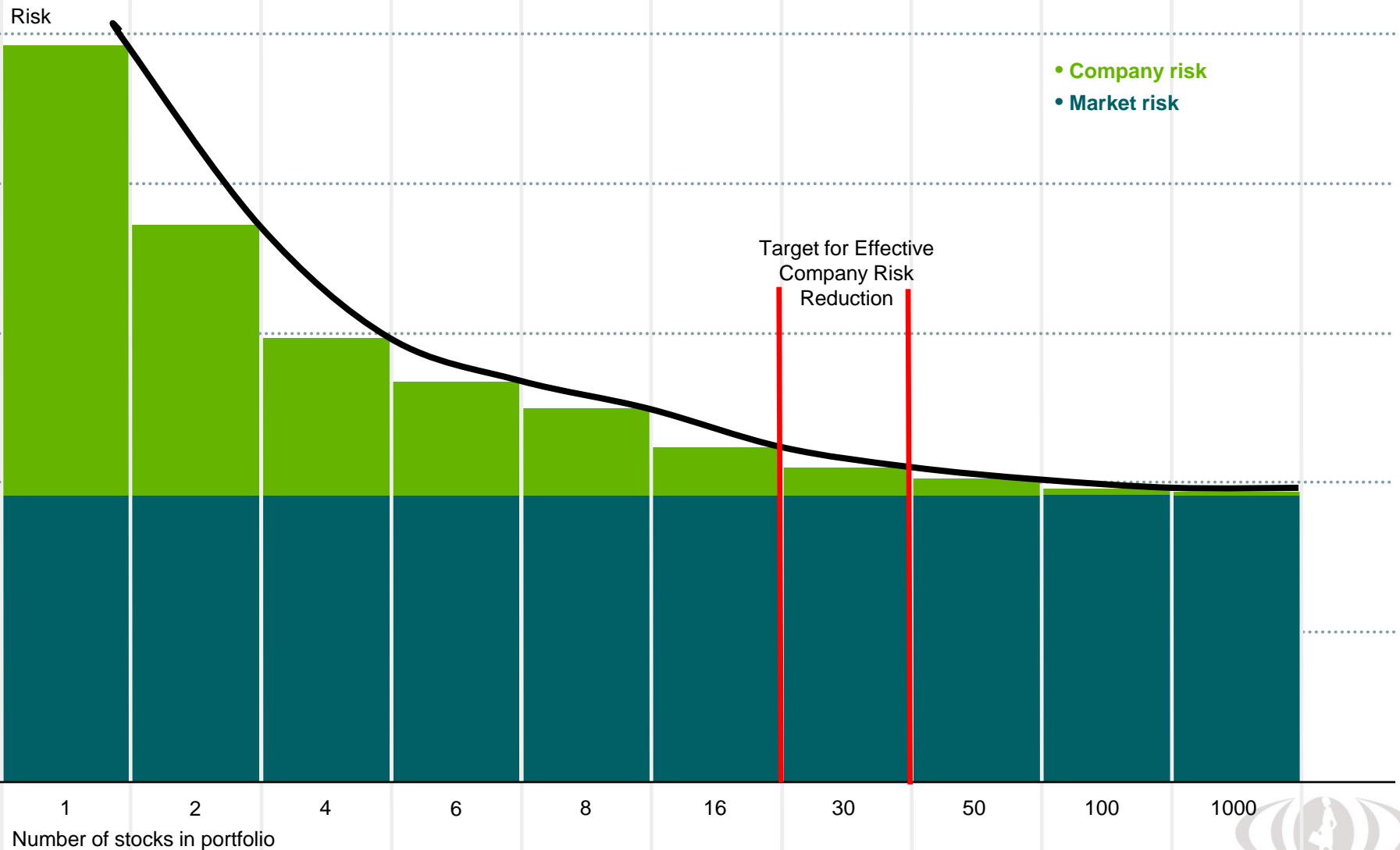
- Capital Gains
  - Current Price Minus Purchase Price
  - Realized (what you earn if you sell)
  - Unrealized (paper return)
- Dividends
  - Income Paid by Stock
  - Return of Profits to Investors from the Company



# Risks to Consider



# Company Risk and Market Risk

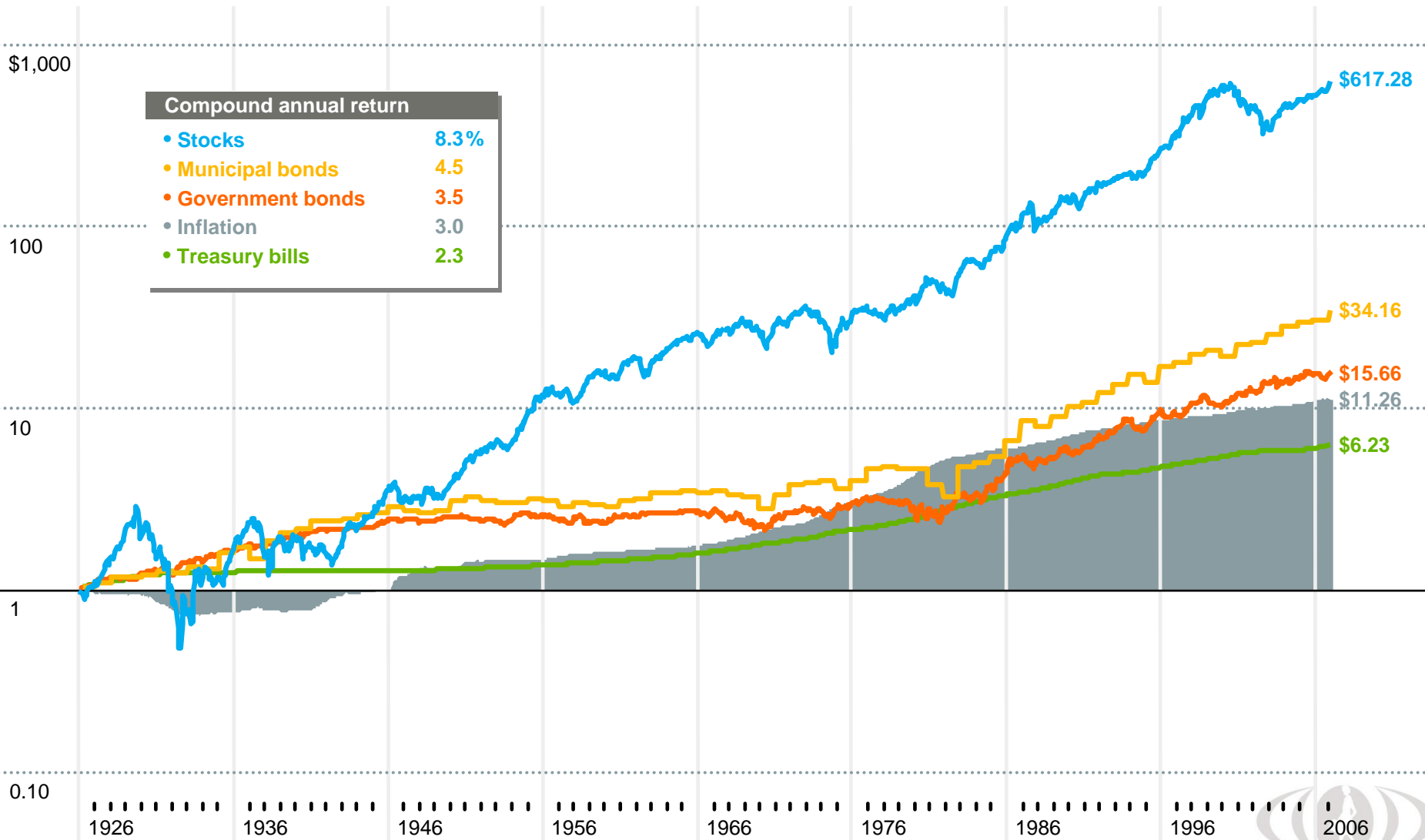


# Remember Taxes and Inflation

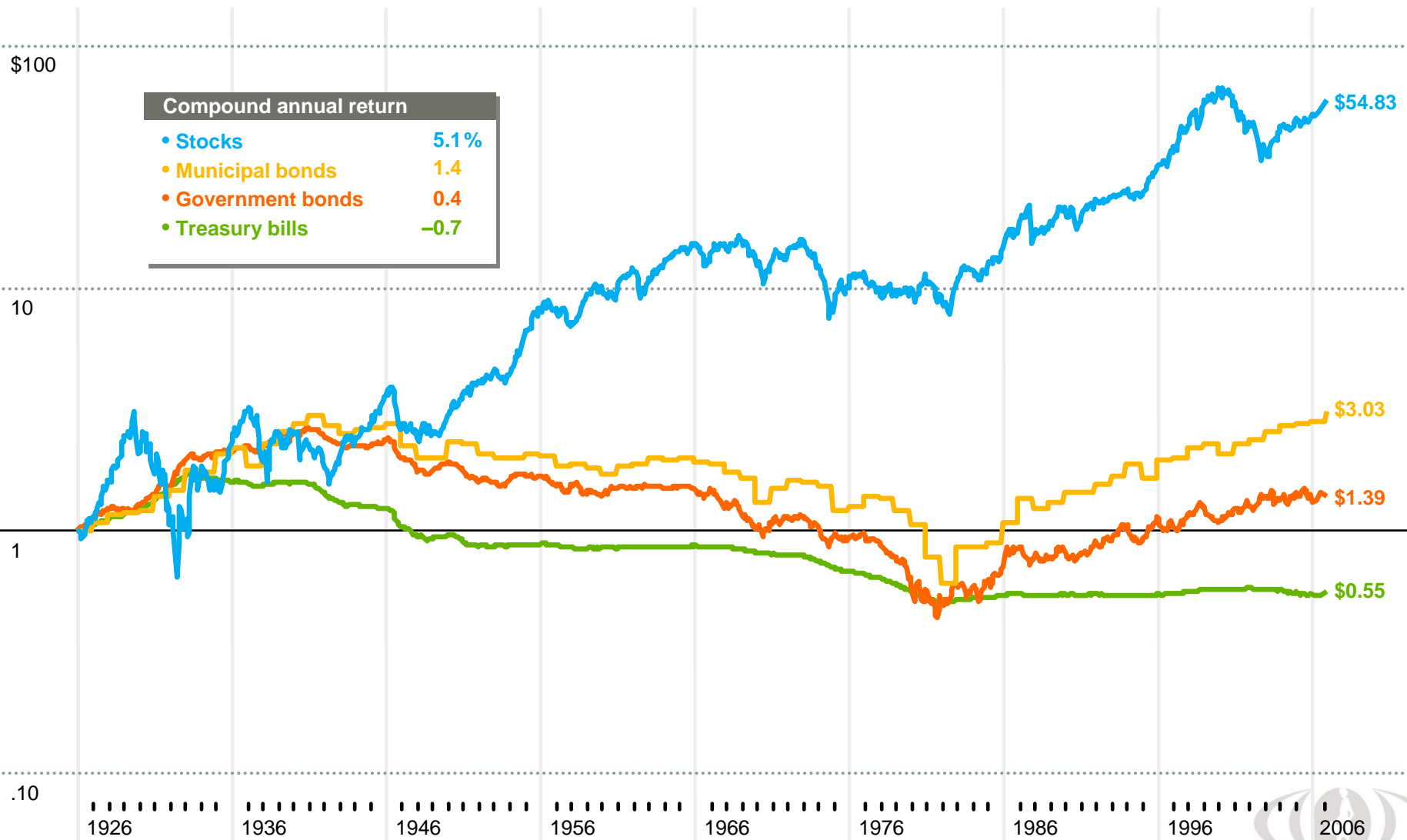
- What You Keep and Can Purchase Is Key
- Taxes
  - Dividend and Income Rate 35.0%
  - Short-Term Capital Gain Rate 35.0%  
(Sell Less Than One Year)
  - Long-Term Capital Gain Rate 15.0%  
(Sell Greater Than One Year)
  - Unrealized Capital Gain Rate 0.0%
- Inflation – Purchasing Power Risk
  - Historically Approx. 3% Per Year



# Tax Impact



# Tax and Inflation Impact



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# How to Invest



# Stock Investment Options

- **Do It Yourself – Brokerage Accounts**
  - **Discount Broker (No Advice)**
    - o Fidelity, Schwab, TD Waterhouse
  - **Full Service Broker (Advice)**
    - o Smith Barney, Merrill Lynch
- **Hire A Professional**
  - **Mutual Funds (Off the Rack – Pooled Funds)**
    - o Fidelity Investments, Vanguard, American Funds
    - o Small Minimums (\$500)
  - **Separate Accounts (Couture – Individual)**
    - o Neuberger Berman, J.P. Morgan
    - o Minimums are Large (\$1,000,000)



# Fees and Commissions

- **Commissions – Fees Charged to Buy and Sell**
  - How To Buy and Sell Per Share
  - Per Share vs. Flat Fees Per Trade
    - o Evaluate How Many Shares You Are Trading
- **Account Minimum Fees**
  - Look For Low Minimums and No Trading Minimums
- **Annual Fees**
  - Avoid Account Maintenance Fees



# Discount Brokerages

- Research and Understand All Fees
- Search for Firms with No Minimums and No Annual Account Maintenance Fees

## more established

Fidelity

[www.fidelity.com](http://www.fidelity.com)

E\*Trade

[www.etrade.com](http://www.etrade.com)

TD Ameritrade

[www.ameritrade.com](http://www.ameritrade.com)

Charles Schwab

[www.schwab.com](http://www.schwab.com)

## low fees

Scottrade

[www.scottrade.com](http://www.scottrade.com)

Sharebuilder

[www.sharebuilder.com](http://www.sharebuilder.com)

Zecco

[www.zecco.com](http://www.zecco.com)

Trade King

[www.tradeking.com](http://www.tradeking.com)



# Discount Brokerages

Broker	Rank	Fees	Cash Rate	Products	Banking Services	Trading Tools	Research	Customer Service	Comment
E*Trade	1	9.99	3.25	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	Top-ranked for second straight year, with high scores across the board.
Fidelity	2	10.95	2.66	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	Strong in mutual funds and research, but some commissions on high side.
TradeKing	3	4.95	1.88	★★★★	★★★	★★★★★	★★★★	★★★★★	Improved service and low commissions. Weaker fund selection.
TD Ameritrade	4	9.99	0.1	★★★★★	★★★	★★★★★	★★★★★	★★★	Thorough and easy-to-find research; plentiful trading tools.
Charles Schwab	5	12.95	2.01	★★★★★	★★★★★	★★★★★	★★★★	★★★	Best mix of mutual funds and other investment products.
Firsttrade	6	6.95	1.99	★★★★	★★★★	★★★	★★	★★★★★	Speedy e-mail responses and phone pickup times. Lacks robust research.
OptionsXpress	7	9.95	0.75	★★★★	★★	★★★★★	★★★	★★★	Plenty of trading tools, but customer service slow with e-mails.
Muriel Siebert	8	14.95	2.31	★★★	★★★★	★★★★	★★★	★★★★★	Improved customer service; limited investment products.
Scottrade	9	7	0.5	★★★★	★	★★★★★	★★	★★★★★	Largest network of branches, but lacks many banking services.
Interactive Brokers	10	1	1.82	★★	★	★★★★★	★★	★★	Lowest commissions and fees overall, but spotty elsewhere.
WellsTrade	11	19.95	2.23	★★★	★★★★★	★	★★★	★★★★★	Combined \$25,000 in bank and brokerage earns 100 free trades.
Banc of America	12	14	2.22	★★★★	★★★★	★★★	★★	★	360 free trades require \$25,000 in bank linked to a brokerage account.
WallStreet*E	13	9.99	1.99	★★★★	★★★★	★★★	★	★	Customer service needs work, but strong in mutual funds and banking.
Zecco Trading	14	0	2.02	★★	★★★	★	★	★	The pitch: 10 monthly free trades.
SogoTrade	15	3	0.75	★	★	★★★★	★	★★	The Catch: poor customer service.
ShareBuilder	16	9.95	2.03	★★	★	★	★★	★	No mutual funds and little research, yet numerous trading tools.
									Phone and e-mail service slow; scant research and tools.



# Buy A Stock

- Stocks Are Bought and Sold Through Brokers
  - Individuals Place An “Order” to Buy or Sell
    - At the “Market”
    - “Limit” My Order
    - Sell or Buy Only After “Stop”

	<b>Buying</b>	<b>Selling</b>
Market Order	Buy at the best available price	Sell at the best available price
Limit Order	Buy below or at a certain price	Sell above or at a certain price
Stop Order	Buy at a specified price, which is currently above the market price.	Sell at a specified price, which is currently below the market price.



# Mutual Funds

- **Pooled Investment Funds**
  - Stocks, Bonds, Cash, Etc .....
  - You Own Shares In the Investment Pool
  - Investors Participate Together in Returns
  - Traded Daily Based Upon Share Price (NAV)
    - o NAV = Net Asset Value
  - Annual Fees Based On Percentage of Investment
    - o Total Expense Ratios = % of Value Charged Per Year
    - o Sometimes Quoted In Basis Points (100<sup>th</sup> of a Percent)
    - o Example: 125 Basis Points = 1.25%
  - More Fund Today Than Stocks Listed On Exchanges
    - o Vanguard, Fidelity, American Funds



# Mutual Funds

- Active and Passive
  - Active Funds Are Managed by Portfolio Manager to Outperform Indices
    - Peter Lynch at Magellen
  - Passive Funds Are Managed to Track Indices
    - S&P500, Russell 2000, Etc..
    - Vanguard, State Street



# Mutual Funds

- Key Considerations
  - Quantitative and Qualitative
  - Performance Vs. Peer Groups and Benchmarks
    - o Look for Consistency
    - o Past Performance Is No Guarantee of Future Performance
  - Consistent Disciplined Process
  - Consistent Management
  - Ownership



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# Types of Accounts (How to Get Started)



# Types of accounts

- **Taxable (Taxed Every Year)**
  - Cash Account
  - Margin Account (borrowing money)
  - Option Account (options and futures)
- **Tax Deferred (Taxes Due At Retirement Age\*)**
  - **Employer Sponsored**
    - o 401(k) and 403(b)
    - o Pension / Defined Benefit
  - **Government Sponsored Individual Accounts**
    - o IRAs (Traditional and Roth)
    - o Keogh

\* Current tax rules require a person to start taking taxable distributions age 70 ½). Complex rules apply and tax professional should be consulted. Different rules apply for Roth IRAs.



# Roth IRAs

- Requirements
  - Earned Income Equal to IRA contribution
  - Income Cap at \$95,000 Per Year\*
  - Parents Can Fund
    - o Beneficiary Still Needs Earned Income
- How much you can put in
  - Up to \$4,000 Per Year\*

\* Rules are subject to change and tend to adjust often. A qualified tax or retirement specialist should be consulted.



# Why Roth IRA

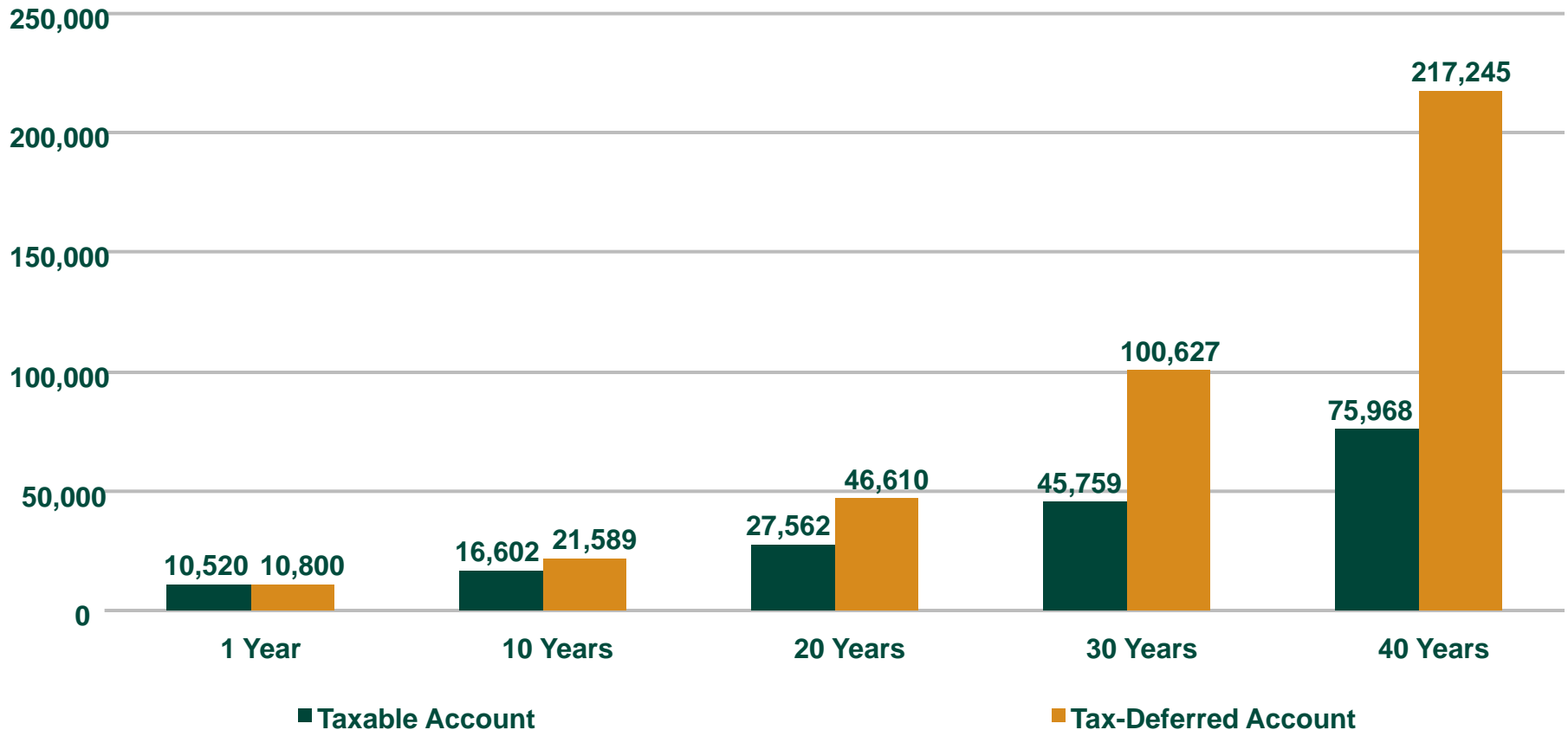
- Compounds Tax Free
- Withdrawals Are Tax Free At Retirement\*

- Save money from age 20 to 65
  - 4k per year for 45 years at 8% = \$1,669,704
- What if you wait 1 year?
  - 4k per year for 44 years at 8% = \$1,542,022
  - You lose \$127,682 !!!

- Current tax rules require a person to start taking taxable distributions age 70 ½) and not before 59 ½. Complex rules apply and tax professional should be consulted.



# Benefits of Tax Deferral



Source: Ibbotson Associates.

Hypothetical value of \$10,000 investment returning 8% annually with a 35% marginal tax rate. The taxable account is taxed every year, while the tax-deferred account is not taxed. Tax-deferred accounts are typically subject to taxation at ordinary income rates upon withdrawal. Estimates are not guaranteed. Past performance is no guarantee of future results. The hypothetical results presented herein are based on historical index data. The results do not represent the performance of any Neuberger Berman managed account or product and do not reflect the fees and expenses associated with managing a portfolio. These returns are used for discussion purposes only. They are not intended to represent, and should not be construed to represent a prediction of future rates of return.

Clients should consult with their tax advisors before making any tax-related investment decisions, as Financial Advisors do not provide tax advice.

# How to Open An Account

- Brokerage Branch
- On-Line or 800# With Mailing or Documents
- Investment Firms Required to “Know Your Customer”
  - Rules Set by SEC and NASD and Patriot Act
  - Detailed Investment Profiles
  - Firms Set Own Internal Rules
  - W-9 Tax Forms to Verify Social Security Number
  - Picture ID with Signature



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# Intro to Investing Summary



# Prescriptions for Success

- **Evaluate Your Personal Situation**
  - Liquidity Needs
  - Time Horizon
  - Definition of Risk
- **Seriously Gauge Your Own Goals**
  - Means to An End – Not A Contest
- **Understand What You Invest In**
  - Keep It Simple
  - Do It Yourself



# Prescriptions for Success

- **Diversify, Diversify, Diversify**
  - Stocks, Bonds, Cash
  - Large Cap, Mid Cap, Small Cap
  - U.S. and International
- **Don't Forget Taxes, Inflation and Fees**
- **Stay Emotionally Balanced**
  - Don't Market Time – Time is On Your Side
  - Be Careful of Herds and Bubbles
- **Review, Revise, Rebalance Based Upon Life Changes**



# General Market Information

- Newspapers
  - Wall Street Journal
  - New York Times
  - Financial Times
- On-Line
  - Google Finance ([finance.google.com](http://finance.google.com))
  - Yahoo Finance: ([finance.yahoo.com](http://finance.yahoo.com))
  - CBS Marketwatch ([marketwatch.com](http://marketwatch.com))
  - Reuters ([reuters.com](http://reuters.com))



# Stock and Mutual Fund Research

- Brokerage Firms
  - Fidelity, Vanguard
- Independent Research
  - Zacks Investment Research [www.zacks.com](http://www.zacks.com)
  - Value Line
  - Morning Star: [www.morningstar.com](http://www.morningstar.com)
  - Motley Fool: [www.fool.com](http://www.fool.com)
  - Seeking Alpha (blog): [www.seekingalpha.com](http://www.seekingalpha.com)



# Seminar Recap

- Fully understand the risks and returns of investing in different asset classes before making your decision.
- Do your research on brokerages, mutual funds, IRAs, and other opportunities before investing your money.
- Be aware of the costs of investing, specifically transaction costs and tax effects that have a large impact on your returns.
- Monitor your portfolio to make sure that your investments align with your financial goals, but don't trade too frequently.



# Coming Up

- If you continue in SWS, which we highly encourage, you will learn how to evaluate stock investment opportunities.
- We will learn how to identify investment ideas, research them more fully, conduct financial analysis, and develop an investment recommendation.
- The next four weeks will include:
  - Week 4: How to Find Good Investment Ideas
  - Week 5: Understanding Financial Statements
  - Week 6: Evaluating Companies with Financial Metrics
  - Week 7: Coming to an Investment Conclusion

