

# Increase Your Financial IQ: Investing, Risk Management and the Professionals Who Can Help You

Congregation Beit Simchat Torah  
Aging Together Education Series

Presented by the Financial Planning  
Association of Metro New York

# Types of Financial Professionals

- Personal Banker
- Broker-Dealer
- Insurance Agents
- Certified Public Accountant (CPA)
- Certified Financial Planner<sup>®</sup> (CFP<sup>®</sup>)

# Questions to Ask When Choosing an Advisor

- Are you a fiduciary?
- What types of services do you offer?
- What is your investment approach?
- How are you paid?

# Engaging a Financial Advisor

## Costs:

- Average fees can range from 0.5% to 1.5% of financial assets
- Multiple ways of compensation
- Know and be comfortable with how your advisor is compensated
- Be clear on the services offered

## Duties Owed to Clients by a CFP®:

- Fiduciary Duty
- Integrity
- Competence
- Diligence
- Disclosure of Conflicts of Interest
- Sound and Objective Professional Judgment
- Professionalism
- Compliance with the Law
- Confidentiality

# Financial Planning

## The Components of a Comprehensive Plan

- Identify Goals
- Analyze Cash Flow
- Determine Emergency Fund
- Retirement Planning
- **Manage Investments**
- Insurance
- Education Funding
- Tax Management
- Optimize Employee Benefits
- Analyze Liabilities
- Estate Planning



# Investment Accounts

## Brokerage

Investment Account Anyone can open.

Capital Gains Taxes

**Short Term** (Less than 1 Year), taxed at marginal income tax rate

**Long Term** (More than 1 Year),  
-3 Tax Tiers 0%, 15%, 20%

## IRA/401K

Retirement Account with **Tax-Deferred** Assets

- Required Minimum Distributions (RMD) Start at 73
- In most cases, withdrawing funds before age 59.5 will result in a penalty
- All Distributions taxed at marginal income tax rate

## ROTH IRA/401K

Retirement Account with **After-Tax** Assets

- All Distributions over age 59.5 completely tax free
- No Required Minimum Distributions (RMD)

# Questions to Ask

## What are my investment goals and what is my time frame?

What do I want this money to do for me?

- Income
- Future need (retirement, education, legacy/inheritance)
- Emergency Fund
- Wealth accumulation

How much do I have available to invest?

Do I need this money available in a short amount of time?

Can I quantify this goal in dollars and time? E.g. “I need to \$50,000 a year in income starting in 10 years.”

What is my risk tolerance / comfort level?

# Risk Tolerance



- Risk in investments is often translated in **volatility**: the variation in price
- People take a higher risk with the **expectation** of getting a higher return, hence they MIGHT get a higher reward
- The higher the risk, there is also the higher the chance that they will **NOT** get the expected return
- Can you tolerate seeing the value of your investments rise from \$1,000 to **\$1,200**?
- Can you tolerate seeing the value of your investments drop from \$1,000 to **\$650**?
- Will you still sleep well at night?
- Discover your own personal tolerance for risk



# Types of Risk

- **Market Risk** – value of investment will fluctuate
- **Inflation Risk** – loss of purchasing power
- **Interest Rate Risk** – if rates increase, value of existing investment may fall
- **Liquidity Risk** – ability to sell an asset without losing a part of principal
- **Currency Risk** – overseas investment changes value to valuation of \$US



# Time Horizon



## Guidelines

**Short-term goals** (3 years and under) – put money in a savings account/money market

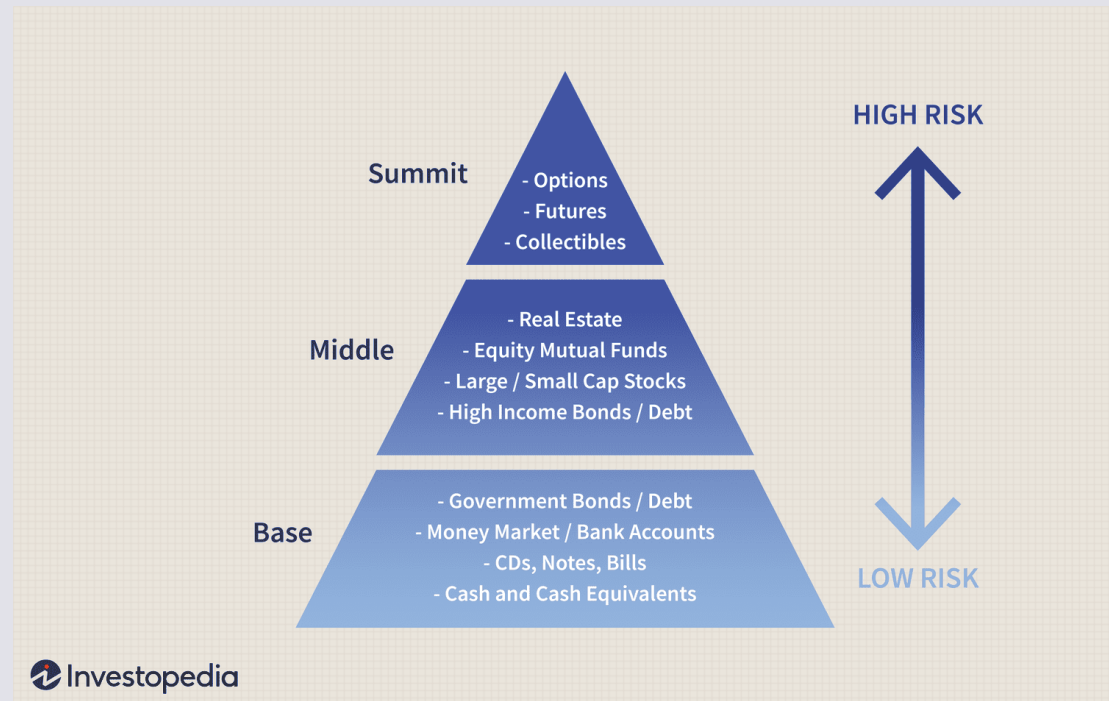
**Intermediate goals** (3–8 years) – most likely a larger part in bonds, more conservative

**Long-term goals** (8 years) – invest in a well-diversified portfolio suited to your risk tolerance

# Types of Investments

## Asset Classes

- Cash/cash equivalents
- Bonds (Fixed Income)
- Stocks (Equities)
- Alternative Investments



# Stocks

## What is a STOCK?

A share in a company – the investor becomes a shareholder/owner of the company and may receive a **dividend**

## Types of Stocks

- Domestic (US)
- International
  - Developed countries
  - Emerging markets
- Large/Mid/Small Cap
- Growth and Value

# Bonds

## What is a BOND?

A loan to a government or corporation where in return you get an **interest** payment

## Types of Bonds

- Government
  - US Federal – Treasury
  - Non-US – Sovereigns
- Municipal (local governments)
- Corporate – US and non-US companies
  - Investment Grade
  - High Yield

# Bond Characteristics

## Considerations

- What is the interest (coupon)?
- What is the maturity date (the date the loan is due to be paid back)?
  - Short-term/Intermediate/Long-term
- What is the quality (rating)?
- Taxes
  - US Treasuries – no state or local tax on interest
  - Municipal Bonds – no federal, state, or local tax on interest
  - Corporate & Sovereign Bonds – interest is taxed at your income tax rate

Bond Rating			
Moody's	Standard & Poor's	Grade	Risk
Aaa	AAA	Investment	Lowest Risk
Aa	AA	Investment	Low Risk
A	A	Investment	Low Risk
Baa	BBB	Investment	Medium Risk
Ba, B	BB, B	Junk	High Risk
Caa/Ca/C	CCC/CC/C	Junk	Highest Risk
C	D	Junk	In Default


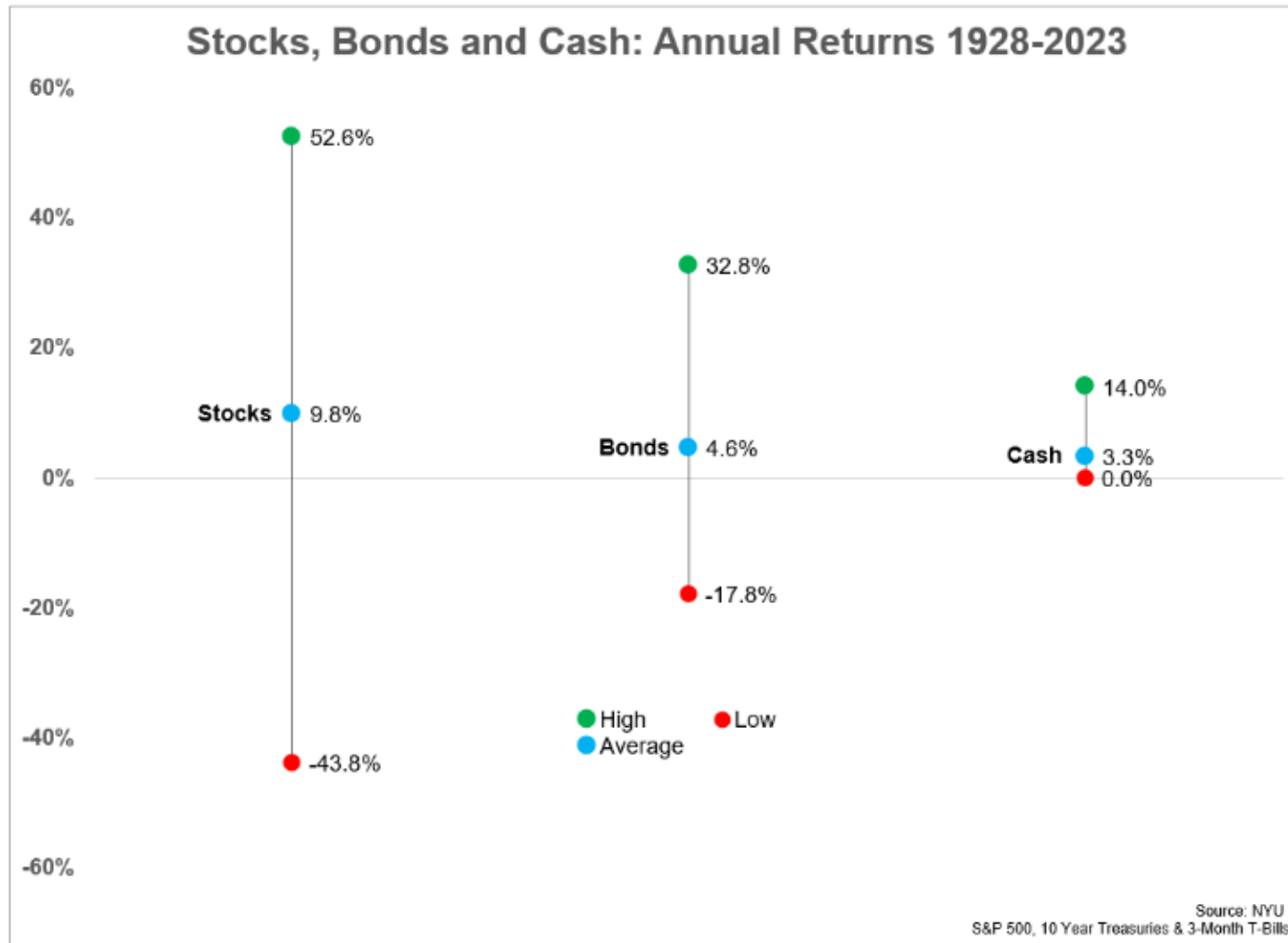
 Investopedia

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# Historical Returns



# Putting Your Money to Work

## Investment Vehicles

- Individual stocks and bonds
- Mutual Funds
  - Managed (active)
  - Index (passive)
- ETFs – Exchange Traded Funds (passive)





# Mutual Funds vs. ETFs

## Mutual Funds

- Traded only once per day, after the markets close at 4pm

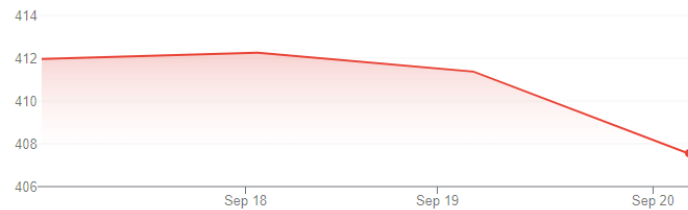
Market Summary > Vanguard 500 Index Fund Admiral Shares

407.54 USD

-4.42 (-1.07%) ↓ past 5 days

Sep 20 • Disclaimer

5D | 1M | 6M | YTD | 1Y | 5Y | Max



- Could have minimum investment amount
- Professional management available (+) – but – comes with higher fees (-)
- Usually there are sales charges and other transaction fees
- No control over investments and taxes (-)

## ETFs

- Traded like a stocks on a stock exchange, can be bought/sold anytime during the day; prices can fluctuate drastically

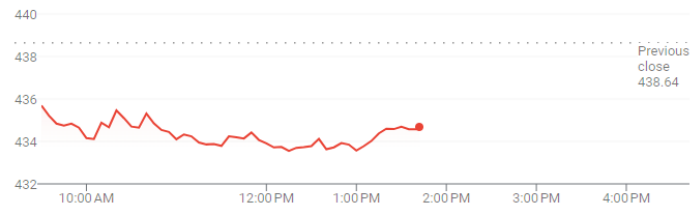
Market Summary > SPDR S&P 500 ETF Trust

434.67 USD

-3.97 (0.91%) ↓ today

Sep 21, 1:42 PM EDT • Disclaimer

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



- Lower cost (+)
- More tax efficient than actively managed mutual funds (+)
- No one is picking the underlying investments – you're invested in the whole index (-)

## Both

- Instant diversification
- Can be invested stocks, bonds, and other investment instruments
- Index MFs and ETFs try to replicate the performance of an index



# Asset Allocation

## Higher Risk

Stocks 80-100%

Bonds/Cash 0 - 20%

## More Moderate

Stocks 60%

Bonds/Cash 40%

## Conservative

Stocks 40%

Bonds/Cash 60%

- The higher the risk – the higher the potential gain and the potential loss
- Investment in stocks are riskier than investments in bonds – higher expected return for stocks than bonds
- Both are not guaranteed returns

# Diversification is Key

## The Callan Periodic Table of Investment Returns

Annual Returns for Key Indices Ranked in Order of Performance (2004–2023)

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Real Estate 37.96%	Emerging Market Equity 34.00%	Real Estate 42.12%	Emerging Market Equity 39.38%	U.S. Fixed Income 5.24%	Emerging Market Equity 78.51%	Small Cap Equity 26.85%	U.S. Fixed Income 7.84%	Real Estate 27.73%	Small Cap Equity 38.82%	Real Estate 15.02%	Large Cap Equity 1.38%	Small Cap Equity 21.31%	Emerging Market Equity 37.28%	Cash Equivalent 1.87%	Large Cap Equity 31.49%	Small Cap Equity 19.96%	Large Cap Equity 28.71%	Cash Equivalent 1.46%	Large Cap Equity 26.29%
Emerging Market Equity 25.55%	Real Estate 15.35%	Emerging Market Equity 32.17%	Developed ex-U.S. Equity 12.44%	Global ex-U.S. Fixed 4.39%	High Yield 58.21%	Real Estate 19.63%	High Yield 4.98%	Emerging Market Equity 18.23%	Large Cap Equity 32.39%	Large Cap Equity 13.69%	U.S. Fixed Income 0.55%	High Yield 17.13%	Developed ex-U.S. Equity 24.21%	U.S. Fixed Income 0.01%	Small Cap Equity 25.52%	Large Cap Equity 18.40%	Real Estate 26.09%	High Yield -11.19%	Developed ex-U.S. Equity 17.94%
Developed ex-U.S. Equity 20.38%	Developed ex-U.S. Equity 14.47%	Developed ex-U.S. Equity 25.71%	Global ex-U.S. Fixed 11.03%	Cash Equivalent 2.06%	Real Estate 37.13%	Emerging Market Equity 18.88%	Global ex-U.S. Fixed 4.36%	Developed ex-U.S. Equity 16.41%	Developed ex-U.S. Equity 21.02%	U.S. Fixed Income 5.97%	Cash Equivalent 0.05%	Large Cap Equity 11.96%	Large Cap Equity 21.83%	High Yield -2.08%	Developed ex-U.S. Equity 22.49%	Emerging Market Equity 18.31%	Small Cap Equity 14.82%	U.S. Fixed Income -13.01%	Small Cap Equity 16.93%
Small Cap Equity 18.33%	Large Cap Equity 4.91%	Small Cap Equity 18.37%	U.S. Fixed Income 6.97%	High Yield -26.16%	Developed ex-U.S. Equity 33.67%	High Yield 15.12%	Large Cap Equity 2.11%	Small Cap Equity 16.35%	High Yield 7.44%	Small Cap Equity 4.89%	Real Estate -0.79%	Emerging Market Equity 11.19%	Small Cap Equity 14.65%	Global ex-U.S. Fixed -2.15%	Real Estate 21.91%	Global ex-U.S. Fixed 10.11%	Developed ex-U.S. Equity 12.62%	Developed ex-U.S. Equity -14.29%	High Yield 13.44%
Global ex-U.S. Fixed 12.54%	Small Cap Equity 4.55%	Large Cap Equity 15.79%	Large Cap Equity 5.49%	Small Cap Equity -33.79%	Small Cap Equity 27.17%	Large Cap Equity 15.06%	Cash Equivalent 0.10%	Large Cap Equity 16.00%	Real Estate 3.67%	High Yield 2.45%	Developed ex-U.S. Equity -3.04%	Real Estate 4.06%	Global ex-U.S. Fixed 10.51%	Large Cap Equity -4.38%	Emerging Market Equity 18.44%	Developed ex-U.S. Equity 7.59%	High Yield 5.28%	Large Cap Equity -18.11%	Emerging Market Equity 9.83%
High Yield 11.13%	Cash Equivalent 3.07%	High Yield 11.85%	Cash Equivalent 5.00%	Large Cap Equity -37.00%	Large Cap Equity 26.47%	Developed ex-U.S. Equity 8.95%	Small Cap Equity -4.18%	High Yield 15.81%	Cash Equivalent 0.07%	Cash Equivalent 0.03%	Small Cap Equity -4.41%	Developed ex-U.S. Equity 2.75%	Real Estate 10.36%	Real Estate -5.63%	High Yield 14.32%	U.S. Fixed Income 7.51%	Cash Equivalent 0.05%	Global ex-U.S. Fixed -18.70%	Real Estate 9.67%
Large Cap Equity 10.88%	High Yield 2.74%	Global ex-U.S. Fixed 8.16%	High Yield 1.87%	Developed ex-U.S. Equity -43.56%	Global ex-U.S. Fixed 7.53%	U.S. Fixed Income 6.54%	Real Estate -6.46%	U.S. Fixed Income 4.21%	U.S. Fixed Income -2.02%	Emerging Market Equity -2.19%	High Yield -4.47%	U.S. Fixed Income 2.65%	High Yield 7.50%	Small Cap Equity -11.01%	U.S. Fixed Income 8.72%	High Yield 7.11%	U.S. Fixed Income -1.54%	Emerging Market Equity -20.09%	Global ex-U.S. Fixed 5.72%
U.S. Fixed Income 4.34%	U.S. Fixed Income 2.43%	Cash Equivalent 4.85%	Small Cap Equity -1.57%	Real Estate -48.21%	U.S. Fixed Income 5.93%	Global ex-U.S. Fixed 4.95%	Developed ex-U.S. Equity -12.21%	Global ex-U.S. Fixed 4.09%	Emerging Market Equity -2.60%	Global ex-U.S. Fixed -3.09%	Global ex-U.S. Fixed -6.02%	Global ex-U.S. Fixed 1.49%	U.S. Fixed Income 3.54%	Developed ex-U.S. Equity -14.09%	Global ex-U.S. Fixed 5.09%	Cash Equivalent 0.67%	Emerging Market Equity -2.54%	Small Cap Equity -20.44%	U.S. Fixed Income 5.53%
Cash Equivalent 1.33%	Global ex-U.S. Fixed -8.65%	U.S. Fixed Income 4.33%	Real Estate -7.39%	Emerging Market Equity -53.33%	Cash Equivalent 0.21%	Cash Equivalent 0.13%	Emerging Market Equity -18.42%	Cash Equivalent 0.11%	Global ex-U.S. Fixed -3.08%	Developed ex-U.S. Equity -4.32%	Emerging Market Equity -14.92%	Cash Equivalent 0.33%	Cash Equivalent 0.86%	Emerging Market Equity -14.57%	Cash Equivalent 2.28%	Real Estate -9.04%	Global ex-U.S. Fixed -7.05%	Real Estate -25.10%	Cash Equivalent 5.01%

# Investing Tips

## Actions

Create an investment plan with a proper asset allocation to fit your goals and risk tolerance

Diversify and be patient

Invest systematically – automation is your friend

Be mindful of fees and expenses in your investments

Participate in your retirement plan. Always capture the company match.

## Mindset

Good investing should be boring

Losses will occur and are a necessary part of investing – stay disciplined through market dips and swings.

Nobody will consistently beat the market

The more you check in on your portfolio, the harder it may be to stay the course

# Resources

- Find a CFP<sup>®</sup> Professional through the CFP<sup>®</sup> Board:  
<https://www.letsmakeaplan.org/>
- Investopedia for Investment Terms/Concepts/News:  
<https://www.investopedia.com/>
- Morningstar for Investment Ratings (A deeper analysis requires a paid subscription) <https://www.morningstar.com/>
- You can also find articles and information in the *Wall Street Journal*, *The New York Times*, *Financial Times*, and *Yahoo Finance*.

# Thank you

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