FINANCIAL FRIDAYS

Investing

Investing, at its heart, is the trading of your money today for a lot more money in the future.

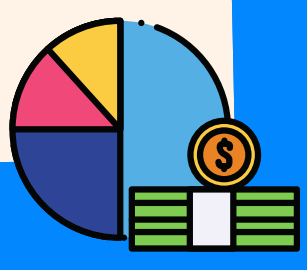
The investing we talk about revolves around the stock market. That said, putting your money into a business you create, or a home you will live in, can also be considered an investment.

Investments by definition are high yield over the ***long term***.

PORTFOLIO & DIVERSIFICATION

Learning and reading about Investing 101, you will come across the words Portfolio and Diversification.

- **Portfolio** refers to the collection of financial investments such as stocks, bonds, and cash
- **Diversification** refers to owning multiple types of investment assets



STANDARD BROKERAGE ACCOUNT

A standard brokerage account — sometimes called a taxable brokerage account or a non-retirement account — provides access to a broad range of investments, including stocks, mutual funds, bonds, exchange-traded funds and more. Any interest or dividends you earn on investments, as well as any gains on investments that you sell, are subject to taxes in the year that the money is received.

With a non-retirement account you have a choice in how it is owned:

- Individual taxable brokerage account: Opened by an individual who retains ownership of the account and will be solely responsible for the taxes generated in the account.
- Joint taxable brokerage account: An account shared by two or more people — typically spouses, but it can be opened with anyone, even a non-relative.

RETIREMENT ACCOUNT

A retirement account, such as an IRA, or individual retirement account, is a standard brokerage account with access to the same range of investments. The biggest difference between a retirement account and a brokerage account is how the IRS taxes — or doesn't tax — contributions, investment gains and withdrawals.

The most common types of retirement accounts are traditional IRAs and Roth IRAs. Many brokers also offer specialty retirement savings accounts for small-business owners and self-employed individuals, such as SEP IRAs, SIMPLE IRAs and Solo 401(k)s. If the company you work for offers a 401(k) plan and matches any portion of the money you save in that account, contribute to the 401(k) before funding an IRA.

EDUCATION ACCOUNT

One of the most popular types of accounts used to pay for education expenses is the 529 savings plan. (This is different from 529 prepaid tuition plans that let you lock in the in-state public tuition at the institution that runs the plan.) Most states offer their own 529 plans that you can open directly, but typically the money can be used at eligible schools nationwide. Some brokerages also allow you to open a 529 account.

Another education savings option is the Coverdell Education Savings Account. An ESA must be set up before the beneficiary is 18, and, like 529s, the money can be used for college, elementary and secondary education expenses.

INVESTMENT ACCOUNTS FOR KIDS

Custodial brokerage account
This investment account is set up for a minor with money that is gifted to the child. An adult (the custodian) maintains account control and transfers assets to the child when he or she turns the "age of majority," which is either 18 or 21, depending on state laws.

Custodial IRA
If a child has earned income, they are eligible to contribute to a Roth or traditional IRA. The account is set up and maintained by an adult who transfers it to the child when they turn 18 or 21.

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How to start investing?

The goal of investing is to commit money, and in return that money will grow. However, investing involves risk.

Even though you can start investing with any amount such $5, it will be tough to grow that $5.

Let's talk about ways to start investing with $1,000. $1,000 is a good amount to start with because you'll minimize fees while still being able to see a decent dollar-value return.

1. **Stocks, Mutual Funds, ETFs**

The most traditional way to start investing is to invest in equities - stocks, mutual funds of stocks, or ETFs made up of stocks.

That's why it's important to look for:

- A diversified portfolio, mutual fund, or ETF to invest in that minimizes risk
- Low fees or no fees to invest or open your account
- The lowest expense ratio on your mutual fund or ETF possible

2. **Bonds and Treasury Securities**

The next most common way to start investing is by investing in debt. When you were a child, you might have received savings bonds, which are investments in debt.

The two most common ways to invest are:

- Directly through the U.S. Treasury at Treasury Direct
- Through your brokerage, either by purchasing individual bonds or more commonly by investing in a bond mutual fund or ETF

3. **Invest with a Roboadvisor**

A Roboadvisor is an investment management firm that automatically allocates your investments between stock and bond ETFs. Unlike a traditional financial advisor, computer software does much of the work.

The most popular Roboadvisors are:

- Wealthfront
- Betterment

4. **Stock Options**

Stock options are a riskier way to invest in the stock market - because unlike actual stocks, these are contracts that allow you the "ability to buy or sell" a stock. You can buy calls, which are options that expect a stock to rise in price, or puts, which expect a stock to fall in price.

5. **Real Estate**

Crowdfunded real estate allows you to join other investors to pool your money to invest in a property - very similar to peer to peer lending. The great thing about this is that there are low minimums – depending on the platform you use, you can invest as little as $1,000 and be an owner in a property. Also, you don't have to be an accredited investor to get started - anyone can do it.

6. **Precious Metals**

Another way to start investing is to invest in precious metals; however, this way of investing has mixed reviews.

The most common ways are:

1. Buying a gold or precious metals ETF at your brokerage
2. Buying physical gold, such as gold coins directly from the U.S. Mint
3. Buying from gold and precious metal brokerage like Apmex or Vaulted

7. **Commodities**

Commodities are tangible items that you can invest in through futures.

When you invest in commodities, you're counting on supply and demand to drive the price of the commodity higher than what you paid for it. You typically purchase a future contract, which sets a price. If the market price is higher than your future contract, you're making money.

8. **Lending Money to Others**

Another popular way to invest $1,000 is to lend money to others. This can be risky, because now you're not just counting on companies, but you're counting on individuals to pay you back with interest. But there are platforms that allow you to do this easily, and by spreading out small loans of just $25, you can minimize the risk of default.

9. **Certificates of Deposit**

Certificates of Deposits (CDs) are some of the oldest ways to invest. They are very safe investments, but offer much lower returns than other investment options. CDs are offered by banks in a similar fashion to bonds. You agree to lend your bank money for a set period of time, and they will pay you a flat interest rate on the loan.

10. **Collectibles**

If you're considering getting started investing in collectibles, make sure you do a lot of homework and get educated first. This is also an area where there are a lot of investing scams. It's also important to remember that collectible investment gains are taxed at a much higher rate that other investments - which is your ordinary income tax rate (not the special 20% for capital gains).

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INVESTING FOR MAJOR LIFE EVENTS

Part of learning how to invest is understanding how your investing needs to change due to major life event.

BIRTH

Saving Bonds

Savings bonds are a popular gift upon the birth of a child. One reason is that unlike other securities, minors may hold U.S. savings bonds in their own name.

Savings bonds are debt securities issued by the U.S. Department of the Treasury to help pay for the U.S. government's borrowing needs. U.S. savings bonds are considered one of the safest investments because they are backed by the full faith and credit of the U.S. government.

Saving for Education - 529 Plans

A 529 plan is a tax-advantaged savings plan designed to encourage saving for future college costs. These plans, legally known as "qualified tuition plans," are sponsored by states, state agencies, or educational institutions, and are authorized by Section 529 of the Internal Revenue Code.

There are two types of 529 plans: pre-paid tuition plans and college savings plans. All 50 states and the District of Columbia sponsor at least one type of 529 plan. In addition, a group of private colleges and universities sponsor a pre-paid tuition plan.

FIRST JOB

Check to see if your employer offers a retirement plan, such as a 401(k) or 403(b) plan. Some employers automatically enroll new employees in such plans. But usually, you need to take the first step and enroll yourself. When you sign up, you'll need to choose the amount you wish to contribute from each paycheck, and where you want the money invested. You may have a choice of mutual funds, including index funds and target date funds.

Often, there's "free money" involved. Your employer may contribute a certain amount to your retirement savings plan and match contributions that you make up to a certain level. If, for instance, an employer contributes 50 cents for every dollar you save, that's an immediate 50% return. There is no other investment that will give you that kind of guaranteed return – don't pass it up.

CARING FOR LOVED ONES

Suggestions from the Women's Institute for a Secure Retirement (WISER)

- **Create a household budget.** Determine the priorities and how to pay for them.
- **Plan carefully before leaving a job.** Exhaust all other options. Leaving your job means losing a paycheck and possibly health benefits.
- **Don't dip into your 401(k) or other retirement savings.** This will reduce your nest egg and could set your retirement plans back by many years.
- **Look into purchasing long-term health insurance.** This way, you can access a wide range of supportive services and living arrangements for your own retirement.

Transfer on Death (TOD) Registration

Transfer on death (TOD) registration allows you to pass the securities you own directly to another person or entity upon your death without having to go through probate. By having a TOD registration, the executor or administrator of your estate will not have to take any action to ensure that your securities transfer to whomever you have designated.

Elder Fraud

Older people with diminishing mental or physical capacity can be easy targets for financial abuse. This may occur when someone exploits a position of influence or trust over an elderly person to gain access to that person's assets.

Here are red flags of elder financial abuse:

- Sudden reluctance to discuss financial matters
- Unusual or unexplained account withdrawals, wire transfers, or other financial changes
- Cash or other items missing from the home
- Drastic shifts in investments
- Abrupt changes in Wills, trusts, power of attorney, or beneficiaries
- Concern or confusion about missing funds.

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