

# Investing 101

## Investing Made Easy at Any Age

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## Meet Ryan Swor

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Ryan Swor serves as Vice President, Investment Manager for NDBT's Trust and Wealth Management Department and has been with the bank for 7 years. Mr. Swor graduated from Stephen F. Austin State University in 2015 with a BBA in Finance and a minor in Accounting. While at Stephen F Austin, he served as a member of the Mast Student Investment Roundtable that was awarded Top Growth Portfolio in 2015. In 2019, while managing multiple duties for NDBT's Trust and Wealth Management team, he became a CFA Charterholder. Born and raised in Carrollton, Mr. Swor takes pride in being on the NDBT Cares board enhancing community experience in NDBT's community initiatives. If Ryan is not at the bank you are likely to find him hunting, fishing, enjoying the outdoors, or spending time with family.



# Overview

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What is investing?

Why should I consider investing?

What investments are available and what are their risks?

How do I start investing?



# What is Investing?

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## Merriam-Webster Definitions:

- to commit (money) in order to earn a financial return
- to make use of for future benefits or advantages

Spending time or money to improve your own life or lives of others

Investing is NOT gambling



# Why should I consider investing?

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Assists in the path to a comfortable standard of living and retirement

Reduces risk and increase the chance of reaching your goals through diversification

Take advantage of compounding interest



# Compounding Interest

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Interest that is earned on initial investment and accumulated interest

Example:

- Invest \$100 at 5% interest, compounded annually
  - Year 1: \$105 ( $100 \times 1.05$ )      Total Interest Earned = \$5.00
  - Year 2: \$110.25 ( $105 \times 1.05$ ) Total Interest Earned = \$5.25

The more time spent invested, the greater the benefits from compounding will be

Formula:  $P[(1 + i)^n]$

P = Principal or Present Value, i = Interest Rate, n = number of periods (time)

May also be referred to as Time Money Value (TMV)



# Compounding Interest Example 1

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Jane invests \$10,000 at age 20 for retirement and expects to earn 5% annually. By the time Jane reaches age 65, the \$10,000 investment will have grown to \$89,850

John invests \$10,000 at age 35 for retirement and expects to earn 5% annually.

By the time John reaches age 65, the \$10,000 investment will have grown to \$43,219

The difference between starting at age 20 versus age 35 is \$46,631



# Compounding Interest Example 2

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Jane starts investing \$100 per month at age 20 for retirement and expects to earn 5% annually. By the time Jane reaches age 65, she will have contributed \$54,000, with her ending balancing being \$202,000.

John starts investing \$200 per month at age 35 for retirement and expects to earn 5% annually. By the time John reaches age 65, he will have contributed \$72,000 with his ending balance being \$166,000.

Even though John invested more money each month, Jane ended up with \$36,000 more than John by the time they reached 65 due to starting earlier.



# What investments are available?

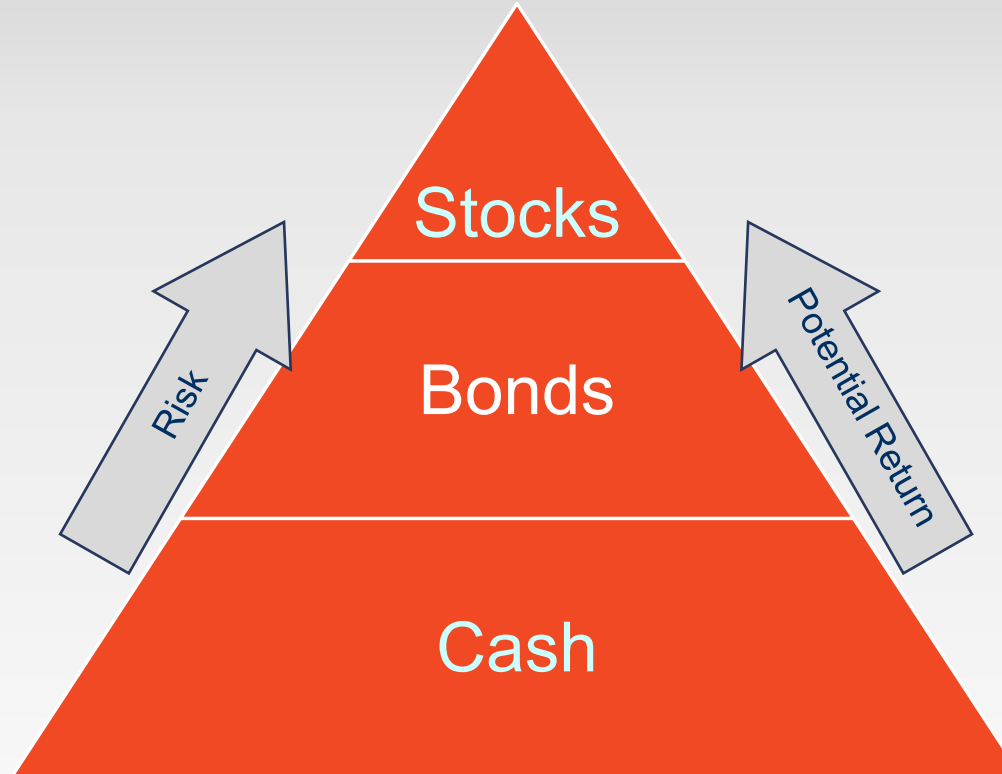
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Stocks

Mutual Funds

ETFs

Bonds



The Risk/Return Triangle



# Stocks

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Type of security that gives stockholders a share of ownership in a company

## Benefits

- Capital appreciation
- Dividend payments
- Ability to vote and influence the company
- Holding a variety of stocks can reduce your overall risk to the market
- Inflation protection

## Risks

- Prices fluctuate
- No guaranteed stock prices will go up and can go to zero if the company goes bankrupt

## When to Use

- Longer term goals that can handle fluctuations
- A piece of an investor's portfolio



# Bonds

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A government, municipality or corporation issues bonds (Issuer) to raise money from investors willing to lend them money for a certain amount of time.

The issuer promises to pay a specified rate (interest rate) during the life of the bond and repay the principal (face value or par value) at maturity.

## Types of Bonds

- Corporate
- Investment Grade
- High Yield (Junk Bonds)
- Municipal Bonds (Munis)
- US Treasuries



# Bonds

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## Benefits

- Preserves capital and predictable income streams
- Municipal bonds may have tax-exempt advantages

## Risks

- Credit – Issuer may fail to make timely interest payments
- Interest Rate – Rising interest rates can decrease the value of the bond
- Inflation
- Liquidity – May not be able to find a market to buy or sell a bond
- Call – Bonds can have an option to call a bond before maturity

## When to use

- Recurring income
- Lower ability to accept risk
- Long term investment horizon



# Mutual Funds

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A company that pools money from many investors and invests the money in securities such as stocks and bonds.

Trade at Net Asset Value (Funds assets minus liabilities) between existing or new investors

Types of mutual funds

- Money market
- Stock funds
- Bonds funds
- Target date funds



# Mutual Funds

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## Benefits

- Professional management
- Diversification
- Affordability
- Liquidity
- Dividends
- Capital Appreciation

## Risks

- Past performance of an investment manager doesn't predict future returns
- Prices fluctuation
- Management fees

## When to Use

- Short- or Long-term investment horizons (depends on the type of mutual fund)
- Getting started or looking for broad diversification with fewer assets
- Common in 401(k) plans



# Exchange Traded Funds (ETFs)

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Like Mutual Funds, ETFs are a way investors can pool money to invest in securities such as stocks and bonds.

ETFs are traded on national exchanges at market prices.

## Types of ETFs

- Index-Based Funds
- Actively Managed Funds



# Exchange Traded Funds (ETFs)

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## Benefits

- Professional management
- Index-based funds have lower costs relative to mutual funds
- Trade at anytime when markets are open
- Diversification
- Liquidity

## Risks

- Prices fluctuate
- Management fees

## When to Use

- Short- or Long-term investment horizons
- Getting started or looking for broad diversification with fewer assets



# How do I start?

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Retirement vs Non-Retirement Accounts

Define your goals

Create a plan and budget

Define your risk tolerance

Diversify your investments

Determine what method suits you best



# Account Types

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## Retirement Accounts

- Employer-Sponsored
  - 401(K)
- Individual Retirement Account (IRA)
  - Traditional
  - Roth

## Non-Retirement Accounts

- Brokerage
- Bank Deposits
  - CDs
  - Savings



# Traditional 401(K) Accounts

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Retirement savings plan offered through employers

Contributions are pre-tax and deducted during payroll processing

Annual Contribution limits (as of 2022)

- Under 50 - \$20,500
- Over 50 - \$27,000

Employer Matching

- Example: An employer matches 50 cents for every dollar the employee contributes up to a certain percentage

No taxes until withdrawals are made

Long term investment horizon



# Traditional 401(K) Accounts

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## Investment Options

- Most 401(k) accounts offer a fund menu that the employee selects how to allocate
  - Target date funds offer a diversified portfolio based on when the investor reaches age 65
  - Participants can also manually select funds
    - Allows for the participant to align the investments with their goals and objectives

## Resources

- Look for planning tools or investment tools offered through the 401(k)
  - Fund selection guidance
  - Savings amount calculators



# Individual Retirement Accounts

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## Traditional IRA

- Contribute pre-tax dollars
- Money grows tax-deferred
- Withdrawals taxed as current income after age 59 ½ penalty free
- Mandatory withdrawals after age 72
- Long term investment horizon

## Roth IRA

- Contribute after-tax dollars
- Money grows tax-free
- No mandatory withdrawals
- Long term investment horizon



# Non-Retirement Accounts - Brokerage

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Allows you to buy and sell a variety of investments (stocks, bonds, mutual funds and ETFs)

Dividends, Interest and Capital Gains/Loss are taxable each year

No contribution or withdrawal limitations

Short, Intermediate, Long term investment horizon



# Defining Goals

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What are the things you want to save and invest for?

- House
- Car
- Education
- Comfortable Retirement
- Family
- Travel

What is important for you?

- Make a list and decide how much time it will take to reach each goal



# Planning

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Investing is a journey and to reach your destination you need to create a plan or roadmap. Having a plan will guide you to determine how much do you need to save to meet your goals.

Things to consider:

- Needs
- Wants
- Aspirations

Create a budget and write out your current financial situation

- Income versus Expense
- Assets versus Liabilities

A well-defined plan will tell you how much you need to retire comfortably

No two plans are identical and need to be updated over time



# Risk Tolerance

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Knowing your risk tolerance is necessary to determine what investments are right for you.

## Two factors

- Ability to take risk
  - Time Horizon
  - Purpose of the investment
  - Meeting goals
- Willingness to take risk
  - Being able to sleep at night



# Diversification

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- “Don’t put all your eggs in one basket.”
- Strategy to mix a variety of investments in a portfolio to reduce risk
- Examples:
  - Mix a portfolio with 60% equity/30% fixed income/10% cash
  - Retirement account invested in equity, emergency funds in a savings account, and supplement monthly income with bonds



# Investment Methods

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## Methods

- Self-Directed
  - DIY – Do it yourself
- Advising
  - Hire a professional to guide you through the process
- Discretionary Management
  - Hire a professional to make investment decisions for you based on your goals



# Summary

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Understand the investment before putting your money in it

- What's the purpose of the investment?
- Does it help me reach my goals?
- How can I get my money out if I need it?
- Are there tax consequences or penalties for exiting the investment?
- Is it a short- or long-term investment?

Create a plan, put it in action and review periodically as life changes

Take advantage of employer-sponsored retirement plans and professional help

Start investing for your goals today

