

Investment Basics—Day 1

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OF EMPLOYEE BENEFIT PLANS 

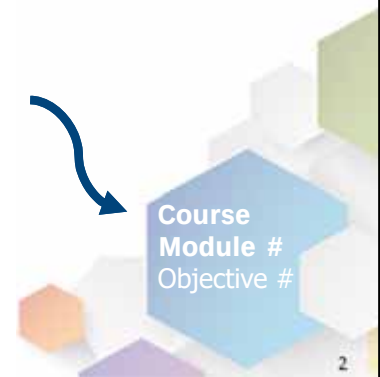
Employee Benefit Courses and CEBS

The International Foundation's highest educational achievement is its Certified Employee Benefits Specialist (CEBS) designation.

The program is highly regarded by the industry and comprises five self-study courses (each with an exam) that provide deep technical knowledge of employee benefits. Most people complete the designation in about three years.

Many people are intimidated by the program, but we would like to take some of that fear away. The CEBS icon that you will see in the corner of some slides indicates that the following topics overlap with CEBS content.

While participation in employee benefits courses do not count towards getting the CEBS designation, this course may make the material feel more approachable if you decide to pursue the CEBS program in the future.



Class Participation Tool

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or

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pollev.com/if10



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Poll

What sector are you a part of?

- A. Single employer
- B. Multiemployer
- C. Public sector

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Create a Company

- Break attendees into groups
- Select an industry
- Create a company

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Financial Jargon



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Investment Basics

- Risk/Reward Tradeoff
- Total Return
- Types of Risk
- Effective Diversification
- Asset Allocation (Mix)
- Equities (Stocks)
- Fixed Income (Bonds)
- Cash and Cash Equivalents
- Behavioral Finance
- Time Value of Money
- Portfolio Management
- Marketable Securities
- Non-Traditional (Alternative) Assets
- Investment Policy Statements (IPS)
- Investment Objectives
- Investment Costs/Fees
- Fiduciary Responsibility

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Investment Basics

- Stable Value
- Money Markets
- Cash Reserves
- Investment Company
- Individual Securities
- Regulated (Securities and Exchange Commission-SEC)
- Non-Regulated (Hedge)
- Liquid/Illiquid
- Concentrated
- Market Timing
- Contrarian
- Patience as Virtue
- Buy Low Sell High
- Correlation
- Target Date Funds (TDF)
- Balanced Funds
- Commodities
- Real Assets
- ETF—Exchange Traded Funds

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Investment Basics Alphabet Soup

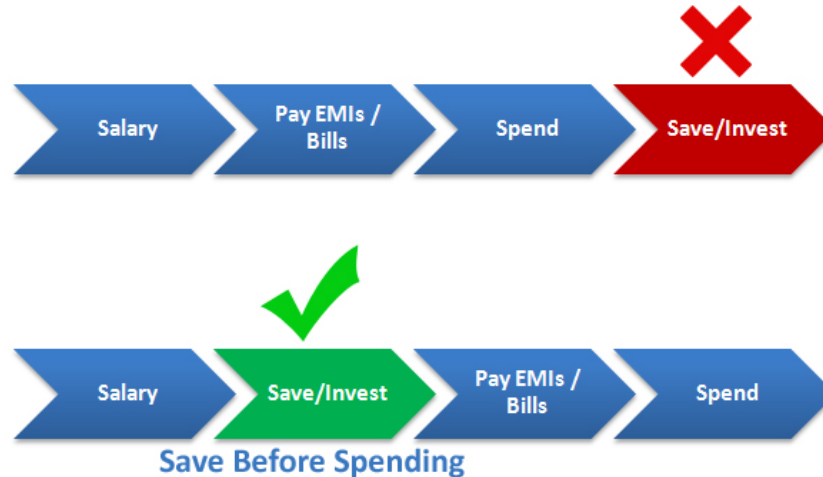
- BPs
- BRIC
- CFA
- CPI
- DB
- DC
- DCA
- EAFE
- EPS
- ESG/SRI
- ETF
- FAANG/MAG7
- GNMA
- IPO
- MPT
- NAV
- P/E
- PYF
- REIT
- ROI
- SEC
- T-BILL
- TDF
- TIPS
- TVM



Handout 10

Time Value of Money Basics

“Pay Yourself First” Concept



EMI stands for equated monthly installment. It refers to periodic payments made to settle an outstanding loan within a stipulated time frame. As the name suggests, these payments are the same amount each time.

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Who Are You Paying First?



- Debt is created when you spend more than you earn!
- Average American household credit card debt is about \$8,500.

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Savings vs. Investing

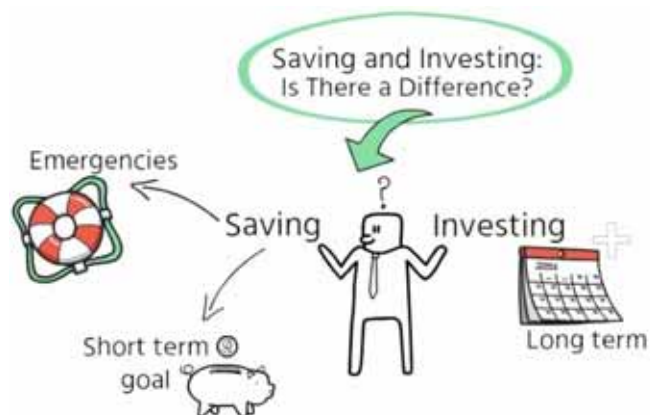
- Savings is putting your money away for a future expense, a goal or an emergency fund.
- Your money should be in a money market, bank or credit union savings account where you can get access to your money quickly.



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Savings vs. Investing

- Saving is for preserving your money, while investing is for growing it.
- Investing involves more risk but the potential to earn more money.



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This Session Is “Investment Basics”



Investment

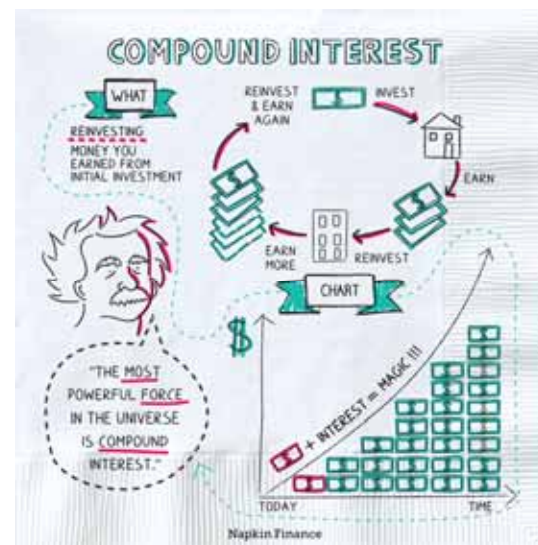
[in-'ves(t)-mənt]

An asset or item acquired with the goal of generating income or appreciation over time.

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Time Value of Money

- Compound Interest is the dynamic power of time, rate of return and consistency of investing



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*"Compounding 'tis the stone that
will turn all your lead into gold."*

—Benjamin Franklin



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Compound Growth: The Secret to Becoming a Millionaire

Simple version:

Compound growth is the ability for the income/interest of an investment to create its own income/interest.

Not-as-simple version:

$$V = P \cdot (1+r)^t$$

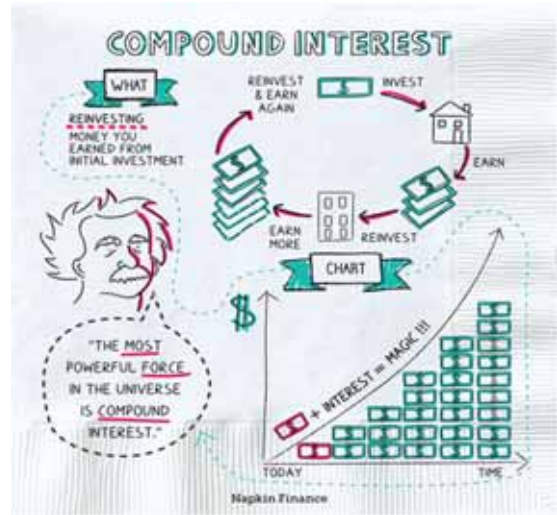
or

$$\text{Value} = \text{Present Value} * (1 + \text{Interest})^{\text{Time}}$$

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Secret to Becoming a Millionaire

- As an idea, compound growth is intuitive: Money grows—The more there is, the bigger the total growth.
- Many people do not understand just how big the impact can be.



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Compound Growth Scenario

Let's say you put \$1,000 into an account that generates 8% interest a year. You are given two options:

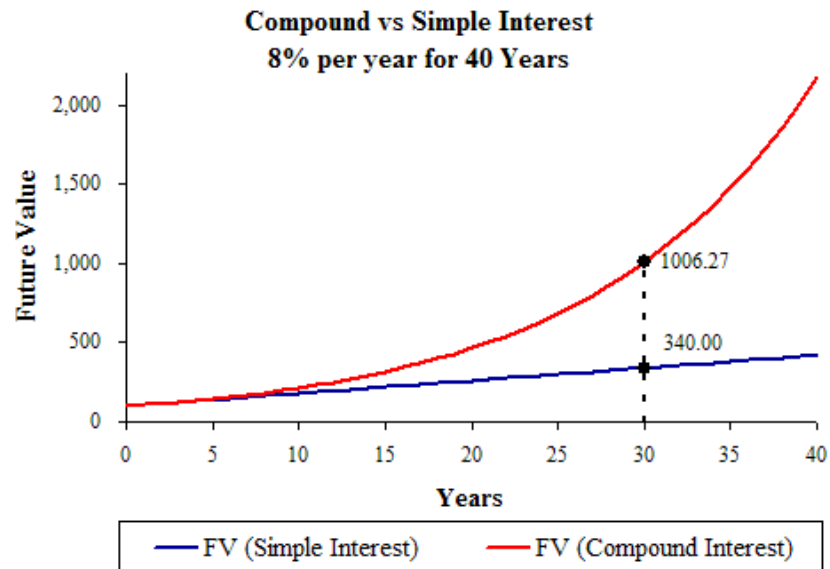
Option A: Have the interest paid to you each year.

Option B: Keep the interest in the account each year so that it can compound.

How would each choice look over time?

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Compound Interest



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Compound Growth Scenario

Year	Interest	Option A		Option B	
		Annual Growth	Total \$	Annual Growth	Total \$
1	8%	\$80.00	\$1,080.00	\$80.00	\$1,080.00
2	8%	\$80.00	\$1,160.00	\$86.40	\$1,166.40
3	8%	\$80.00	\$1,240.00	\$93.31	\$1,259.71
4	8%	\$80.00	\$1,320.00	\$100.77	\$1,360.49
5	8%	\$80.00	\$1,400.00	\$108.84	\$1,469.33
6	8%	\$80.00	\$1,480.00	\$117.56	\$1,586.89
7	8%	\$80.00	\$1,560.00	\$126.95	\$1,713.84
8	8%	\$80.00	\$1,640.00	\$137.11	\$1,850.95
9	8%	\$80.00	\$1,720.00	\$148.08	\$1,999.02
10	8%	\$80.00	\$1,800.00	\$159.92	\$2,158.94

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Compound Growth and Time

Let's look at the compound growth formula:

$$\text{Value} = \text{Present Value} * (1 + \text{Interest})^{\text{Time}}$$

While the *Present Value* and *Interest* can make a big difference, it's the ***Time*** that creates exponential growth. Giving an investment more time to grow can make all the difference.

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Compound Growth

Let's look at another scenario:

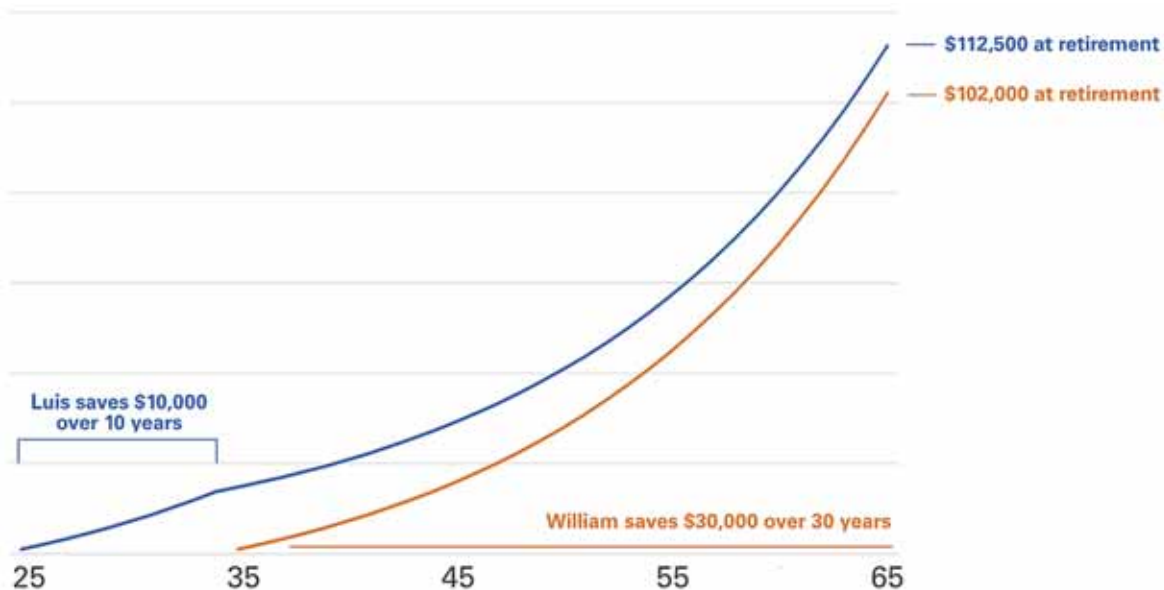
Luis starts saving for his retirement at 25. He saves \$1,000 a year from age 25 until he turns 35 (*i.e.*, \$10,000 over ten years).

His friend William waits to start saving until he turns 35. He saves \$1,000 and keeps saving until he retires at 65 (*i.e.*, \$30,000 over 30 years).

If Luis and William's accounts both grow at 7% annually, who has more money when they retire at 65?

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Compound Growth



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“Rule of 72”

The interest rate determines how fast an investment can compound in value.

A simple trick to estimate how many years an account will take to double in value is to divide 72 by its interest rate.

For instance, accounts with 3%, 6% and 8% rates:

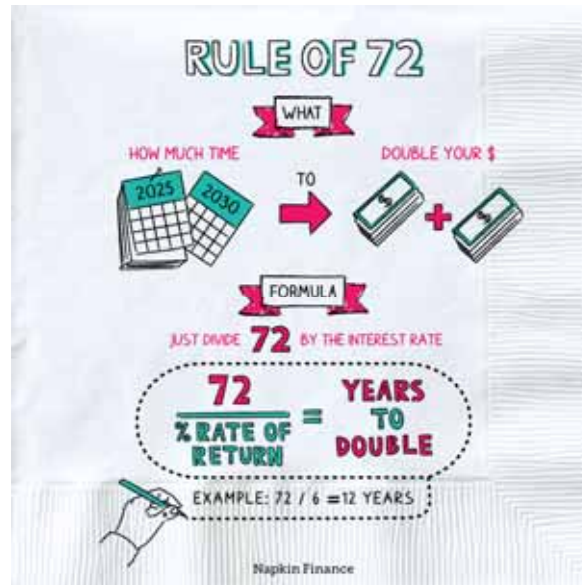
$$72/3 = 24 \text{ years}$$

$$72/5 = 14.5 \text{ years}$$

$$72/8 = 9 \text{ years (as seen on the earlier table)}$$

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“Rule of 72”



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Compound Interest Discussion

Group Discussions:

- Paying for retirement
- Paying for home
- Paying for college



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Basics of Investing

"It is not the volume of money, but the activity of money that counts."

-W. Bourke Cochran

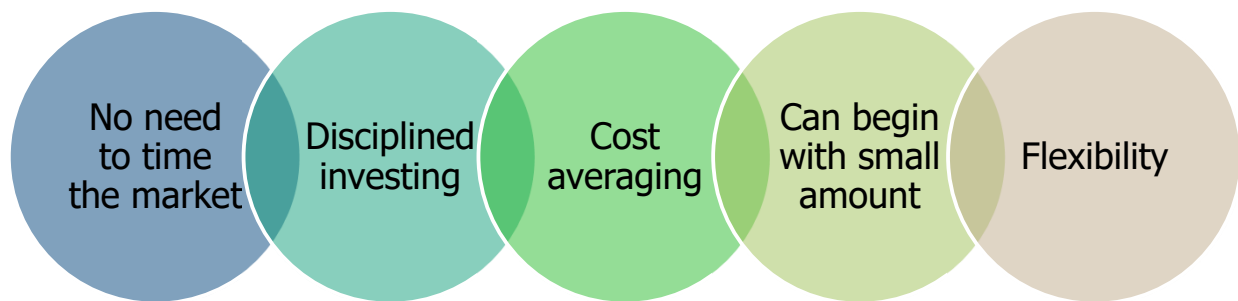
Basics of Investing

Fundamentally, understanding investing begins with recognizing the trade-off between risk and expected return when saving money and putting it to work through investable assets.

RPA 2
Module 2
Objective 3

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Understanding the Benefits of Long-Term Systematic Investing



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Saving / Investment Made Easy

- Automatically deducted from paycheck or debited from checking account.
- Systematically accomplished on a regular basis, each paycheck or every month.
- Disciplined saving, putting some teeth into the “Pay Yourself First” philosophy.

“A person who can invest systematically will accumulate more money in the long run than a person who writes a check when they have money. It imposes a discipline that most investors are unable to impose themselves.”

–Steve Norwitz, T. Rowe Price

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401(k) Savings and Planning Calculator

Current 401(k) Balance	\$1,000
Years to Invest	35
Annual Starting Salary	\$40,000
Expected Annual Salary Increase	3%
Percent to Contribute	10%
Your 401(k) Contribution	\$4,000
Your Employer's 401(k) Match*	\$1,200

*50% employer match to a maximum of 6% of annual salary.

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Poll

How large does this account grow to after 35 years if growth rate is 6%?

- A. \$250,013
- B. \$432,634
- C. \$754,902
- D. \$879,407

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401(k) Savings and Planning Calculator

Total Your Contributions	\$249,104
Total Employer Contributions	\$ 74,731
Total Combined Contributions	\$323,835

Total Account Value at Age 65

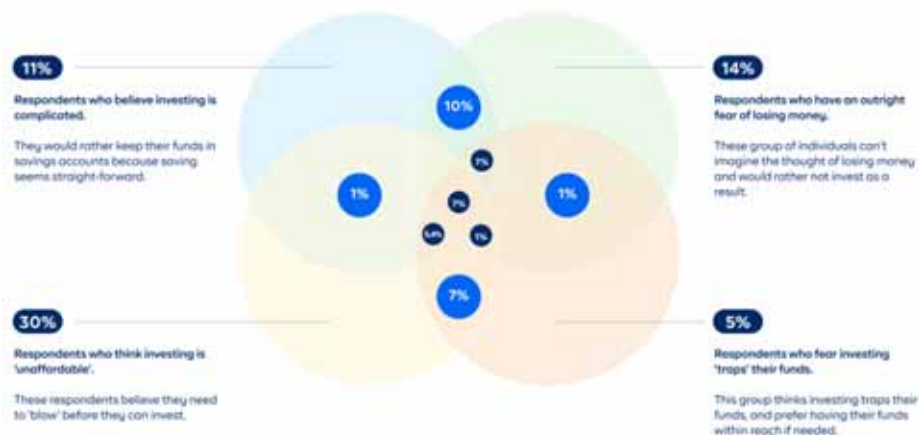
Annual Investment Return

@ 4%	=	\$605,384
@ 5%	=	\$726,961
@ 6%	=	\$879,407
@ 7%	=	\$1,071,185
@ 8%	=	\$1,313,136

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Investing Fears

Major Investment Fears



Source: [//Cowrywise.com/blog](https://www.cowrywise.com/blog/fear-of-investing-survey-2022/) "Fear of Investing Survey 2022"

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Investing Fears

- Inflation (Consumer Price Index: CPI) concerns
- Recession
- Supply chain issues
- Yield curve inverting, then flattening
- Global conflict
- Federal Reserve (Monetary Policy)
- Government Rule Changes (Fiscal Policy)
- Election cycles

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Are You a Stock Market Genius?

- A Lighthearted Market History Challenge Using Poll Everywhere

The *Wall Street Journal*
By [Spencer Jakab](#)



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Poll: Are You a Stock Market Genius?

We're putting you in a make-believe time machine and sending you back a century to 1925. You've got \$1,000 to invest in just one company—which created the most wealth?

- A. Coca-Cola
- B. Nvidia
- C. Altria
- D. Apple

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Poll: Are You a Stock Market Genius?

Warren Buffett's Berkshire Hathaway stock price on the New York Stock Exchange suddenly plunged by 99% last June. The drop was due to a computer glitch. But what if that really happened? How bad could it have been for Berkshire's shareholders that bought the stock when Buffett took over 60 years ago?

- A. They would have 95% less than people who just invested in an index fund.
- B. They would have 90% less.
- C. They still would have half as much wealth.
- D. They would have 40% more than an index fund investor.

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Poll: Are You a Stock Market Genius?

Felicity Foresight, born at the start of the 20th century, received from her parents one dollar. Each year she would pick the world's best-performing asset class. At the end of that year, she would reinvest her money in the upcoming best thing for a whole century. Compound interest is a powerful force. At the end of the century, Felicity's one dollar had turned into about:

- A. \$10 billion
- B. \$100 billion
- C. \$100 trillion
- D. \$10 quintillion

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Poll: Are You a Stock Market Genius?

The Roaring '20s were a wild time on Wall Street. Unfortunately, there were a lot of abuses, and the Crash of 1929 turned a whole generation off from the market. President Franklin D. Roosevelt created the Securities and Exchange Commission in 1934 to protect the public. His pick for commissioner was controversial, but he allegedly said, "It takes a crook to catch those crooks." Who was it?

- A. Calvin Coolidge
- B. Joseph Kennedy
- C. Charles Ponzi
- D. James Cagney

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Poll: Are You a Stock Market Genius?

One reason Joe Kennedy became one of the wealthiest people in the world during the 1930s was that he made a lot of money speculating and then mostly got out of stocks, which lost nearly 90% of their value. He bought real estate instead. Legend has it that he knew the Crash of 1929 was coming because:

- A. He got an early warning from President Herbert Hoover.
- B. He read it in a fortune cookie.
- C. A shoeshine boy offered him a stock tip.
- D. He was an early follower of technical stock market analysis.

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Poll: Are You a Stock Market Genius?

Long gone are the days when most stocks were bought and sold on the floor of an exchange—It mostly happens inside data centers at lightning speed now. But the New York Stock Exchange still has floor trading.

One trader has earned the distinction of being “the most photographed man on Wall Street.” You might know him better by his nickname, which is:

- A. The crying broker
- B. Einstein
- C. Billy Ray Valentine
- D. E.F. Hutton

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Poll: Are You a Stock Market Genius?

Some of America's most famous companies originally had some very weird names or almost did. Jeff Bezos wanted to call Amazon "Cadabra," but a lawyer misheard it as "cadaver." PepsiCo was originally "Brad's Drink" in the 19th century, and Nike was "Blue Ribbon Sports." Xerox, which later became a verb, was originally "The Haloid Company." Another company that became a verb, Google, originally had a different and unusual name too. What was it?

- A. Googol
- B. Ask Jeeves
- C. BackRub
- D. Alphabet

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Poll: Are You a Stock Market Genius?

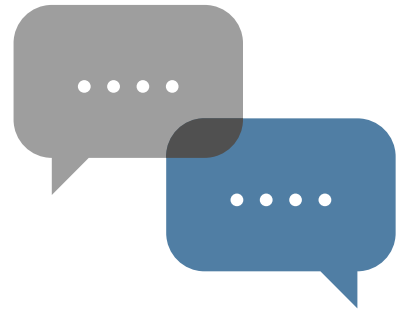
Nearly every expert agrees that trying to time the stock market is a mistake, but some patterns continue to make us wonder. There's one pattern that goes back many decades and splits the year into two halves. Investing during one half of the year would have seen an investor make hardly any money, with all the gains concentrated in the other half of the year. What is it called?

- A. The Santa Claus Rally
- B. The Presidential Cycle
- C. Sell in May and go away
- D. October Surprise

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Investing Fears Discussion

- Group Discussion
 - When you hear the word investing, what feelings or thoughts come to mind from yours or others that you have discussed this with?
 - What specific situations caused it?
 - What strategies could be used to overcome fear?



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Basics of Investing

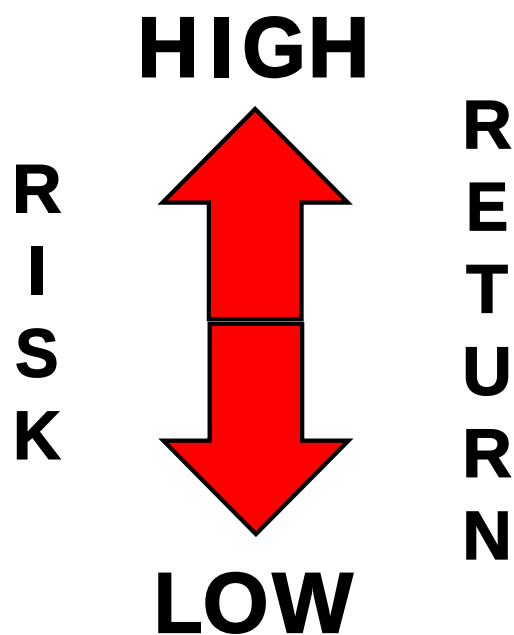
- Risk/Return tradeoff
 - By far the most important of the fundamentals of investing is the risk/return tradeoff. The risk/return tradeoff is the basic investment principle and the framework within which all investment decisions should be made.
 - The higher the anticipated return, the higher the associated risk.
 - The reverse also holds true: A lower expected return or yield carries less risk.

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Risk/Return Trade Off



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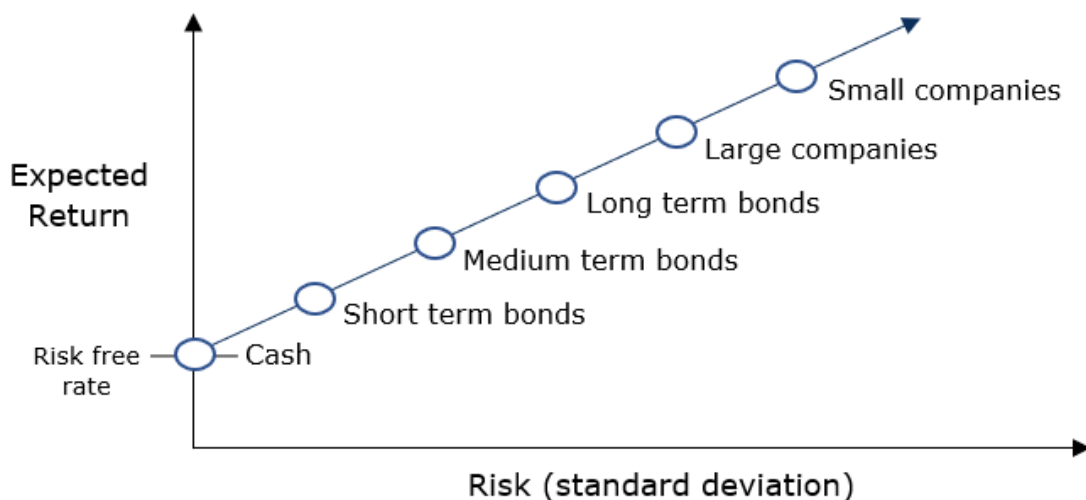
60

Potential Higher Return = Potential High Returns

- The risk/return tradeoff is illustrated using a graph, scale, ladder or pyramid.
- The objective of investing is to seek the highest return possible on one hand, while attempting to minimize risk on the other.
- This balancing act forms the challenge of the investment process.

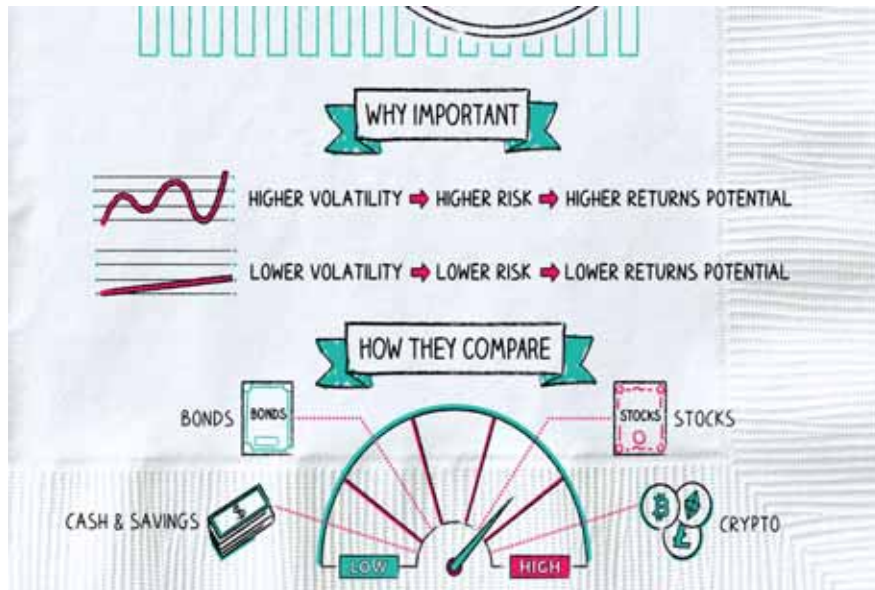
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Potential Higher Return = Potential High Returns



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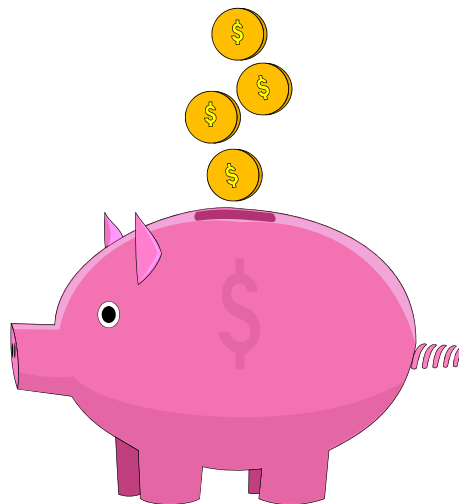
Potential Higher Return = Potential Higher Risk



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Investment Characteristics

- Return
- Risk
- Tax Treatment
- Liquidity
- Miscellaneous



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Risk and Return

- Definition of **Risk** (Uncertainty)
 - Risk can be defined as the possibility that the return that is anticipated may not be realized. Recognition of the risk involved and management of the underlying risk in pursuit of return is the most important aspect of investing.
- Definition of **Return** (Reward)
 - Return can be viewed as the reward or incentive to save and invest your money rather than spending or consuming it.

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Sources of Return

Sources of return (often a combination) include:

- **Interest**
 - Common form of return is gained from CDs, savings accounts and stable Value.
- **Dividends**
 - Many bonds and stocks yield a dividend payout.
- **Capital Gain**
 - Constitutes the appreciation of a security
- **Rent/Lease**
 - Certain investments such as real estate generate a periodic return in the form of rental income or lease payments.

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Measures of Return

"You should be more concerned with the return of
your money than the return on your money."

—Benjamin Franklin

- **Total return**—This oft-quoted term describes the cumulative returns of interest, dividends and capital gains (or losses).
- **Real return**—A positive return that is in excess of inflation (CPI)—
Historical significance of spread
- **Yield**—Payout expressed as a percent of principal on an annual term
- **Capital gain**—Gain (appreciation) on capital assets (including
stocks, bonds, mutual funds and real estate)
- **ROI**—Return on investment, quantifies your measured return.

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Fixed vs. Variable Investments

- Inquire if a given investment subjects the principal to risk.
- Fixed investments are considered conservative and safe, and the return is identified for a certain period, such as with a CD or GIC.
- Variable investments fluctuate in value, are inherently higher risk and more aggressive.
- A good example is a growth stock mutual fund.

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Understanding and Assessing Risk

- All investments involve elements of risk, but at widely varying levels.
- Risk must be identified, assessed, and then accepted or rejected.
- Financial consumer—Uncover and comprehend risk of a given investment.

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Building Blocks of Investment Returns/Risk

Type	Example	Characteristic
Risk Free Rate	Federal Funds Rate	Set by Federal Reserve
Term Premium	CD's/Treasury Bills and Bonds	Inflation expectations
Credit Premium	Default Risk	Probability of fulfilling contract terms
Equity Premium	Stock ownership	Biggest upside and largest downside

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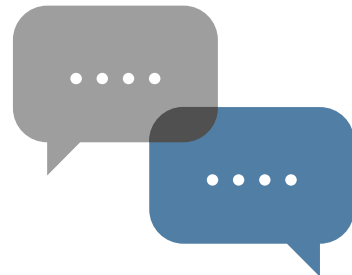
Additional Areas of Risk

- Currency risk
- Political risk
- Event risk
- Prepayment risk
- Opportunity risk
- Business risk
- Foreign securities
- Instability/nationalization
- Unseen, *e.g.*, oil spill (BP), Wells Fargo, Boeing
- Mortgage-backed securities
- Better alternatives
- Fraud/accounting

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Risk Discussion

- Group Discussion
 - Discuss level of risks associated with following situations:
 - 25-year-old saving for retirement
 - 30-year-old buying a house
 - 50-year-old paying for a child's college education
 - 60-year-old thinking about retirement



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Measures of Return

Definitions

- Market corrections (10% drop)
- **Bull market**—Bull—Bullish optimistic
 - Positive on direction of market
- **Bear market**—Bear—Bearish pessimistic
 - Negative on direction of market

Poll

How big of price drop in the stock market is considered a bear market?

- A. 10%
- B. 20%
- C. 30%
- D. 40%

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S&P 500 Sector (10) Performance in Bear Market (10/9/07 Through 3/9/09)

Consumer Staples	-29.5%
Health Care	-38.0%
Utilities	-42.9%
Energy	-45.4%
Communication Services	-47.6%
Information Technology	-52.5%
Consumer Discretionary	-56.8%
Materials	-58.0%
Industrials	-64.1%
Financials	-82.0%

Source: Bloomberg

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S&P 500 Sector Performance in 2025

Consumer Staples	3.9%
Health Care	14.6%
Utilities	16.0%
Energy	8.7%
Communication Services	33.6%
Information Technology	24.0%
Consumer Discretionary	6.0%
Materials	10.5%
Industrials	19.4%
Financials	15.0%
Real Estate	2.7%

Source: Standard & Poor's

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Risk Ranking Activity: Handout

Determine primary source of risk, quantify worst case scenario (downside), discuss magnitude of risk probability, and rank according to relative risk the following (20) investment alternatives. Additionally, identify those investments that could well be imprudent or unsuitable inside a qualified retirement plan.

1. High Yield Bond
2. Treasury bill
3. U.S. company—Single stock
4. S&P 500 Stock Index Fund
5. One-year CD (FDIC insured)
6. 30-year Treasury bond
7. GIC/Stable value fund
8. Aggressive growth stock mutual fund
9. GNMA (Government National Mortgage Association) bond fund
10. International bond fund (non-currency hedged)
11. REIT
12. ETF-DJ Select Dividend Index
13. Developed International Company—ADR (single stock)
14. Intermediate U.S. Treasury bond
15. Heating oil futures
16. High-grade corporate bond fund
17. Penny stock
18. Small-Cap value stock fund
19. Money market fund
20. Emerging market company—Single stock

Handout

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Investment Types or Asset Classes

Asset Classes: Overview

There are several asset classes used for investing, each with their own characteristics. Understanding how each asset class typically behaves is key to making prudent investment decisions.

RPA 2
Module 1
Objective 3

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Investment Types or Asset Classes

Primary Investment Types:

- Cash or Money Markets
- Bonds
- Stocks



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Three Primary Asset Classes (Categories)

Think (3) aisles in a supermarket or
(3) floors of a department store

1. Cash and cash equivalents
2. Bonds
3. Stocks (equities)

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Risks and Rewards

	Risks	Rewards
Money Market Funds	May not keep pace with inflation	Value fluctuates very little over time
Bonds and Bond Funds	Issuer may default Value declines when interest rates rise	Source of income
Stocks and Stock Funds	Fluctuates in short term In bankruptcy, stockholders are last in line	Historically outperforms other asset classes

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Cash and Money Markets

- Low risk and typically low return
- Fully liquid
- Value fluctuates very little over time
- Examples: Money markets, treasury bills, certificates of deposit (CDs)



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Basics of Cash and Cash Equivalents



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Basics of Cash and Cash Equivalents

- Safety and stability of principal
 - Stable value
 - Conservative option in retirement plan menu
 - Ultra-safety-conscious
 - T-bill (Treasury bill) as risk-free benchmark
 - Flight to safety
- Liquidity—Ready access to your money, check writing, and no negative consequences
 - Money market
 - Stable value
 - Taxable—Tax-exempt—Government
 - Rainy day money
 - Cash reserves
 - Going to the sidelines
 - Keeping some powder dry

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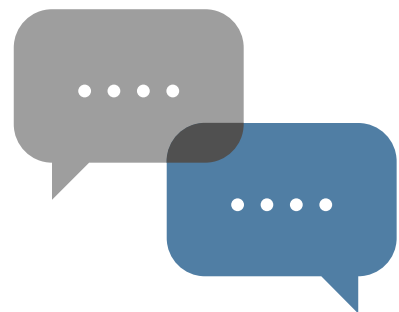
Guaranteed Return Offerings

- Stable Value
 - Guaranteed insurance contract
 - No federal insurance
 - Popular retirement plan offering
- CDs
 - Guaranteed and insured
 - Time deposits
 - Penalty for early withdrawal

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Cash Discussion

- Group Discussion
 - Argue that holding cash is good strategy
 - Argue that holding too much cash is bad strategy
 - Discuss the potential difference views that individuals and banks have about cash holdings



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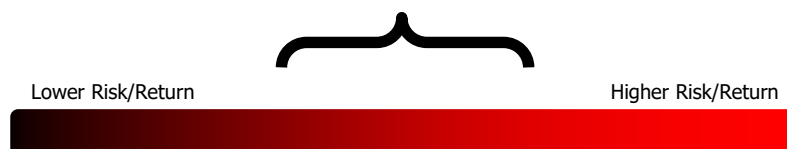
Basics of Bond Investing



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Bonds

- Promise of repayment from a borrower to a lender
- Susceptible to interest rate fluctuation
- As interest rates rise, bond values fall
- Riskier than cash, less risky than stocks
- Potentially higher returns than cash, lower returns than stocks



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Basics of Bond Investing

- Characteristics of bonds
 - Bond = IOU (promissory note)
 - Acting as a lender
 - P&I component, term of loan
 - Mechanics of bonds
- Perils of interest rate risk
 - Most misunderstood risk
 - Principal subject to risk
 - Risk during periods of rapidly rising interest rates
 - Inverse relationship
 - Total return calculations

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Investment Basics Bonds (Fixed Income)

- | | |
|-------------------------|--|
| • Promissory Note (IOU) | • High Yield (Junk) |
| • Income Generation | • Financial (Credit) Risk |
| • Relative Stability | • Mortgage (Agency) Debt |
| • Inverse Relationship | • Yield Curve |
| • Interest Rate Risk | • Spreads |
| • Investment Grade | • Core Holdings |
| • Maturity | • Real Rates |
| • Government | • TIPS (Treasury inflation-protected securities) |
| • Corporate | |

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Bond Credit Quality Ratings

Investment—Grade Bonds

Moody's	S&P	Rating
Aaa	AAA	Triple A, highest quality, lowest risk
Aa	AA	High quality
A	A	High-medium quality
Baa	BBB	Medium quality

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Bond Credit Quality Ratings *(continued)*

Below Investment—Grade Bonds

Moody's	S&P	Rating
Ba	BB	Somewhat speculative
B	B	Low-quality, future default risk
Caa	CCC	Poor quality, clear danger of default
Ca	CC	Highly speculative, often in default
C	C	Lowest rating, poor prospects of repayment
	D	Default

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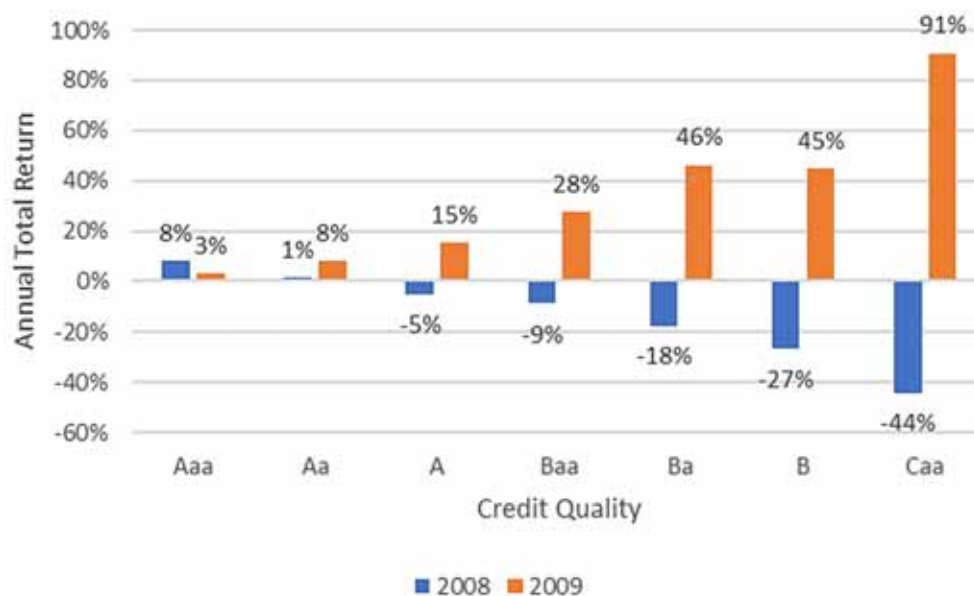
Bond Breakdown

MATURITY			QUALITY GRADE
SHORT	INT.	LONG	

- Yield curve
 - Plot yield and time horizon

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U.S. Bond Market by Credit Quality



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Yield Curve

The yield curve is the relationship plotted between interest rates of bonds of different maturities, most commonly U.S. treasuries.

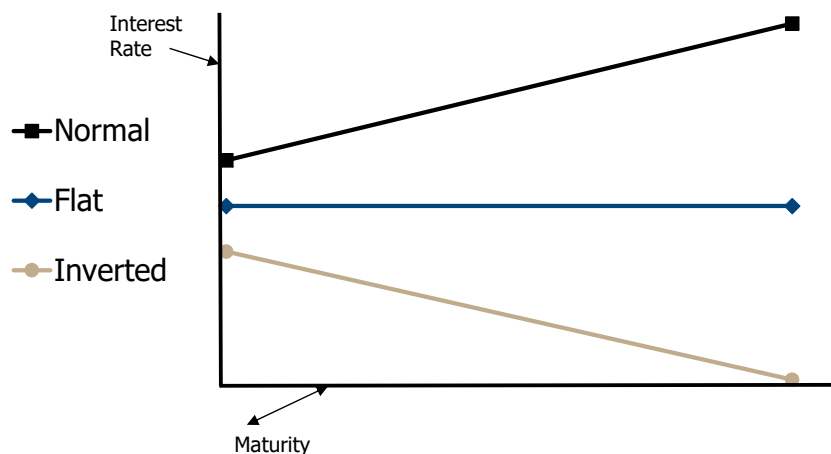
As of March 2026

3 mo.	2 yr.	5 yr.	10 yr.	30 yr.
3.7%	3.5%	3.6%	4.0%	4.7%

98

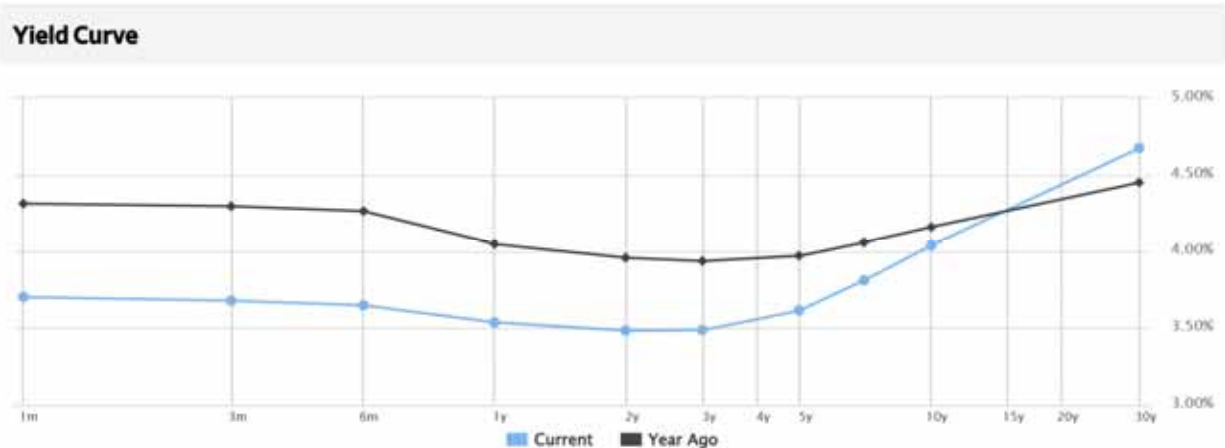
Yield Curve

Three Shapes to Curve



99

U.S. Yield Curve *March 2026*



Source: WSJ

100

Poll

What causes bond prices to move?

- A. Interest Rates
- B. Bond Term Length
- C. Credit Quality
- D. All of the above

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Rates in the News

Consumer Rates

2/27/26

	YIELD/RATE %		52 WEEK		CHG IN PCT PTS	
	LAST	WK AGO	HIGH	LOW	52 WK	3-YR
Federal Funds Rate Target	3.50 - 3.75	3.50 - 3.75	4.25 - 4.50	3.50 - 3.75	-0.75	--
WSJ Prime Rate*	6.75	6.75	7.50	6.75	-0.75	-1.00
Money Market, Annual Yield	0.41	0.41	0.56	0.41	0.00	-0.07
Secured Overnight Financing Rate (SOFR)	3.68	3.66	4.51	3.63	-0.65	-0.87
Five-Year CD, Annual Yield	1.69	1.68	1.73	1.66	0.03	-1.08
30-Year Mortgage, Fixed	6.11	6.13	7.06	6.11	-0.91	-1.03
15-Year Mortgage, Fixed	5.56	5.55	6.46	5.55	-0.88	-0.68
Jumbo Mortgage, Fixed	6.37	6.44	7.15	6.37	-0.73	-0.87
Five-Year Adj Mortgage (ARM)	5.78	5.67	6.34	5.66	-0.42	-0.02
New-Car Loan, 48-Month	6.92	6.95	7.73	6.81	-0.53	0.17

* Base rate posted by at least 70% of the nation's largest banks.

Federal funds, prime rate updated as needed late evening. All other rates updated by 7PM ET.

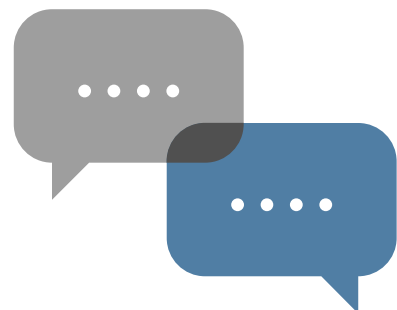
Sources: Dow Jones Market Data, Bankrate.com.

Source: WSJ

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Bond Discussion

- Group Discussion
 - What type of bonds would you evaluate in the following scenarios:
 - Need cash for downpayment on home in 12 months
 - No short-term needs and looking for high rate of returns
 - Investor believes interest rates are going to decline due to lower inflation expectations



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Basics of Stock Investing



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Basics of Stock Investing

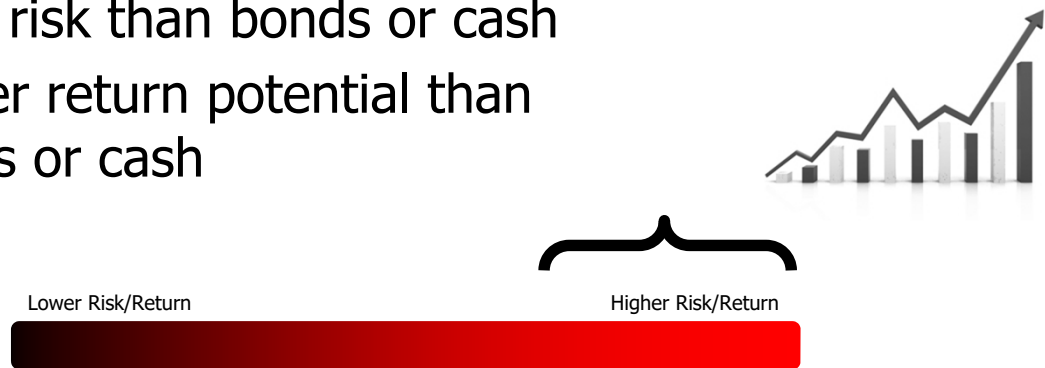
Stocks have become a dominant asset class in most investment accounts. It's important to be able to identify the characteristics of stocks as an asset, explain how they are selected for investment objectives and recognize how their performance can be compared.

RPA 2
Module 4
Objective 3

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Stocks

- Ownership in a corporation
- Most opportunity for gain (historically)
- More risk than bonds or cash
- Higher return potential than bonds or cash



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Basics of Stock Investment

"The mantra for the long-term investor should be: Stocks-Stocks-Stocks."

— *Kiplinger's Personal Finance Magazine*

- Characteristics of stocks
 - Higher end of risk/return scale
 - Equities represent ownership
 - Shareholder = Partake in financial rewards or misfortune
- With stocks:
 - You are an owner
 - Prime return is appreciation
 - Major risk is from the market
 - Asset category is variable
- Superior return potential

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Investment Basics Stocks (Equities)

- Market Risk
- Meltdown
- Higher End Risk Scale
- Volatile
- Potential Double-Digit Returns
- Growth Appreciation
- Dividend Income
- Growth Style
- Value Style
- Valuations
- Multiple
- Cap Size
- Domestic
- International
- Emerging Markets
- Blend

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Characterization of Stocks

- Types of stock
 - Market capitalization
 - Small, mid, large cap
 - Distinguishing characteristics
- Long-term nature of investment
 - Bull and bear markets
- Value vs. growth

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Market Capitalization

The total value of a company's outstanding shares:

Current Stock Price		\$50
Number of Outstanding Shares	X	100 million
Market Capitalization	=	\$5 billion

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Market Capitalization

 Lower risk	Large Cap	> \$10 billion	Typically older, larger and more well-known companies
	Mid Cap	\$2-\$10 billion	Often not as well known as larger companies
	Small Cap	< \$2 billion	Includes young companies that are just starting out
Higher risk			

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Investment Style

Value

Stock prices are considered low relative to underlying value of company

Typically pays higher dividends



Blend

Stock funds that exhibit both growth and value characteristics

Blend funds hold a mix of value and growth stocks in order to offer investors a combination of growth and value funds



Growth

Stock prices are expected to increase as company experiences high rates of growth

Often pays no dividends, as extra cash is reinvested in company



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Stock Style / Size Box

STYLE

VALUE BLEND GROWTH

LARGE CAP

MID CAP

SMALL CAP

SIZE

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S&P 500 Sector Performance

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Ann.
UTIL 19.9%	FINL 28.8%	COND 43.1%	REAL 30.2%	COND 10.1%	ENRS 27.4%	INFT 38.8%	HLTH 6.5%	INFT 50.3%	INFT 43.9%	ENRS 54.6%	ENRS 65.7%	INFT 57.8%	TELS 40.2%	TELS 33.6%	INFT 20.8%
CONS 14.0%	COND 23.9%	HLTH 41.5%	UTIL 29.0%	HLTH 6.9%	TELS 23.5%	MATR 23.8%	UTIL 4.1%	TELS 32.7%	COND 33.3%	REAL 46.2%	UTIL 1.6%	TELS 55.8%	INFT 36.6%	INFT 24.0%	COND 14.7%
HLTH 12.7%	REAL 19.7%	INDU 40.7%	HLTH 25.3%	CONS 6.6%	FINL 22.8%	COND 23.0%	COND 0.8%	FINL 32.1%	TELS 23.6%	FINL 35.0%	CONS -0.6%	COND 42.4%	FINL 30.6%	INDU 19.4%	S&P 14.1%
REAL 11.4%	TELS 18.3%	FINL 35.6%	INFT 20.1%	INFT 5.9%	INDU 18.9%	FINL 22.2%	INFT -0.3%	S&P 31.5%	MATR 20.7%	INFT 34.5%	HLTH -2.0%	S&P 26.3%	COND 30.1%	S&P 17.9%	HLTH 13.3%
TELS 6.3%	HLTH 17.9%	S&P 32.4%	CONS 16.0%	REAL 4.7%	MATR 16.7%	HLTH 22.1%	REAL -2.2%	INDU 29.4%	S&P 18.4%	S&P 28.7%	INDU -5.5%	INDU 18.1%	S&P 25.0%	UTIL 16.0%	INDU 12.5%
COND 6.1%	S&P 16.0%	INFT 28.4%	FINL 15.2%	TELS 3.4%	UTIL 16.3%	S&P 21.8%	S&P -4.4%	REAL 29.0%	HLTH 13.5%	MATR 27.3%	FINL -10.5%	MATR 12.6%	UTIL 23.4%	FINL 15.0%	FINL 12.3%
ENRS 4.7%	INDU 15.4%	CONS 26.1%	S&P 13.7%	S&P 1.4%	INFT 13.9%	INDU 21.0%	CONS -8.4%	COND 27.9%	INDU 11.1%	HLTH 26.1%	MATR -12.3%	REAL 12.4%	INDU 17.5%	HLTH 14.6%	TELS 12.1%
INFT 2.4%	MATR 15.0%	MATR 25.6%	INDU 9.8%	FINL -1.5%	S&P 12.0%	CONS 13.5%	TELS -12.5%	CONS 27.6%	CONS 10.8%	COND 24.4%	S&P -18.1%	FINL 12.2%	CONS 14.9%	MATR 10.5%	UTIL 10.8%
S&P 2.1%	INFT 14.8%	ENRS 25.1%	COND 9.7%	INDU -2.5%	COND 6.0%	UTIL 12.1%	FINL -13.0%	UTIL 26.4%	UTIL 0.5%	TELS 21.6%	REAL -26.1%	HLTH 2.1%	ENRS 5.7%	ENRS 8.7%	CONS 10.2%
INDU -0.6%	CONS 10.8%	UTIL 13.2%	MATR 6.9%	UTIL -4.8%	CONS 5.4%	REAL 10.9%	INDU -13.3%	MATR 24.6%	FINL -1.7%	INDU 21.1%	INFT -28.2%	CONS 0.5%	REAL 5.2%	COND 6.0%	REAL 8.6%
MATR -9.6%	ENRS 4.6%	TELS 11.5%	TELS 3.0%	MATR -8.4%	REAL 3.4%	ENRS -1.0%	MATR -14.7%	HLTH 20.8%	REAL -2.2%	CONS 18.6%	COND -37.0%	ENRS -1.3%	HLTH 2.6%	CONS 3.9%	MATR 8.3%
FINL -17.1%	UTIL 1.3%	REAL 1.6%	ENRS -7.8%	ENRS -21.1%	HLTH -2.7%	TELS -1.3%	ENRS -18.1%	ENRS 11.8%	ENRS -33.7%	UTIL 17.7%	TELS -39.9%	UTIL -7.1%	MATR 0.0%	REAL 3.2%	ENRS 5.5%

Information Technology = INFT

Consumer Discretion = COND

S&P 500 Index = S&P

Health Care = HLTH

Industrials = INDU

Financials = FINL

Telecommunications = TELS

Utilities = UTIL

Consumer Staples = CONS

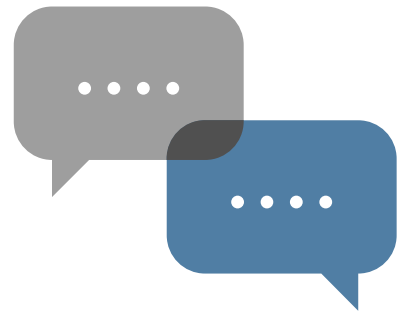
Real Estate = REAL

Materials = MATR

Energy = ENRS

Stocks Discussion

- Group Discussion
 - Describe what might drive returns in that sector/company
 - How might have industries changed through history?



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Single Issue Risk

Stock	2022 Return
Generac Holdings	-71%
Credit Suisse	-68%
DoorDash	-67%
Tesla	-65%
Meta Platforms Inc	-64%
DocuSign	-63%
Zoom Video	-62%
PayPal Holdings	-62%

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Single Issue Risk

Stock	2023 Return	2022 Return
Generac Holdings	28%	-71%
Credit Suisse	-70% & UBS takeover	-68%
DoorDash	102%	-67%
Tesla	102%	-65%
Meta Platforms Inc	194%	-64%
DocuSign	7%	-63%
Zoom Video	6%	-62%
PayPal Holdings	-14%	-62%

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General Electric (GE)

- Iconic GE, multinational conglomerate, original member of the Dow, has seen its stock value plummet amidst a raging bull market.
- GE lost 41% in 2017, 57% in 2018!
- Dividend was slashed.
- Removed from the Dow Jones Industrial Average
- Spun off different business units

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Dow Jones Industrial Average (DJIA)

- DJIA is one of the oldest and most recognized stock market indexes in the world
- Often referred to as the "Dow"
- Composed of 30 large cap US companies
- Companies selected by committee based on:
 - Reputation, industry leadership, earnings/growth
- Uses price weighted methodology

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DJIA Constituents (January 2026)

3M 08/09/1976	American Express 08/30/1982	Amgen 08/31/2020	Amazon 02/26/2024	Apple 03/19/2015	Boeing 03/12/1987	Caterpillar 05/06/1991	Chevron 07/18/1930 02/19/2008	Cisco 06/08/2009	Coca-Cola 05/26/1932 03/12/1987
Disney 05/06/1991	Goldman Sachs 09/23/2013	Home Depot 11/01/1999	Honeywell 08/31/2020	IBM 06/29/1979	Johnson & Johnson 03/17/1997	JPMorgan Chase 05/06/1991	McDonald's 10/30/1985	Merck 06/29/1979	Microsoft 11/01/1999
Nike 09/23/2013	Nvidia 11/08/2024	Procter & Gamble 05/26/1932	Salesforce 08/31/2020	Sherwin-Williams 11/08/2024	Travelers 06/08/2009	UnitedHealth Group 09/24/2012	Verizon 04/08/2004	Visa 09/23/2013	Walmart 03/17/1997

Company and Year(s) Joined Index (Source: DowJones)

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Dow Changes Over Time

Year	Out	Replaced
1999	Chevron Goodyear Sears	Home Depot Intel Microsoft
2013	Alcoa Hewlett Packard Bank of America	Nike Visa Goldman Sachs
2015	AT&T	Apple
2018	General Electric	Walgreens
2020	Exxon, Pfizer, Raytheon	Salesforce, Amgen, Honeywell
2024	Intel, Dow Inc., Walgreens	Nvidia, Sherwin-Williams, Amazon

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NASDAQ Composite Index

- Nasdaq stock market established in 1971 as first electronic stock market
- NASDAQ Composite tracks all stocks on Nasdaq exchange
- Composed of over 3,000 stocks primarily in technology and growth sectors
- Focus on innovation and emerging industries
- Uses market-capitalization weighted methodology

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S&P 500 Index

- Tracks the performance of 500 large-cap U.S. companies across diverse industries
- Market capitalization weighted index
- Companies are selected based on criteria:
 - Market capitalization
 - Positive earnings
 - U.S. based company
- Widely used as a benchmark for the U.S. equity market

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Dow Jones, NASDAQ, S&P 500

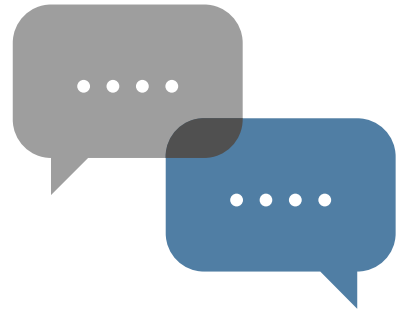


koyfin

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Index Discussion

- Group Discussion
 - In what situations might you prefer to reference:
 - Dow
 - Nasdaq
 - S&P 500



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Basics of Mutual Fund Investing

“In the fullness of time, the mutual fund will come to be regarded among the greatest financial innovations of the modern era.”

–SEC Chairman Arthur Levitt

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Characteristics of Mutual Funds

- Characteristics of mutual funds
 - Investment company
 - Pooled investment
 - NAV—Net asset value
- Advantages of funds
 - Professional management
 - Diversification
 - Flexibility features
 - Fractional shares
 - Reinvestment/cash of distributions
 - SEC (Securities and Exchange Commission)

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Investments Combined Into Funds

Single Asset Class	Examples
Money Market Funds	Money Market Fund
Bond Funds	High Quality Bond Fund, Core Bond Fund
Stock Funds	Value and Income Fund, Equity Growth Fund, Special Equity Fund
Multiple Asset Classes	
Balanced Funds	Balanced Fund
Asset Allocation Funds	Strategic Allocation Funds

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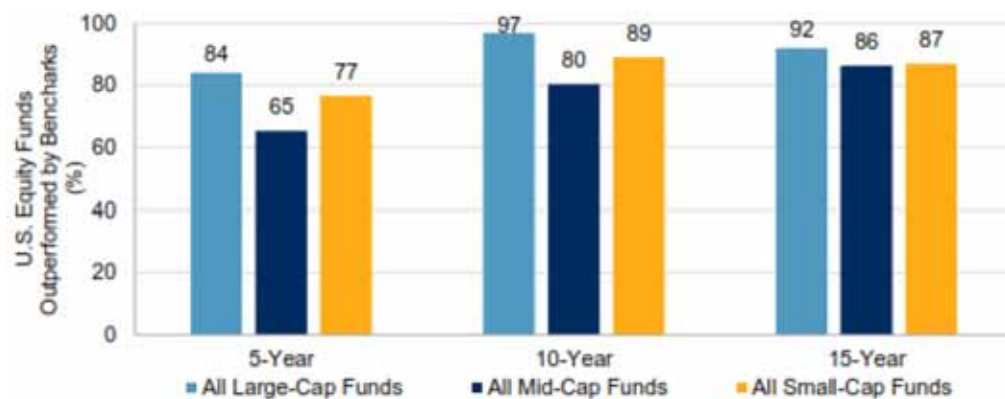
Active Vs. Passive (Index) Management Style

- Passive Management—Index
 - Replicate holdings and performance of an index (*i.e.* S&P 500)
Holdings limited to those in index but usually thousands of stocks
 - Management fees are generally lower than active managed fund
- Active Management
 - Manager actively selects holdings
 - Not limited to index holdings and usually less holdings of different stock than Index Funds
 - Management fees are generally higher than passively managed funds
 - Investors seek funds that outperform the relative index

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Most Active Managers Do Not Beat Benchmarks

Exhibit 1: Percentage of U.S. Equity Funds Outperformed by Benchmarks—Risk-Adjusted Returns (Net of Fees)



Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2019. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

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Stock Market Volatility

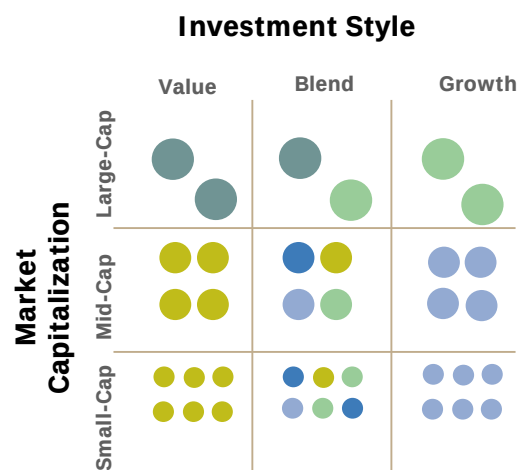


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Stocks and Stock Funds

Generally categorized by:

- Market capitalization
 - How large are the companies that are issuing the stocks?
- Investment Style
 - Value
 - Blend
 - Growth



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Stock Performance—Sharp Drops



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Short-Term Stock Volatility

- Volatile nature
 - 1973-74 bear market
 - Black Monday 10/19/87
 - Post 9/11/01 Attack
 - 2000-2001-2002 Tech Wreck
 - 2008 Financial Crisis
 - 2011 2nd Quarter
 - 2018 4th Quarter Meltdown
 - 2020 First Quarter COVID Crisis

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Stock Performance—Sharp Rises



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Stock Performance Lessons



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Volatility in Markets

Year	S&P 500 Total Annual Return	# Days S&P 500 Changed by 2% or More
2008	-37.0%	72
2009	26.5%	55
2010	15.1%	22
2011	2.1%	35
2012	16.0%	6
2013	32.4%	4
2014	13.7%	6
2015	1.4%	10
2016	12.0%	9
2017	21.8%	None
2018	-4.4%	20

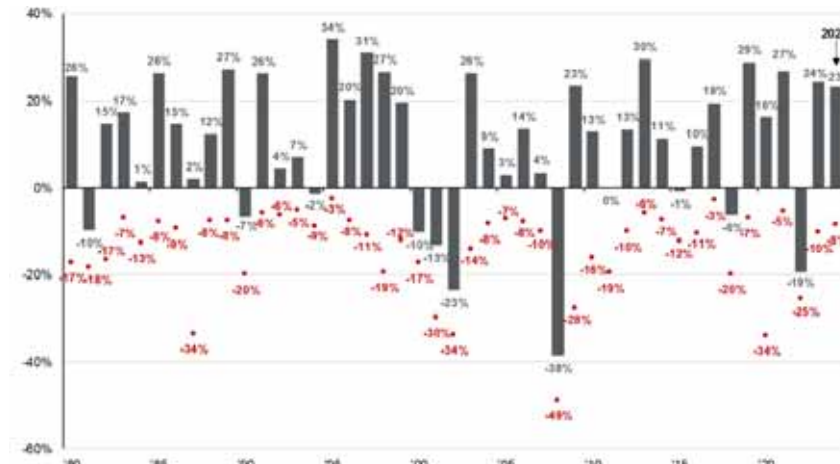
Sources: S&P Global, Bloomberg

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Volatility in Markets

S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.1%, annual returns were positive in 34 of 45 years

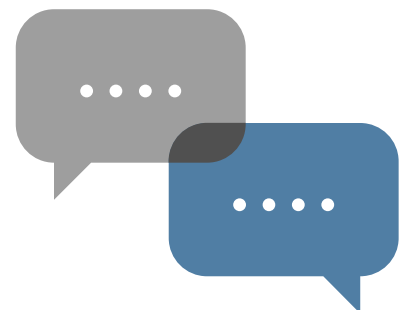


Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2024, over which time period the average annual return was 10.6%. *Guide to the Markets—U.S. Data are as of December 31, 2024.*

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Volatility Discussion

- Group Discussion
 - How would you describe "normal" volatility?
 - How does that differ based on asset class?
 - What strategies can investors use to manage volatility?



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Poll

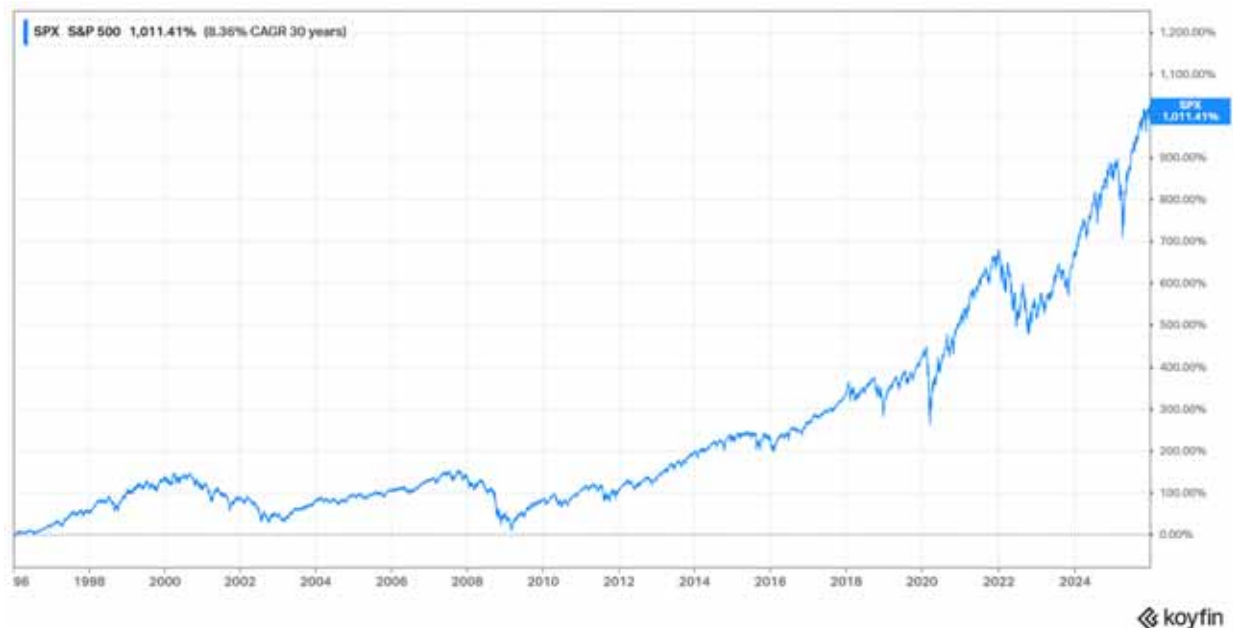
How many points did the DJIA have to drop in following years to be down 2% in a day?

– January 1990 and January 2020

- A. 10 and 50
- B. 25 and 200
- C. 30 and 300
- D. 50 and 550

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S&P 500 Performance History



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Invest for the Long Term

U.S. Stocks Portfolio: Rolling Returns

Annualized Rolling Returns - 20 Years (240 months)

	Median	Best	Worst	Negative Periods
Annualized Rolling Return	+8.24%	+17.30% Apr 1962 - Dec 2020	+1.15% Jul 1912 - Jun 1932	0.00% 0 out of 1587
US Inflation Adjusted	+6.65%	+13.12% Dec 1948 - Nov 1989	-0.59% Jul 1912 - Jun 1932	5.38% 8 out of 1587



Based on yearly rolling returns of the S&P 500 Index from 1926-2019

Data Source: from January 1871 to December 2023 (~153 years)
Consolidated Returns as of 31 December 2023

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Key Takeaways



**Your Feedback
Is Important.
Please Scan
This QR Code.**

Session Evaluation

