

# Money Matters: Investing 101

## Stocks, Bonds, ETFs, Mutual Funds, et al.

### Introduction

There are a number of options available when it comes to what to invest your money in. :

- **Certificate of Deposit (CD)** – Offered by banks and credit unions that pays a premium in exchange for the customer to leave a lump sum deposit for a fixed time period.
- **Individual Bonds** – Making loan to an institution (Government, Agency, Corporation, etc.)
- **Bond Funds** – Mutual funds that buy bonds and other fixed-income securities.
- **Individual Common Stocks** – Own part of a company
- **Preferred Stocks (Preferreds)** – Shares some characteristics of stocks and bonds.
- **Exchange Traded Fund (ETF)** – Bundles many individual stocks together in a single investment and may track an index but trades like a stock (i.e. sell/buy throughout the day)
- **Index Fund** – Bundles many stocks together and tracks a designated index but trades like a mutual fund (i.e. Trade executes at the end of the day).
- **Mutual Funds** – Actively managed fund consisting of any number of stock/bonds or other investment instruments based on the goal of the fund and decisions of the fund managers.
- **Real-estate Investment Trusts (REITS)** – Company that owns, operates or finances income-generating real estate (ie Hospitals, malls, assisted living facilities, server farms).

### Disclaimers

- Financial information is by nature dynamic and ever changing, as a result you should assume any information presented here as dated and in need up update before any decisions should be made.
- Your situation is unique information provided here is general in nature tax many details may not be mentioned that may have impact on your financial situation. Make sure you investigate fully any topic that may be used to make a decision. Additionally, tax laws are complex and many times subject to vary based on the individuals income. Make sure you understand the implications for your situation.

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### Stock Orders

- [Market Order](#) – An order to buy or sell a security at the best available price in the current market.
- [Limit Order](#) – A limit order is a type of order to purchase or sell a security at a specified price or better. For buy limit orders, the order will be executed only at the limit price or a lower one, while for sell limit orders, the order will be executed only at the limit price or a higher one. Order may not go through.
- [Good til Cancelled](#) (GTC) – Order is open until it is filled or after a certain time expires (ie 30 days).
- Good til date (GTD) – Order remains open until it is filled, or the date specified.
- [Day Order](#) – Order will expire at the end of the day.

### Terms you should know

- [Asset Class](#) - An asset class is a grouping of investments that exhibit similar characteristics and are subject to the same laws and regulations. The three main asset classes are equities, or stocks; fixed income, or bonds; and cash equivalents, or money market instruments.
- [Beta](#) - Beta is a measure of the volatility or systematic risk of a security or portfolio compared to the market as a whole. For beta to be meaningful, the stock should be related to the benchmark that is used in the calculation.
- [Bond Laddering](#) - Bond laddering is an investment strategy that involves buying bonds with different maturity dates so that the investor can respond relatively quickly to changes in interest rates.
- [Bond Rating](#) - A bond rating is a way to measure the creditworthiness of a bond, which corresponds to the cost of borrowing for an issuer. These ratings typically assign a letter grade to bonds that indicates their credit quality.
- [Buyback](#) - A buyback, also known as a share repurchase, is when a company buys its own outstanding shares to reduce the number of shares available on the open market.
- [Capital Gain/Loss](#) - Capital gain is an increase in a capital asset's value, loss is a decrease in the asset value. It is considered to be realized when you sell the asset. Tax treatment of Gains/Losses is based on if the investment is Short-term or Long Term.
  - [Short Term investment](#) – Assets owned for less than one year.
  - Long Term investment – Assets owned for longer than one year.
- [Closed-End Fund](#) - A closed-end fund is a portfolio of pooled assets that raises a fixed amount of capital through an initial public offering (IPO) and then lists shares for trade on a stock exchange.
- [Correlation](#) - Correlation, in the finance and investment industries, is a statistic that measures the degree to which two securities move in relation to each other.
- [Correlation Coefficient](#) - The correlation coefficient is a statistical measure of the strength of the relationship between the relative movements of two variables. The values range between -1.0 and 1.0. A calculated number greater than 1.0 or less than -1.0 means that there was an error in the correlation measurement. A correlation of -1.0 shows a perfect negative correlation, while a correlation of 1.0 shows a perfect positive correlation. A correlation of 0.0 shows no linear relationship between the movement of the two variables.
- [Diversification](#) - Diversification is a risk management strategy that mixes a wide variety of investments within a portfolio. A diversified portfolio contains a mix of distinct asset types and investment vehicles in an attempt at limiting exposure to any single asset or risk. The rationale behind this technique is that a portfolio constructed of different kinds of assets will, on average, yield higher long-term returns and lower the risk of any individual holding or security.

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- **Dividends** and Distributions - A dividend is the distribution of some of a company's earnings to a class of its shareholders, as determined by the company's board of directors.
  - **Qualified Dividend** - Qualified dividends are those that are taxed at capital-gains rates, as opposed to income-tax rates, which are generally higher.
  - Ordinary dividends – Ordinary dividends are those that are taxed at income-tax rates.
- **Dollar Cost Averaging** (DCA) - Dollar-cost averaging (DCA) is an investment strategy in which an investor divides up the total amount to be invested across periodic purchases of a target asset in an effort to reduce the impact of volatility on the overall purchase. The purchases occur regardless of the asset's price and at regular intervals. In effect, this strategy removes much of the detailed work of attempting to time the market in order to make purchases of equities at the best prices.
- **Earnings Per Share** (EPS) - Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability.
- **Ex-Dividend Date** - The ex-dividend date, or ex-date for short, is one of four stages that companies go through when they pay dividends to their shareholders. The ex-dividend date is important because it determines whether the buyer of a stock will be entitled to receive its upcoming dividend.
- **Junk bond** - Junk bonds are bonds that carry a higher risk of default than most bonds issued by corporations and governments.
- **Limit Order** – A request by an investor to buy or sell a security at a specified price.
- **Market Order** – A request by an investor to buy or sell a security at the best available price in the
- **Management Fee** – A charge levied by an investment manager for managing an investment fund. Management fees tend to be higher for Mutual funds and lower for ETF's and Index funds.
- **Net Asset Value** (NAV) - The net asset value (NAV) represents the net value of an entity and is calculated as the total value of the entity's assets minus the total value of its liabilities.
- **Position Sizing** - Position sizing refers to the number of units invested in a particular security by an investor or trader. An investor's account size and risk tolerance should be taken into account when determining appropriate position sizing.
- **Rebalancing** - Rebalancing is the process of realigning the weightings of a portfolio of assets. Rebalancing involves periodically buying or selling assets in a portfolio to maintain an original or desired level of asset allocation or risk.
- **Unsystematic Risk** - Unsystematic risk is unique to a specific company or industry. Also known as "nonsystematic risk," "specific risk," "diversifiable risk" or "residual risk," in the context of an investment portfolio, unsystematic risk can be reduced through diversification.
- **Systematic Risk** - Systematic risk refers to the risk inherent to the entire market or market segment. Systematic risk, also known as "undiversifiable risk," "volatility" or "market risk," affects the overall market, not just a particular stock or industry. This type of risk is both unpredictable and impossible to completely avoid. It cannot be mitigated through diversification, only through hedging or by using the correct asset allocation strategy. For example 2008 financial crisis of 2008, Pandemic, etc.
- **VIX** - A real-time market index that represents the market's expectation of 30-day forward-looking volatility. Often referred to as the "investor fear gauge."
- **Yield Curve** - A yield curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity.

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### References and additional Resources

- [ETF vs. Index Fund: The Difference and Which to Use](#) (12/05/2019)
- [SPIVA – Report card of Active Managed funds](#), Argument for Index and ETF Funds
- [The Pros and Cons of Indexes](#) (07/05/2020)
- [REITs vs. ETFs: Which are Better for Retirees?](#) (05/25/2019)
- [5 Reasons to avoid index funds](#) (05/27/2020)
- [The Best and Worst Rolling Index Returns 1973-2016](#) (05/29/2020)
- [What is a Closed-End Fund? The ABCs of CEFs](#) (12/31/2020)
- [5 Things You Should Know about Capital Gains Tax](#) (2020)
- [5 Reasons Why Dividends Matter to Investors](#) (10/31/2019)
- [How are Qualified and Ordinary Dividends Taxed?](#) (09/01/2016)
- [Market Order vs. Limit Order: Understanding the Difference](#) (10/08/2020)
- Calculators
  - [Compare taxable vs. tax-free investment return](#)
  - [What is the value of a bond?](#)
  - [Certificate of deposit \(CD\) analyzer](#)
  - [What is the dividend yield on a stock?](#)
  - [How do expenses impact mutual fund returns?](#)
  - [Certificate of deposit \(CD\) laddering strategy](#)
  - [How do taxes and inflation impact my investment return?](#)
  - [What is the effective annual yield on my investment?](#)
  - [2020 federal income tax calculator](#)
  - [Capital gains \(losses\) tax estimator](#)
  - [Compare taxable, tax-deferred, and tax-free investment growth](#)

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Instrument	Pros	Cons	References
CD	<ul style="list-style-type: none"> <li>Capital Preservation</li> <li>Guaranteed return</li> <li>Most CD's are FDIC insured for up to \$250,000 (2019)</li> </ul>	<ul style="list-style-type: none"> <li>Low return on investment, may not keep up with inflation. Current best rates are 0.5% for 1year, 0.6% for 5 years (01/08/2021).</li> <li>Sensitive to interest rates.</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">What is a Certificate of Deposit?</a> (04/30/2020)</li> <li>Calculator: <a href="#">Certificate of deposit (CD) analyzer</a></li> <li><a href="#">Give these CDs a spin</a> (12/29/2014)</li> <li><a href="#">12 Best CD Rates for January 2021</a></li> </ul>
Bonds	Risk: Full Range (AAA, Junk, foreign, Government, etc.) <ul style="list-style-type: none"> <li>Locked in return.</li> </ul>	<ul style="list-style-type: none"> <li>Not as easy to execute as Stock purchases/sales</li> <li>Sensitive to interest rates</li> <li>Locked in return.</li> <li>Value of bond falls when interest rate rise (if you sell your bond).</li> <li>Commission associated with purchase/sale of bond can be quite high.</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">What is a Bond?</a> (11/18/2020)</li> <li>Calculator: <a href="#">What is the value of a bond?</a></li> <li>Calculator: <a href="#">Certificate of deposit (CD) laddering strategy</a></li> </ul>
Bond Fund	Risk: Full Range <ul style="list-style-type: none"> <li></li> </ul>	<ul style="list-style-type: none"> <li>Sensitive to interest rates</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">What is a Bond Fund?</a> (11/04/2019)</li> <li>Example: <a href="#">PIMCO Corporate &amp; Income Strategy Fund (PCN)</a></li> </ul>
Stocks	Risk: <ul style="list-style-type: none"> <li></li> </ul>	<ul style="list-style-type: none"> <li>Capital loss is distinct possibility</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">What is a Common Stock?</a> (11/17/2020)</li> <li><a href="#">What is the Difference Between Preferred Stock and Common Stock?</a> (08/20/2018)</li> <li>Calculator: <a href="#">What is the dividend yield on a stock?</a></li> <li>Calculator: <a href="#">Capital gains (losses) tax estimator</a></li> <li>Example: <a href="#">AT &amp; T Inc stock (T)</a></li> </ul>
Preferred Stocks	<ul style="list-style-type: none"> <li>In bankruptcy, Preferred Stock holders are paid before regular stock holders</li> <li>Priority over common stock holder for dividends.</li> <li>Dividends generally higher than common stock dividends.</li> </ul>	<ul style="list-style-type: none"> <li>In bankruptcy, bond holders are paid first.</li> <li>Cannot vote in company policy</li> <li>May be “callable” meaning the company reserves the right to purchase back the stock.</li> <li>Sensitive to interest rates.</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">How Does Preferred Stock Work?</a> (03/25/2020)</li> </ul>
ETFs	<ul style="list-style-type: none"> <li>Tracks market performance</li> <li>Lower Cost</li> </ul>	<ul style="list-style-type: none"> <li>Trades execute when placed</li> <li>Weighted to large caps</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">What is an ETF?</a> (03/16/2020)</li> <li>Example: <a href="#">Vanguard Total World Stock Index Fund ETF (VT)</a></li> </ul>
Index Fund	<ul style="list-style-type: none"> <li>Tracks market performance</li> <li>Lower Cost</li> </ul>	<ul style="list-style-type: none"> <li>Trades execute at the end of the day</li> <li>Weighted to large caps</li> <li>Dividends taxed at preferred rates</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">What is an Index Fund?</a> (12/21/2020)</li> <li>Example: <a href="#">First Trust Clean Edge Green Energy Index Fund (QCLN)</a></li> </ul>
Mutual Funds	Risk: Full Range <ul style="list-style-type: none"> <li></li> </ul>	<ul style="list-style-type: none"> <li>Study of S&amp;P 500 vs Mutual Funds showed that 78% Underperformed the S&amp;P over a 5 year period.</li> <li>Trades execute at the end of the day</li> <li>Management Fees</li> <li>May be better for complex investments such as foreign bonds with high yields.</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">What is a Mutual Fund?</a> (10/03/2020)</li> <li><a href="#">SPIVA Report</a> – How do actively managed funds perform against index funds? ..not good. more details here.</li> <li>Calculator: <a href="#">How do expenses impact mutual fund returns?</a></li> <li>Example: <a href="#">Vanguard High-Yield Corporate Fund Investor Shares (VWEHX)</a></li> <li></li> </ul>
REITS	<ul style="list-style-type: none"> <li>Usually has high pay-outs</li> </ul>	<ul style="list-style-type: none"> <li>REIT Income taxed as Ordinary Income</li> <li>Quite Volatile</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">What is a Real Estate Investment Trust?</a> (06/30/2020)</li> <li>Example: <a href="#">Digital Realty Trust Inc (DLR)</a></li> </ul>

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### Roth: Discussion on taxes in retirement

Here we perform an estimate of taxable income on a married couple to show how your taxable income can quickly become quite large. Once retired, there is little you can do to adjust these money flows, so it may be wise to convert some of your 401k/IRA into a Roth and pay taxes at the conversion as opposed to being forced into a very high money bracket in retirement.

Example Scenario (This is just a rough approximation)

- Married with both collecting Social Security
  - Higher income earner (Her) delayed to 70 years old to get maximum benefit
  - Lower income earner (Him) collected at regular retirement age of 67
- Combined IRA (401k) values
  - Higher Earner = \$1,000,000 (1 Million dollars)
  - Lower Earner = \$500,000

### Taxable Income Calculation

- Higher Income Earner
  - Social Security = \$41,000
  - IRA Required Minimum Distribution (RDA) = \$39,063
- Lower Income Earner
  - Social Security = \$25,000
  - IRA Required Minimum Distribution (RDA) = \$19,531
- **Yearly Taxable Income = \$124,594**

### References:

- [Social Security Benefits Calculators \(Social Security\)](#)
- [Required Minimum Distribution Calculator \(AARP\)](#)
- [IRS: Don't Forget, Social Security benefits may be taxable \(06/25/2020\)](#)
- [Social Security Website](#)
- [Inflation Calculator](#)