

Indexing In Action

Strategies for Engaging Students

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Next Gen Personal Finance
Maine Jump\$tart Conference 2019

“I tell people investing should be dull. It shouldn't be exciting. Investing should be more like watching paint dry or watching grass grow.”

Prof. Paul Samuelson



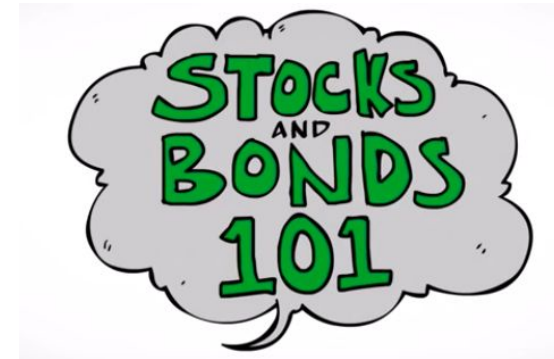
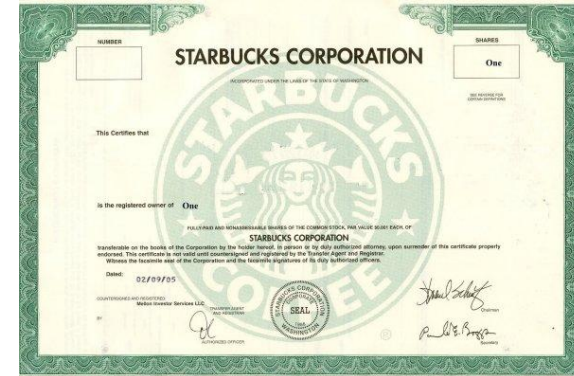
A Little Humor...



- Content
 - Explain what an index fund is
 - Understand why index funds are a popular choice for new investors
 - Review the fine print of making an index fund investment
- Teaching
 - Experience/reflect on five different resources to teach students about index funds



- **Buying a Stock**
 - You buy 1 share of 1.5 billion shares
- **Value of Your Shares**
 - (Current stock price) X (# of shares you buy)
- **How You Make Money**
 - Receive dividends of ~ \$1.00 per share per year
 - Sell your share at a higher price than you bought it
- **What is the risk that comes with owning a stock?**



What happens when LeBron James asks Warren Buffett an investing question?

1. What terms would your students struggle with in this video?
2. How does he describe index funds?



bit.ly/LebronInvest

bit.ly/SP500Map1

FinViz.com

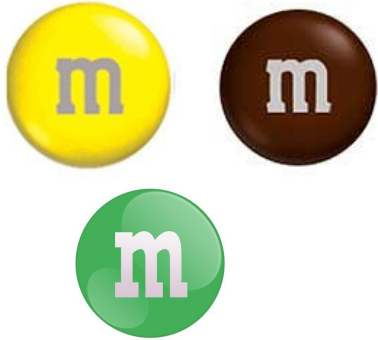
3 Things You Notice?



Activity: Stock Prices and Industries in the S&P 500

How is investing like M&Ms?

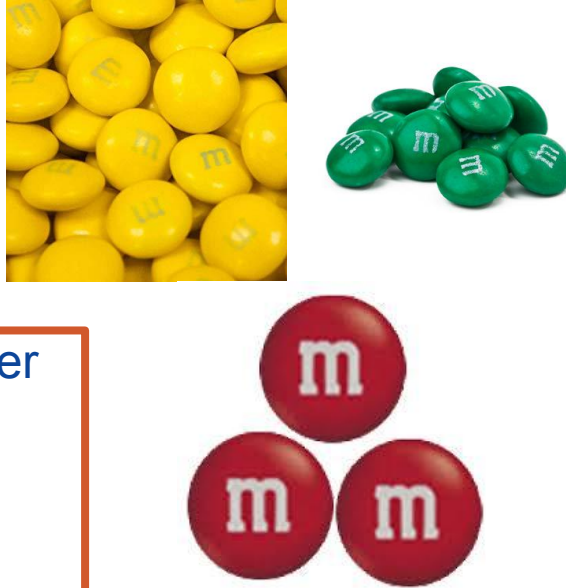
A. Individual M&Ms



Match the term with the letter that best describes it:

- Index funds
- Stocks
- Active mutual funds

B. Send someone to store to get the right colors for you



C. Buy a bulk case of M&Ms



Fan Favorite: Let's Make A Mutual Fund

1. Students given a slip of paper with company name and performance on it
2. Form a group of 2 and asked a series of questions
3. Form a group of 6 and asked a series of questions
4. Form a line from lowest return to highest return...then the “big reveal”

Nike
NKE
+13.71%
Consumer
Jan 2019

Over a recent 15 year period,
what percent of professionals
investing in large companies
"beat the market?"

Who's Winning: Active vs. Passive?



SPIVA U.S. Scorecard



Mid-Year 2018

REPORTS

Report 1: Percentage of U.S. Equity Funds Outperformed by Benchmarks

FUND CATEGORY	COMPARISON INDEX	1-YEAR (%)	3-YEAR (%)	5-YEAR (%)	10-YEAR (%)	15-YEAR (%)
All Domestic Funds	S&P Composite 1500	57.98	82.12	80.13	85.93	83.76
All Large-Cap Funds	S&P 500	63.46	78.64	76.49	89.15	92.43

Investors Vote With Their Wallets

In December 2008, new Morningstar data shows, only 19.8 percent of mutual fund assets in the U.S. were in index funds.

Ten years later, the proportion had almost doubled, to 38.7 percent.

-NY Times (February 22, 2019)

An index fund does not pick and choose its investments, but instead holds all of the [stocks](#) or [bonds](#) on an index.

So what's an index? Basically, it is [a list of investments](#). For example, the S&P 500 is a roster of the 500 largest U.S. companies with publicly traded shares.



Nike
NKE
+13.71%
Consumer
Jan 2019

- What was one aspect of the instruction that you have seen that was effective?
- What is one specific customization that you would make for one of these resources?
Why?



Mutual Funds

```
graph TD; MF[Mutual Funds] --> PF[Passive Funds]; MF --> AF[Active Funds]; PF --> S[Stock]; PF --> B[Bonds];
```

Passive Funds

“Match the market”

Stock

Bonds

Active Funds

“Beat the market”

Where Can I Find Investing Resources on NGPF Website? www.ngpf.org



www.buildyourstax.com

bit.ly/sp500facts

Reading the Fine Print Investing in an Index Fund

Step 1:

- What's the index that you are investing in?
- Who manages the fund?

Domestic stock fund | Investor Shares

Risk level Low High	Total net assets \$27.976 MM	Expense ratio as of 06/30/18 0.14%	Ticker symbol VFVFX	Turnover rate as of 12/31/17 3.1%	Inception date 08/31/76	Fund number 0040
1 2 3 4 5						

Investment objective

Vanguard 500 Index Fund seeks to track the performance of a benchmark index that measures the investment return of large-capitalization stocks.

Investment strategy

The fund employs a "passive management"—or indexing—investment approach designed to track the performance of the Standard & Poor's 500 Index, a widely recognized benchmark of U.S. stock market performance that is dominated by the stocks of large U.S. companies. The fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting in the index.

Benchmark

S&P 500 Index

Growth of a \$10,000 investment : January 31, 2008—December 31, 2017



Annual returns



For the most up-to-date fund data, please scan the QR code below.



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Fund	-37.02	26.49	14.91	1.97	15.82	32.18	13.51	1.25	11.82	21.87
Benchmark	-37.00	26.46	15.06	2.11	16.00	32.39	13.69	1.38	11.96	21.83

Total returns

	Quarter	Year to date	One year	Three years	Five years	Ten years
Fund	7.67%	10.44%	17.34%	17.16%	13.79%	11.89%
Benchmark	7.71%	10.56%	17.81%	17.21%	13.95%	11.93%

The performance data shown represent past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so investors' shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at vanguard.com/performance.

Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns. Performance figures include the reinvestment of all dividends and any capital gains distributions. All returns are net of expenses.

Top sector holdings—stocks

	Information Tech	21.0%		Industrials	3.7
	Health Care	18.1		Consumer Staples	6.7
	Financials	13.3		Energy	6.0
	Consumer Discretionary	10.3		Utilities	2.8
	Telecom Svcs	10.0		Real Estate	2.7

Sector categories are based on the Global Industry Classification Standard ("GICS"), except for the "Other" category (if applicable), which includes securities that have not been provided a GICS classification as of the effective reporting period.

Reading the Fine Print Investing in an Index Fund

bit.ly/sp500facts

Step 2:

- What are the fees on a mutual fund called?
- What is the cost of this fund (in percent)?

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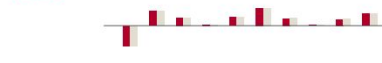
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Reading the Fine Print Investing in an Index Fund

Step 3:

- What are the fund returns compared to the benchmark over the past 5 years?
- Agree or disagree: Vanguard 500 Fund is a low-risk way to invest in stocks.

Which Investment Would You Choose?

Average annual performance—quarter end		
	Vanguard 500 Index Fund Inv	Rydex S&P 500 Fund Class A
YTD	-4.52%	-6.01%
YTD as-of date	12/31/2018	12/31/2018
1-year	-4.52%	-10.48%
3-year	9.11%	5.70%
5-year	8.34%	5.66%
10-year	12.97%	10.77%
1-, 3-, 5-, 10-year as-of date	12/31/2018	12/31/2018

Why You Better Read The Fine Print!


Average annual performance—quarter end		
	Vanguard 500 Index Fund Inv	Rydex S&P 500 Fund Class A
YTD	-4.52%	-6.01%
YTD as-of date	12/31/2018	12/31/2018
1-year	-4.52%	-10.48%
3-year	9.11%	5.70%
5-year	8.34%	5.66%
10-year	12.97%	10.77%
1-, 3-, 5-, 10-year as-of date	12/31/2018	12/31/2018

If you invested \$1,000....

\$3,386

\$2,781

Why the big difference in performance?

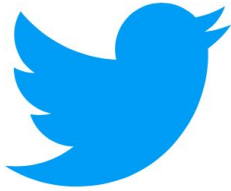
Fund overview		
	Vanguard 500 Index Fund Inv	Rydex S&P 500 Fund Class A
Symbol	VFINX	RYSOX
Asset class	Stock	Stock
Category	Large Blend	Large Blend
Risk potential		—
Expense ratio	0.14%	1.58%

They all include the word “index”

Which is the LEAST diversified?

	Vanguard Total Stock Mkt. Index	Vanguard 500 Index	Vanguard Info Tech. Index	Vanguard Total Int'l Fund
Number of stocks	3508	509	323	6374
Region	Domestic	Domestic	Domestic	Foreign
10 Yr. Avg. Annual Return	10.97%	10.84%	15.82%	5.06%
Risk potential (5 = risky)	4	4	5	5

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