THE BASICS OF INVESTING: FINANCIAL EDUCATION FOR EDUCATORS

EDWARD MORAN, EXAMINER-IN-CHARGE
MAINE OFFICE OF SECURITIES

GOALS FOR THIS SESSION

- Understanding the Planning Process
- Creating an Action Plan
- Estate Planning Basics
- Where to Go with Questions
- Avoiding Common Pitfalls

FINANCIAL PLANNING

Important Questions You Need to Address

- What is your investing timeframe?
- What is your risk tolerance?
- What is your investing experience?
- How do you value your money?
- What are your investing goals?
  - Long-term
  - Short-term
- How does your family impact your investing?

CREATING AN ACTION PLAN

- **Step 1: Identify your goals and risk tolerance**
- **Step 2: Inventory of assets and liabilities**
  - *See handout*
- **Step 3: Create a plan of action**
  - Short-term goals
  - Long-term goals
  - How to get there…

ACCOUNT REGISTRATION TYPES

- **Qualified Accounts**
  - IRA
  - Roth
  - 401k
  - TSA

- **Non-qualified Accounts**
  - TOD
  - JTWROS / joint tenancy
  - Individual

ACCOUNT REGISTRATION TYPES

- **529 Plans**

The Finance Administration of Maine (FAME) administers Maine's 529 tax-advantaged college investing plan, known as the NextGen College Investing Plan.

- www.nextgenplan.com

  - What they are
  - Benefits & drawbacks

ACCOUNT TYPES

- Transfer Agent
- Annuity
- Brokerage Account

- Stocks
- Bonds
  - Municipal – tax advantage
  - Corporate - taxable
- Mutual Funds
- Exchange Traded Funds (ETFs)
- REITs
- Bitcoin

ESTATE PLANNING BASICS

- What Happens Without an Estate Plan?

- If you fail to make a Last Will and Testament before you die, then your estate will be divided up among your intestate heirs based on the intestacy laws of the state where you live at the time of your death and the intestacy laws of any other state where you own real estate and/or tangible personal property.

ESTATE PLANNING BASICS

- Work With an Attorney – Do not do this alone. Too many tax and legal ramifications
- Know How Your Property is Titled
- Plan For Your Beneficiaries
- Select Your Fiduciaries
- Update the Plan Often

ESTATE PLANNING BASICS

- **Wills -**your Last Will and Testament will provide all of the essential details of who will inherit your property, when and how they will inherit it, and who will be put in charge of settling your final affairs.

ESTATE PLANNING BASICS

- **Trusts -** A trust is an agreement that describes how assets will be managed and held for the benefit of another person.

- A living trust is usually created by the grantor during his or her lifetime through a transfer of property to a trustee. The grantor generally retains the power to change or revoke the trust. When the grantor passes away, this trust becomes irrevocable.

- Testamentary trusts, sometimes called trusts under will, are trusts that are created by a will after the grantor dies.

ESTATE PLANNING BASICS

- **Powers of Attorney**
  - Financial and Medical

- **Beneficiary Designations**

COMMON PITFALLS

- **Product Specific: Bonds**
  - Investing qualified funds in tax free bonds
  - Impact of the low interest rate environment
- **MaineCare Planning**
  - Losing control of assets
  - Financial exploitation
- **Following the Herd**
- **Not taking your time**… with both your investing and selecting a financial professional

TAKE AWAYS

1. Over the long term, stocks have historically outperformed all other investments.

- Stocks have historically provided the highest returns of any asset class.

2. Over the short term, stocks can be hazardous to your financial health.

- On Dec. 12, 1914, stocks experienced the worst one-day drop in stock market history -- 24.4%.
- On Black Friday, Oct. 19, 1987, the stock market lost 22.6%.
- More recently, the shocks have been prolonged and painful - and in 2009, stocks overall lost a whopping 37%.

TAKE AWAYS

3. Risky investments generally pay more than safe ones (except when they fail).

- Investors demand a higher rate of return for taking greater risks.

4. Rising interest rates are bad for bonds.

- When interest rates go up, bond prices fall.

5. Inflation may be the biggest threat to your long-term investments.

- While a stock market crash can knock the stuffing out of your stock investments, so far the market has always bounced back and eventually gone on to new heights. However, inflation, which has historically stripped 3.2% a year off the value of your money, rarely gives back what it takes away.

TAKE AWAYS

6. U.S. Treasury bonds are as close to a sure thing as an investor can get.

- It is believed that the US Government is unlikely ever to default on its bonds - partly because the American economy has historically been fairly strong and partly because the government can always print more money to pay them off if need be. As a result, the interest rate of Treasuries is considered a risk-free rate. Of course, the market value of Treasuries will suffer if interest rates rise, just like all other kinds of bonds.

7. Index mutual funds often outperform actively managed funds.

- In an index fund, the manager sets up his or her portfolio to mirror a market index -- such as Standard & Poor's 500-stock index -- rather than actively picking which stocks to purchase.

HOW TO GET HELP

Financial Professionals

- *Broker-dealer Registered Representative*
- *Investment Adviser Representative*

Differences

- Services
- Compensation
- Duty

Remember: Create a team and interview your professionals!

HOW TO GET HELP

- **Finding a financial professional**
  - Ask your friends and family
  - Check them out: *brokercheck.finra.org*
    - CFP Board: www.cfp.net
    - NAPFA: www.napfa.org
- **The Maine Office of Securities**
  - What we do
  - How we can help
  - Resources

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FINAL THOUGHTS

"Risk comes from not knowing what you're doing."

Warren Buffett

"Money is better than poverty, if only for financial reasons."

Woody Allen

"High expectations are the key to everything."

Sam Walton

"Thy shalt not worship thy investment advisor, for if she were so smart she would be retired by now."

Steven J. Lee

QUESTIONS

Edward Moran
Examiner-in-Charge
Maine Office of Securities
(207) 624-8551
Edward.Moran@ maine.gov