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StraightLine Education

“Investing 101”

CMU Fiscally Fit

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Investing 101 – Topics of Discussion

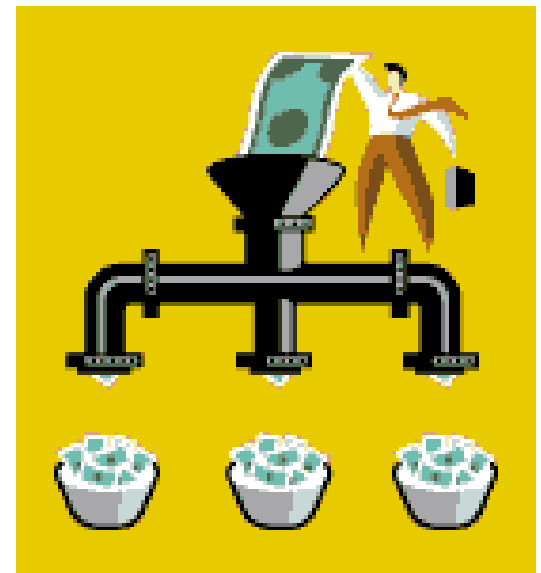
➤ Asset Types

Stocks, Bonds, CDs, Mutual Funds

➤ Diversification

➤ Account Types

403(b), 457, Regular vs. Roth Contributions, HSA



Stocks – Equity Securities

- A share of actual ownership in a company
- **Represents a claim on a company's assets & earnings**
- May carry voting power
- Trade on exchanges (NYSE, NASDAQ, etc.) – Value is set by market forces
- Tend to be the most volatile, and therefore, the most aggressive of the basic asset types



Indexes

DOW

- **Dow Jones Industrial Average**
- **30 American companies – Representing major industries**
- **Chosen by editors of Wall Street Journal**
- **To many people, this index is “The Market”**

S&P 500

- **Standard & Poor’s 500**
- **Generally includes the 500 largest ‘American’ companies**
- **Chosen by S&P committee**
- **The most common benchmark of stock portfolios**



Indexes

NASDAQ

- **National Association of Securities Dealers Automated Quotations**
 - **Index reports performance of all listed companies**
 - **Thought of as the “Tech–Company Index”**
-

EAFE

- **Europe, Australia, Far East index**
 - **Commonly quoted international stock index**
-

Bloomberg US Aggregate Bond Index

- **Most commonly-quoted bond index**



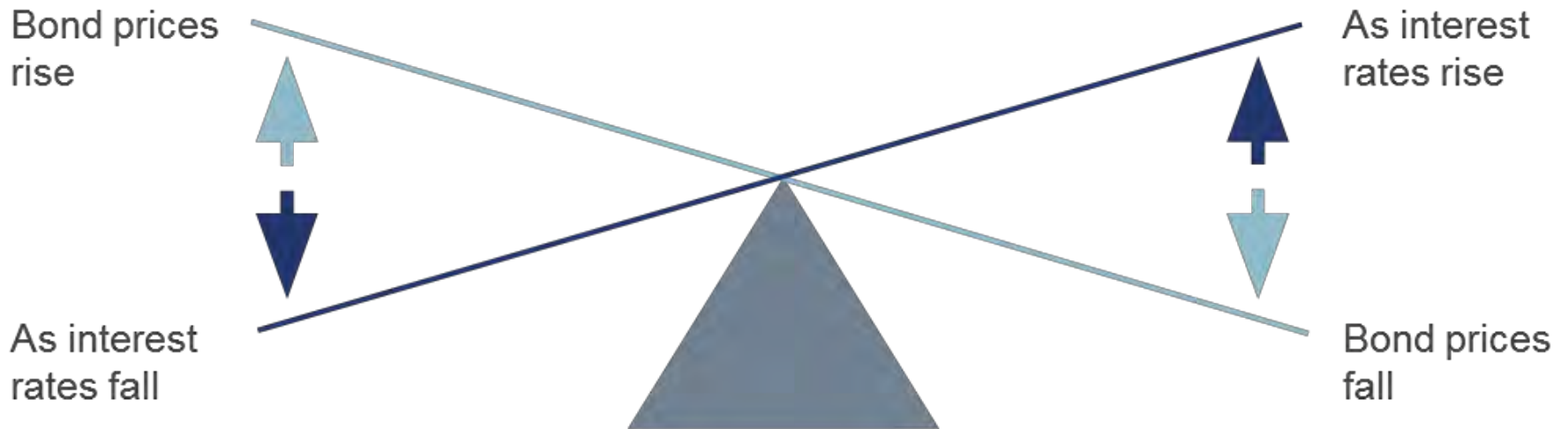
Bonds – Fixed Income Securities

- A loan from you to the issuing organization
- Interest (coupon) payments made at a predetermined rate and schedule
- Issuer repays amount borrowed (face value) at a predetermined maturity date
- Bond prices affected by interest rates, market forces, & their issuers ability to repay
- Usually more conservative asset type



Rising Interest Rates?

Bond prices and interest rates generally move in opposite directions



Certificates of Deposit (CDs)

- Specialized deposit at a bank or Credit Union
- Interest payments made at a predetermined rate and schedule
- Issuer repays amount deposited at a predetermined maturity date
- Usually insured = Essentially zero volatility
- Extremely conservative asset type



Mutual Funds

- **An investment company 'hired' by you to invest your money**
- **Can purchase Stocks, Bonds, 'Cash', or virtually any other type of investment vehicle**
- Mutual Fund shares represent a portion of the underlying investment portfolio
- Fund shares fluctuate based on performance of all portfolio holdings
- The most common asset type used in retirement plans because of diversification



Diversify Properly

- The proper number of funds
- The proper style of funds
- Review past performance only?



The Case for Diversification

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
U.S. Fixed Income 8.43%	Gbl ex-U.S. Fixed 22.37%	Emerging Market Equity 55.82%	Real Estate 37.96%	Emerging Market Equity 34.00%	Real Estate 42.12%	Emerging Market Equity 39.38%	U.S. Fixed Income 5.24%	Emerging Market Equity 78.51%	Small Cap Equity 26.85%	U.S. Fixed Income 7.84%	Real Estate 27.73%	Small Cap Equity 38.82%	Real Estate 15.02%	Large Cap Equity 1.38%	Small Cap Equity 21.31%	Emerging Market Equity 37.28%	Cash Equivalent 1.87%	Large Cap Equity 31.49%	Small Cap Equity 19.96%
High Yield 5.28%	U.S. Fixed Income 10.26%	Small Cap Equity 47.25%	Emerging Market Equity 25.55%	Real Estate 15.35%	Emerging Market Equity 32.17%	Dev ex-U.S. Equity 12.44%	Gbl ex-U.S. Fixed 4.39%	High Yield 58.21%	Real Estate 19.63%	High Yield 4.98%	Emerging Market Equity 18.23%	Large Cap Equity 32.39%	Large Cap Equity 13.69%	U.S. Fixed Income 0.55%	High Yield 17.13%	Dev ex-U.S. Equity 24.21%	U.S. Fixed Income 0.01%	Small Cap Equity 25.52%	Large Cap Equity 18.40%
Cash Equivalent 4.42%	Real Estate 2.82%	Real Estate 40.69%	Dev ex-U.S. Equity 20.38%	Dev ex-U.S. Equity 14.47%	Dev ex-U.S. Equity 25.71%	Gbl ex-U.S. Fixed 11.03%	Cash Equivalent 2.06%	Real Estate 37.13%	Emerging Market Equity 18.88%	Gbl ex-U.S. Fixed 4.36%	Dev ex-U.S. Equity 16.41%	Dev ex-U.S. Equity 21.02%	U.S. Fixed Income 5.97%	Cash Equivalent 0.05%	Large Cap Equity 11.96%	Large Cap Equity 21.83%	High Yield -2.08%	Dev ex-U.S. Equity 22.49%	Emerging Market Equity 18.31%
Small Cap Equity 2.49%	Cash Equivalent 1.78%	Dev ex-U.S. Equity 39.42%	Small Cap Equity 18.33%	Large Cap Equity 4.91%	Small Cap Equity 18.37%	U.S. Fixed Income 6.97%	High Yield -26.16%	Dev ex-U.S. Equity 33.67%	High Yield 15.12%	Large Cap Equity 2.11%	Small Cap Equity 16.35%	High Yield 7.44%	Small Cap Equity 4.89%	Real Estate -0.79%	Emerging Market Equity 11.19%	Small Cap Equity 14.65%	Gbl ex-U.S. Fixed -2.15%	Real Estate 21.91%	Gbl ex-U.S. Fixed 10.11%
Emerging Market Equity -2.61%	High Yield -1.37%	High Yield 28.97%	Gbl ex-U.S. Fixed 12.54%	Small Cap Equity 4.55%	Large Cap Equity 15.79%	Large Cap Equity 5.49%	Small Cap Equity -33.79%	Small Cap Equity 27.17%	Large Cap Equity 15.06%	Cash Equivalent 0.10%	Large Cap Equity 16.00%	Real Estate 3.67%	High Yield 2.45%	Dev ex-U.S. Equity -3.04%	Real Estate 4.06%	Gbl ex-U.S. Fixed 10.51%	Large Cap Equity -4.38%	Emerging Market Equity 18.44%	Dev ex-U.S. Equity 7.59%
Gbl ex-U.S. Fixed -3.75%	Emerging Market Equity -6.16%	Large Cap Equity 28.68%	High Yield 11.13%	Cash Equivalent 3.07%	High Yield 11.85%	Cash Equivalent 5.00%	Large Cap Equity -37.00%	Large Cap Equity 26.47%	Dev ex-U.S. Equity 8.95%	Small Cap Equity -4.18%	High Yield 15.81%	Cash Equivalent 0.07%	Cash Equivalent 0.03%	Small Cap Equity -4.41%	Dev ex-U.S. Equity 2.75%	Real Estate 10.36%	Real Estate -5.63%	High Yield 14.32%	U.S. Fixed Income 7.51%
Real Estate -3.81%	Dev ex-U.S. Equity -15.80%	Gbl ex-U.S. Fixed 19.36%	Large Cap Equity 10.88%	High Yield 2.74%	Gbl ex-U.S. Fixed 8.16%	High Yield 1.87%	Dev ex-U.S. Equity -43.56%	Gbl ex-U.S. Fixed 7.53%	U.S. Fixed Income 6.54%	Real Estate -6.46%	U.S. Fixed Income 4.21%	U.S. Fixed Income -2.02%	Emerging Market Equity -2.19%	High Yield -4.47%	U.S. Fixed Income 2.65%	High Yield 7.50%	Small Cap Equity -11.01%	U.S. Fixed Income 8.72%	High Yield 7.11%
Large Cap Equity -11.89%	Small Cap Equity -20.48%	U.S. Fixed Income 4.10%	U.S. Fixed Income 4.34%	U.S. Fixed Income 2.43%	Cash Equivalent 4.85%	Small Cap Equity -1.57%	Real Estate -48.21%	U.S. Fixed Income 5.93%	Gbl ex-U.S. Fixed 4.95%	Dev ex-U.S. Equity -12.21%	Gbl ex-U.S. Fixed 4.09%	Emerging Market Equity -2.60%	Gbl ex-U.S. Fixed -3.09%	Gbl ex-U.S. Fixed -6.02%	Gbl ex-U.S. Fixed 1.49%	U.S. Fixed Income 3.54%	Dev ex-U.S. Equity -14.09%	Gbl ex-U.S. Fixed 5.09%	Cash Equivalent 0.67%
Dev ex-U.S. Equity -21.40%	Large Cap Equity -22.10%	Cash Equivalent 1.15%	Cash Equivalent 1.33%	Gbl ex-U.S. Fixed -8.65%	U.S. Fixed Income 4.33%	Real Estate -7.39%	Emerging Market Equity -53.33%	Cash Equivalent 0.21%	Cash Equivalent 0.13%	Emerging Market Equity -18.42%	Cash Equivalent 0.11%	Gbl ex-U.S. Fixed -3.08%	Dev ex-U.S. Equity -4.32%	Emerging Market Equity -14.92%	Cash Equivalent 0.33%	Cash Equivalent 0.86%	Emerging Market Equity -14.57%	Cash Equivalent 2.28%	Real Estate -9.04%

Source: [optimizedportfolio.com](https://www.optimizedportfolio.com), 2021



Impact of Volatility

	<i>Year 1</i>	<i>Year 2</i>	<i>Total</i>
(ex. 1)	10% ↑	10% ↓	



Impact of Volatility

	<i>Year 1</i>	<i>Year 2</i>	<i>Total</i>
(ex. 1)	10% ↑	10% ↓	-1%
\$1000	\$1100	\$990	-\$10



Impact of Volatility

	<i>Year 1</i>	<i>Year 2</i>	<i>Total</i>
(ex. 1)	10% ↑	10% ↓	-1%
\$1000	\$1100	\$990	-\$10
(ex. 2)	30% ↓	30% ↑	



Impact of Volatility

	<i>Year 1</i>	<i>Year 2</i>	<i>Total</i>
(ex. 1)	10% ↑	10% ↓	-1%
\$1000	\$1100	\$990	-\$10
(ex. 2)	30% ↓	30% ↑	-9%
\$1000	\$700	\$910	-\$90



Impact of Volatility

	<i>Year 1</i>	<i>Year 2</i>	<i>Total</i>
(ex. 1)	10% ↑	10% ↓	-1%
\$1000	\$1100	\$990	-\$10
(ex. 2)	30% ↓	30% ↑	-9%
\$1000	\$700	\$910	-\$90
(ex. 3)	80% ↑	50% ↓	



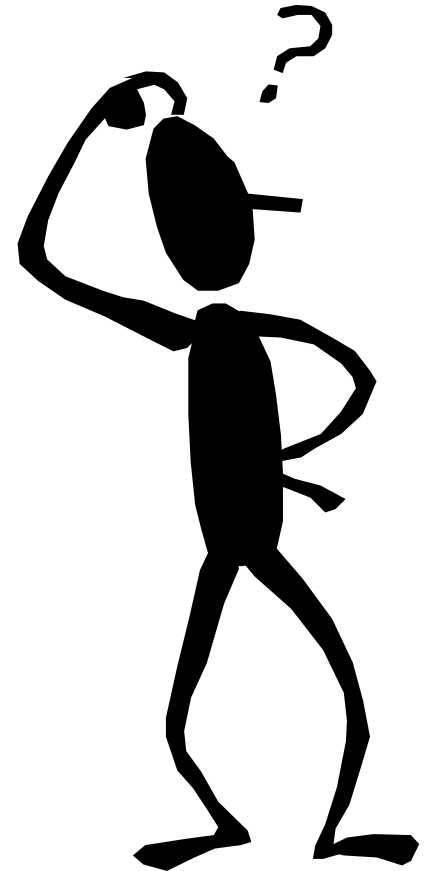
Impact of Volatility

	<i>Year 1</i>	<i>Year 2</i>	<i>Total</i>
(ex. 1)	10% ↑	10% ↓	-1%
\$1000	\$1100	\$990	-\$10
(ex. 2)	30% ↓	30% ↑	-9%
\$1000	\$700	\$910	-\$90
(ex. 3)	80% ↑	50% ↓	-10%
\$1000	\$1800	\$900	-\$100



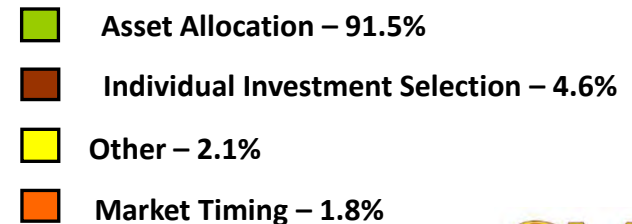
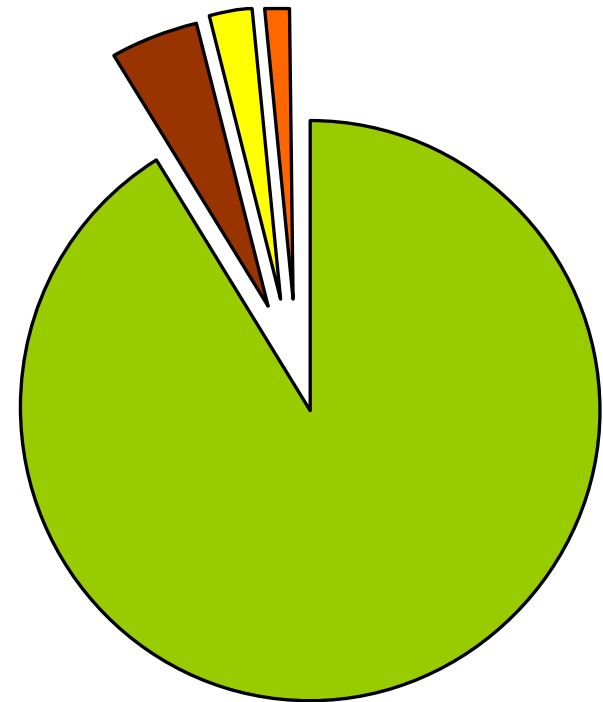
Common Questions During Volatile Times

- Do I get more conservative?
- When will things calm down?
- Should I get out and wait?
- Do I stop contributing?



Determinants of Portfolio Performance

- Academic studies have concluded that asset allocation accounts for 91.5% of a portfolio's return.
- The decision on how much to invest in specific asset classes (i.e. stocks, bonds, etc...) is generally the most crucial decision when creating a portfolio.
- Market timing only accounts for 1.8% of a portfolio's total return.

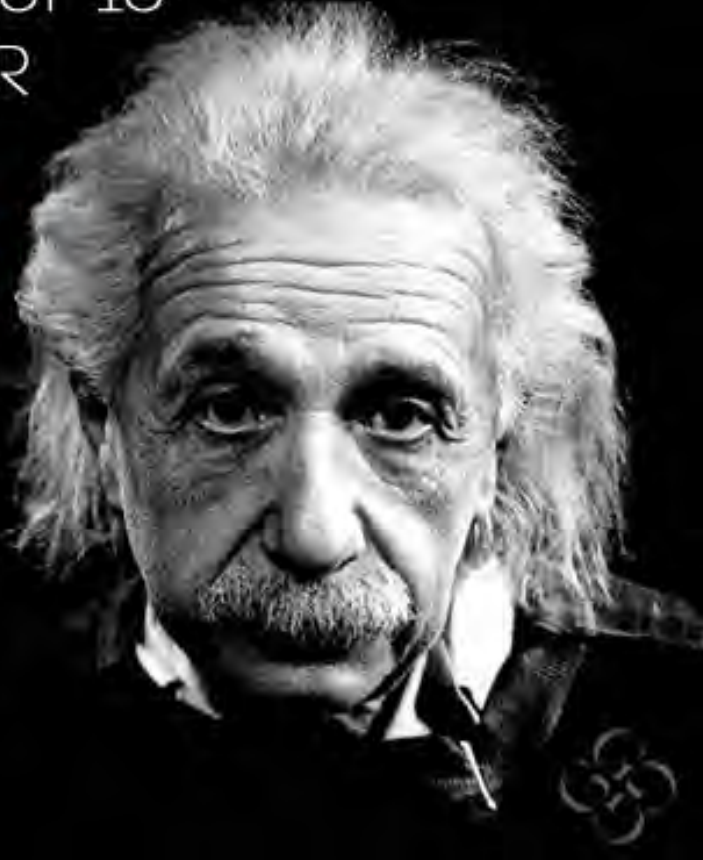


Source: www6.ingretirementplans.com/SponsorExtranet/M.P.SR.3.pdf
"Determinants of Portfolio Performance II: An Update." Brinson, Hood and Beebower, 1996.

The Power Of Compounding

“COMPOUND INTEREST IS
THE EIGHTH WONDER
OF THE WORLD. HE
WHO UNDERSTANDS
IT, EARNS IT ... HE
WHO DOESN'T ...
PAYS IT.”

-ALBERT EINSTEIN



Dollar Cost Averaging

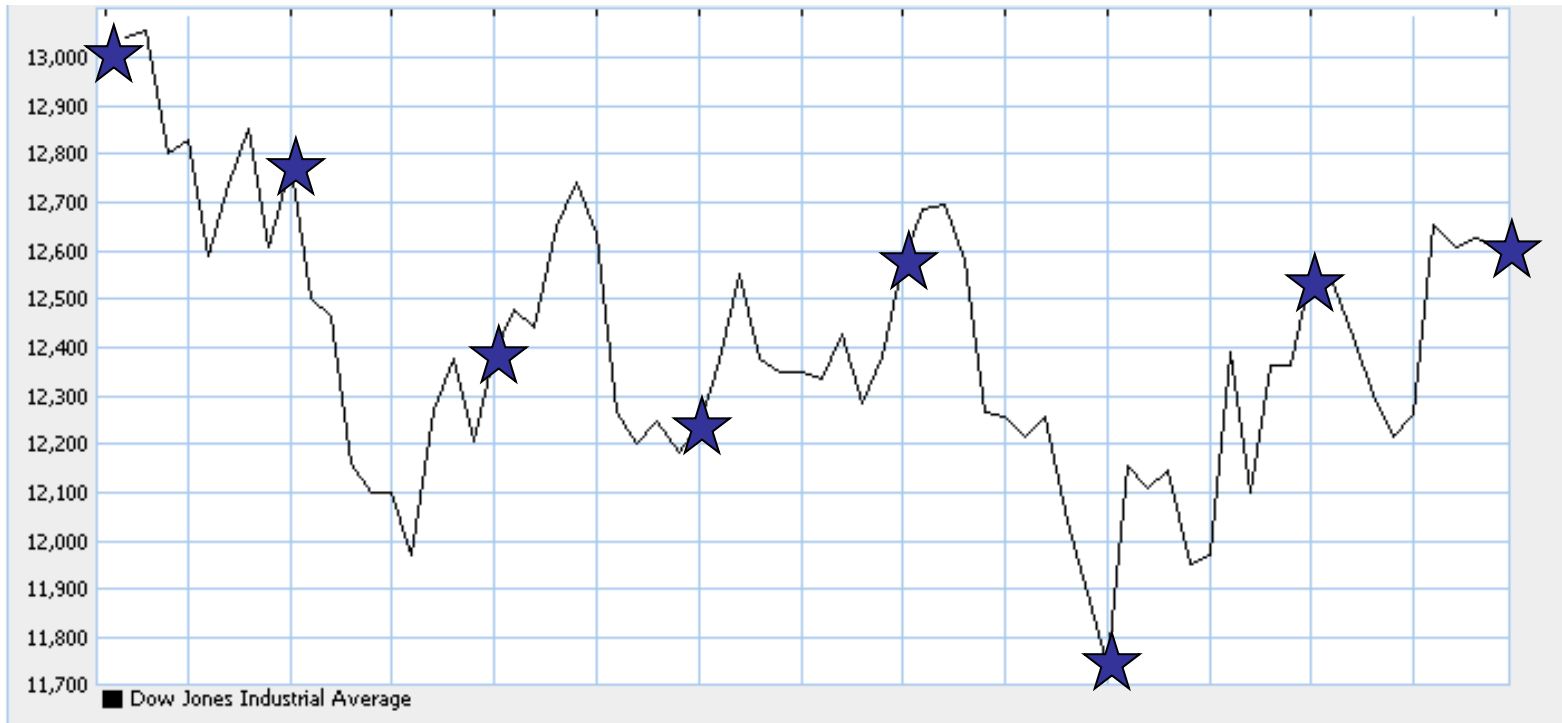


Chart provided by www.moneycentral.msn.com

Account Types



Employer Sponsored Retirement Plans

- What is a 403(b)?
- Why is it called a 403(b)?
- Can Contribute \$20,500 in 2022, \$27,000 if over 50
- How do 403(b)s and 457s differ?
- University contribution
- Important ages – 59½, 72, ~55



Retirement Account Options



- Income in retirement
- Tax benefit now vs. later
- Roth contributions vs. growth



Health Savings Accounts (HSAs)

- Spending and savings account
- Tax-free investment earning potential
- Can offer tax-free distributions for qualified medical expenses
- **Can be used for family members' medical expenses**
- Unused funds rolled over year-to-year
- Portable



Thank You!



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Asset Allocation Rule of Thumb

To approximate your “ideal” equity percentage, subtract your age from 110

Example: The “average” 50 year old should have about 60% of their total portfolio in equities ($110 - 50 = 60$)

Example: The “average” 30 year old should have about 80% of their total portfolio in equities ($110 - 30 = 80$)

Example: The “average” 70 year old should have about 40% of their total portfolio in equities ($110 - 70 = 40$)

➤ **The remaining percentage should be invested in more conservative investments**



This is a guideline, and may not be suitable for every investor.