Making Smart Saving and Investing Choices

Office of Investor Education and Advocacy
United States Securities and Exchange Commission

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SEC Disclaimer

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October 1–7

What It Takes to Save $500,000 by Age 65

<table>
<thead>
<tr>
<th>Start at Age 25</th>
<th>Start at Age 50</th>
</tr>
</thead>
<tbody>
<tr>
<td>$209 per month</td>
<td>$1,658 per month</td>
</tr>
</tbody>
</table>

Before You Invest: Investor.gov
Saving vs. Investing

**Saving:**
The money you earn but don’t spend

**Investing:**
Making that money grow

Women and Investing

*The Downsides for Women*
- Tend to be paid less than men
- Tend to have less time in work force
- May have financial plans derailed by big life changes

*The Upsides for Women*
- Tend to buy and hold instead of trying to time the market
- Great at asking questions
- Live longer!
Why You Shouldn't Stick Your Money Under the Mattress

1993 Ford F-150
$11,738 MSRP

2018 Ford F-150
Starting at: $27,380

Source: CarGurus.com
Source: Ford.com

Compound Interest – How Money Grows

Investing $100 per Month for 40 years
### Automatic Investing

- Contributing a small amount of money in regular intervals, e.g. $50 per month
- Automatically sent from savings account or paycheck to an investment

<table>
<thead>
<tr>
<th>Amount per month</th>
<th>After 5 Years</th>
<th>After 10 Years</th>
<th>After 20 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>$50</td>
<td>$3,450</td>
<td>$8,290</td>
<td>$24,597</td>
</tr>
</tbody>
</table>

*Amounts assume 7% return*

### 2018 Maximum Contribution Limits

<table>
<thead>
<tr>
<th>TSP (and 401(k) / 403(b) / 457(b))</th>
<th>IRA</th>
</tr>
</thead>
<tbody>
<tr>
<td>$18,500 (50+ may add $6,000)</td>
<td>$5,500 (50+ may add $1,000)</td>
</tr>
</tbody>
</table>
All investments have risk.

Stock Market Over Time

US Large Stock Returns (1926-2017)

Source: Ibbotson/Morningstar IA S&P500 US Large Stock TR USD Ex Index
The Markets

- One of the SEC mission tenets is to oversee to maintain fair, orderly, and efficient markets

- Different markets:
  - Equity/Stocks/Mutual Funds/ETFs
  - Bond
  - Commodity/Futures
  - Options

Stocks

Stocks, also called “equities,” give stockholders a share of ownership in a company

**Benefits:**
- Share price can increase
- Dividends
- Ability to vote shares

**Risks:**
- Share price can decrease
- Companies can go bankrupt
- Money you invest is not federally insured
Bonds

Bonds are loans you make to a government or company on which you receive interest payments.

**Benefits:**
- Predictable income stream
- Return of principal after bond matures

**Risks:**
- Prices can decrease
- Companies can go bankrupt

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**Investment Risks/Returns**

<table>
<thead>
<tr>
<th>Short Term Goals</th>
<th>Long Term Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher Returns</td>
<td>Stocks</td>
</tr>
<tr>
<td>Lower Returns</td>
<td>Bonds</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
</tr>
</tbody>
</table>

Lower Risk      | Higher Risk
Managing Risk

Manage risk by diversifying investments.

Mutual Funds and ETFs

Pools of money invested by an investment company in stocks, bonds or other securities – or some combination of those investments

Benefits:
- Professional management
- Affordability
- Liquidity
- Diversification

Risks:
Typically the same as the underlying securities
How Funds Diversify

While any given company or sector held by a fund may decline, others may post gains

Two Types of Fund Strategies

<table>
<thead>
<tr>
<th>Actively-Traded Funds</th>
<th>Passive Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Often attempt to outperform a specific market index or benchmark</td>
<td>Attempt to track the performance of a specific market index or benchmark</td>
</tr>
</tbody>
</table>
The Thrift Savings Plan (TSP.gov) is a defined contribution plan for federal/military employees, similar to a 401(k) plan.

Why Participate in TSP?
- Easy to enroll
- Saving is automatic
- Tax benefits
- Low fees/expenses

TSP: Low Expenses
- TSP funds charge $0.38 for every $1,000 invested
- In 2015, the average non-TSP index fund charged $1.80

Source: TSP; Morningstar’s 2016 Fee Study
2018 TSP Contribution Limits

<table>
<thead>
<tr>
<th>Traditional or Roth</th>
<th>In a tax-free combat zone?</th>
</tr>
</thead>
<tbody>
<tr>
<td>$18,500</td>
<td>Up to $54,000</td>
</tr>
<tr>
<td>(50+ may add $6,000)</td>
<td>Includes employee and employer contributions</td>
</tr>
</tbody>
</table>

TSP: Two Ways to Contribute

**Traditional**
- Your money goes in before taxes
- This lowers your taxable income
- However, the money will be taxed when you withdraw it

**Roth**
- Your money goes in after taxes
- However, your money will be tax-free when you withdraw it
L Fund (Lifecycle Funds)

Risk allocation based on your expected retirement date

When You Leave the Federal Government

- Leave all or some of your money in the TSP
- Roll your TSP account into your new employer’s plan or an individual retirement account (IRA)
- Roll other retirement accounts into your TSP account
23,962

Number of federal employees, DoD civilians and military personnel with TSP account balances over $1 million as of 12/31/17

Avoiding Fraud
Red Flags of Fraud

- Pressure to buy RIGHT NOW
- Lack of documentation
- Unsolicited offers to invest
- It sounds too good to be true

Incredible Gains!
Breakout Stock Pick!
Huge Upside, No Risk!

Persuasion Tactics of Fraudsters

Social Consensus
Leading you to believe that other savvy investors have already invested.

Reciprocity
Offering to do a small favor for you in return for a big favor.

Scarcity
Creating a false sense of urgency by claiming limited supply.

Source: FINRA Investor Education Foundation
Ask and Check

- Check whether the person is registered
- Check the background of the broker or investment adviser:
  - Any disciplinary actions
  - A history of customer complaints
  - Previous employment

Investor.gov
Check Your Investment Professional

Welcome to the Investment Adviser Public Disclosure website

For a complete compilation of Investment Adviser firms currently registered with the SEC and states securities regulators, download the Investment Adviser Data.

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You can call 202-554-4668 for technical assistance.
SEC Resources

Investor.gov

Check Out Your INVESTMENT PROFESSIONAL
SEARCH THE DATABASE

It's a great first step toward protecting your money. Learn about an investment professional's background, registration status, and more.

FEATURED INFORMATION
Spotlight: ICOs and Digital Assets
Information for investors about initial coin offerings (ICOs) and other investment-related digital assets.

INVESTOR ALERTS AND BULLETINS
- Investor Bulletin: Investment Clubs
- Investor Bulletin: Credit Cards and Investments - A Risky Combination
- Investor Bulletin: The Municipal Securities Market

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  - Submit Questions and Complaints
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Investor Assistance: 800-732-0330 | help@sec.gov

Investor.gov

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Outreach@SEC.gov

Compound Interest Calculator: Investor.gov
II. Creating a Budget

Creating a Budget

To develop a budget:

• Calculate your monthly income
• Track your expenses
• Determine how much you can save
Sample Budget

<table>
<thead>
<tr>
<th>Monthly Income</th>
<th>$2500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>$800</td>
</tr>
<tr>
<td>Cell phone</td>
<td>$120</td>
</tr>
<tr>
<td>Groceries</td>
<td>$200</td>
</tr>
<tr>
<td>Transportation/Metro/Uber</td>
<td>$200</td>
</tr>
<tr>
<td>Credit Card Payments</td>
<td>$150</td>
</tr>
<tr>
<td>Student loans</td>
<td>$250</td>
</tr>
<tr>
<td>Clothing</td>
<td>$150</td>
</tr>
<tr>
<td>Cable/Internet</td>
<td>$80</td>
</tr>
<tr>
<td><strong>Monthly Expenses</strong></td>
<td><strong>$1950</strong></td>
</tr>
<tr>
<td><strong>Savings</strong></td>
<td><strong>$550</strong></td>
</tr>
</tbody>
</table>

Know Your Current Financial Situation

**ASSETS** are what you own

**LIABILITIES** are what you owe
## Net Worth = Wealth

ASSETS  -  LIABILITIES  =  NET WORTH

### Sample Net Worth

<table>
<thead>
<tr>
<th>Assets</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checking Account</td>
<td>$1000</td>
</tr>
<tr>
<td>Savings Account</td>
<td>$3500</td>
</tr>
<tr>
<td>401(k) retirement plan</td>
<td>$8000</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$12,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit card</td>
<td>$500</td>
</tr>
<tr>
<td>Student loan</td>
<td>$7000</td>
</tr>
<tr>
<td>Car loan</td>
<td>0</td>
</tr>
<tr>
<td>Miscellaneous liabilities</td>
<td>$1500</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$9,000</td>
</tr>
</tbody>
</table>

| Net Worth                   | $3,500 |