

WEEK 6: THE 'EASY' OF INVESTING

YOUR EXPERTS THIS WEEK: SARAH LEWIS, CFP & JOE ALEXOPOLUS, CFP

Through our time together so far, we've gone through all the steps you can take and all the changes you need to make to have more money. So now, I want to talk to you about how you can actually start building wealth. So this week, we'll be focusing on investing and on how you can make your money grow and work for you...rather than you working for it.

So I brought in the lovely Sarah Lewis and Joe Alexopoulos, Certified Financial Planners of Aequitas Wealth Management. And these two brilliant financial minds have been in the industry for more than 40 years and only accept clients that have a minimum of one million dollars to invest. So I feel very privileged to be able to offer and give you full access to these two professionals that really have the insider track about what it takes to build and grow wealth. That is what they help their clients do every single day. So please welcome my dear friends and top authorities on building wealth, Sarah Lewis and Joe Alexopoulos, of Aequitas Wealth Management.

Sarah: Welcome everyone and thank you for joining us to spend a few moments on investing and how to become a successful investor. Together, Joe and I have about 40 years worth of experience. We came from very different paths and we'll share a bit of that with you. Our goal in this segment is to outline the basics of investing and help make you all successful investors.

Joe: Thank you, Sarah. Well, as Sarah said, I'm Joe Alexopoulos and right before we start I thought would tell you my story and background about how I got into the investment markets. And it all started way before I even had my first job.

I came from a family of modest means. My father was an immigrant from another country and didn't speak English. And to make a long story short, he really succeeded in the American Dream. As a result, my mother was left to take care of all the money that my father had accumulated. So over the years, my mother would complain, "What a great deal it is to be an investment broker! Whether we make money or lose money, they don't care. They get their commission either way." Same thing with the insurance people they invested with.

And so, as a result, I grew up in this family that was working very hard and diligently to accumulate wealth, but then was handing it over without understanding the investments they were invested in. They trusted people who didn't necessarily have their best interests at heart. Not to say they were bad people, but that's just kind of how the industry more or less works.

So my first job I got in this industry was as a stockbroker almost 20 years ago. By that time, I had already done research on stocks, bonds, and investments that I really liked that were low cost and very user friendly. And I had naively thought that these were the things I could sell as a stock broker once I joined a big national chain. And when I got there, my manager said "No, Joe, those are great investments but we're not going to let you sell those. If you want to work here, you're going to sell these other things."

Well, I did the best I could and tried to make lemonade out of lemons, if you will. And eventually over the years I switched from one firm to the other but always thought, "There must be a better way that I can do this". And so I saved my pennies and eventually opened up Aequitas, which allowed me to finally offer people investments that are without a bias or agenda that I honestly felt were good for them.

So I feel liberated, you might say, from corporate bondage and I'm able to tell my clients and now YOU, what information and recommendations we would suggest without any agenda.

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Sarah: We both come from very different paths leading us into the same common interest in forming Aequitas. I've always loved business and finance and had a real taste for being international. And my parents, in fact my entire family, were a family of educators so I probably got that education gene as well because I love teaching. But my parents always said that unbeknownst to them and for some inexplicable reason, from really a very early age, I always talked about moving to France.

And in fact that was exactly what happened. When I finished graduate school, I worked for several years for a big money center bank in New York and was promptly transferred to France. And I ended up spending the next 20 years of my career in France, Norway, and the Netherlands. I was working in all facets of the company from corporate finance, mergers & acquisitions, restructuring of sovereign debt, corporate treasury, retail, and marketing. And I had a really broad exposure to all kinds of business and finance. And those concepts seemed so fun and interesting to me. But when I looked around I found that they perhaps were not as interesting to other people and some of the concepts were a little bit more difficult for others to grasp.

So I ended up being one of those "go to" people where friends and family would come and ask questions about their investments and their portfolios and why things worked as they did. And so my interests pretty much dovetailed with Joe. When I moved back to the United States several years ago, Joe was coming back from Switzerland. So the two of us, moving back from abroad, came back to California and formed Aequitas as a perfect combination of our interests and passions and it has been wonderful sailing ever since.

So now that you know all about us we're going to get started in the nuts and bolts of it all.

MYTHS ABOUT INVESTING

Joe: To start out, what we want to explain is how the wealthy get wealthy. What is it in the investment industry that makes the wealthy so wealthy? The truth or secret to wealth: it's not the investment markets that make you wealthy; it's doing what you do. I don't care if you're a painter, an electrician, a lawyer, a doctor, a bookkeeper, or an investment advisor. It's doing what you do and doing it well, so that you have some monies left over every month after you pay your bills. And how you become wealthy is by taking that and investing wisely and not making mistakes. You don't have to be Warren Buffet to become wealthy. You just need to do what you do and be wise and educated about how to take that discretionary income and invest it efficiently in your economic interests, not in some other bank brokerage or insurance company's interests.

Sarah: What we would like to begin with is the difference between investing and savings. Those sound a lot alike, but they're quite a bit different. Savings is very simply not consuming; it involves not having funds that you have available today and setting them aside. And typically they are set aside with the expectation that you will be able to re-access that money at a future day. You're not expecting to take any risk with your savings.

Investing is an entirely different ballgame. Investing is also about not consuming, but it's based on devoting some of those resources that are not consumed today for some future purpose. And here's the real distinction: that future purpose, and your expectation of future gain, is attained by setting aside some of those funds in order to acquire assets that will appreciate in value. One of the big urban myths about investing is that there is something terribly exotic about investments and it's all beyond the realm of any mere mortal to ever learn about investments. Many say that they're far too complicated for anyone to truly understand. And we could not emphasize enough that is a HUGE urban myth.

Stocks are made to be complicated. The whole industry is designed and marketed to seem terribly complex to keep it out of reach and to encourage you to consistently look to some other expert for their advice, product, or solution...something that they have to sell. In reality however, no one is beyond acquiring the basic knowledge to manage investments.

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Joe: One thing you're going to learn from us, and this is a really important takeaway: the best investments out there are the simplest ones. Arguably, Warren Buffett is one of the best investors of all time. Warren Buffett's portfolio is probably the easiest investment portfolio to understand, of all time.

Sarah: Let's tackle a couple of other urban myths. Another one, and it's kind of linked actually to the one about being complicated, is that managing your investments takes a whole lot of time. There are people who spend a whole lot of time on their investments but the reason is not because they have to, it's because they love what they do. Investing to them is interesting, it's a passion. We actually have several clients who are totally impassioned about managing their investments. So for those who do spend a lot of time, it's because they want to and they have fun doing it, like the way Joe enjoys cycling or something like that. But, to the contrary, it doesn't need to take much time at all. Once it's set up, you probably need to review it every six months or so, maybe every once a year, but certainly not more frequently than that.

And the last urban myth is that you have to already have money in order to make money. In other words, you already have to be wealthy in order to get started, so it's sort of a chicken and egg type thing. Totally false! In fact, investing can start with a very small sum. You could start with a diversified mutual fund (and we will talk about those in a bit) with as little as one hundred dollars, sometimes even less. So there's really no threshold that's too small and anyone could be an investor beginning with even very small sums.

THE VARIOUS KINDS OF INVESTMENTS

Joe: Let's get into what kinds of investments are out there. When we say investments, we're thinking of things that we put money into with the anticipation of it being worth more in the future. Things like a house, stocks, bonds, mutual funds, arts, collectibles, and precious metals. Those are investments; something we anticipate to go up in the future. Sarah and I break investments down to different categories. The first category we're going to talk about in detail is stocks and bonds.

Type # 1: Stocks

What is a stock? A lot of people hear the word stock and they think it's an agricultural product. When I was a kid, other kids that had more money used to say, "Oh, my parents bought me stock". And I used to think, "Your parents bought you corn? That's lame"! And they were all excited about it and I'm thinking "Wow, okay, whatever." But obviously now, I realize those kids were not talking about corn. What a stock actually represents is when a publicly traded company decides that it needs money one thing that it can do is give up some of its equity (ownership in the company) to the public by issuing shares, also known as stock.

So let's just say, hypothetically, you're a candle manufacturing company. And you decide that you want to expand into more perfumes, colors, etc. of candles out there. But if you don't have the money in the bank to expand, what you could do is issue stock to the public. And in exchange for issuing that stock your investors will buy, you can then go out and expand your operations.

So by having done that though, the people that buy your shares own your company and they now have the right to participate in the profits or losses of your future business enterprise and endeavors. So if you buy stock, what you then receive as a reward for putting your money at risk of the future of that company, for better or for worse, are dividends. Dividends are a cash payout to you from some of the profits that the company makes. And sometimes companies, on rare occasions, issue a stock dividend instead of a cash dividend, actually giving you more shares of stock.

And alternatively there are some companies out there that are still in growth mode and don't pay dividends at all. So let's go back to the candle example: say the candle company got the money, went into new perfumes and colors and it did make a profit. But it decides to hold onto that profit and not pay dividends out so they can reinvest that money. That's okay too actually, because it feels that it can create more shareholder value by

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retaining its earnings and reinvesting into the business.

So let me give you some numbers here as an example. I'll stick with the candle thing. Let's say ABC Candle Company issues new stock at \$10 dollars a share and at the time that it issued it, each share was making \$1 per share. Now by expanding and going into all these new colors and perfumes, it thinks it could make \$1.20 per share, once its new operations are happening. Now if that was to happen, if people were willing to pay \$10 dollars for it when it made a dollar a share, in theory then they would be willing to pay \$12 dollars for it when it made a \$1.20 per share. So the value of the stock you purchased would increase.

Inversely though, let's suppose the new colors don't sell and nobody likes that new perfume smell. So they spend all this money and no one buys them and now they have a loss. So instead of even making the dollar they were making before, they're now only making \$0.80 cents or maybe \$0.50 cents. So for the stock...if people were willing to pay \$10 dollars when it made \$1 dollar, they'll probably only be willing to pay \$8 dollars if it made \$0.80 cents or \$5 dollars if it only made \$0.50 cents. So in this scenario, the value of the stock you purchased would decrease.

And that's a fundamental explanation of why stocks move up and down in price but the reality is, especially on a short term, stocks move up and down on people's expectations. See, if people expect the candle company to come out with this new perfume that's just the next best thing to Chanel No. 5, then it's expected it will sell a bazillion candles, even though maybe \$1.20 may be what the analysts are predicting. But the people are just so excited about it, they bid the price well beyond the \$12 dollars and they bid it all the way to \$15, even \$20. We've seen some crazy things happen: look at the tech boom years ago. The more risk you're willing to take, the greater the reward and that's characteristic of stocks.

Type # 2: Bonds

On the other hand, the less risk you're willing to take, the less return you'll get and that's more or less a characteristic of bonds. The way a bond works, compared to a stock, is that in the bond market (this even includes things like CDs) there's an absolute guarantee. You put **X** amount of money in and you will get **X** interest rate back by **X** time. When you buy a corporate bond, let's say with the candle company, what you're doing is NOT buying ownership in the company (like a stock) but you're making a loan to the company.

So let's say you loan the company \$10,000 dollars in a bond that pays 5% percent interest and it will mature in 10 years time. What will happen is that you give \$10,000 dollars and over the course of a year, you will get 5% interest, or \$500 dollars. It's typically paid every 6 months so you'd get \$250 every six months. And that bond eventually will mature in 10 years for \$10,000 dollars. Over that duration you've gotten \$500 dollars times 10 times OR \$5,000 in interest...plus your principle back for a total return of \$15,000.

When you own a bond, you also own a claim on the company's assets. You don't have a claim on its equity or ownership or its profits or losses. What you do have is a claim on any assets it may have, any buildings it owns or any computers or inventory, stuff like that.

On the down side of bonds, there is no appreciation in whatever the company's successes are in the future. So if the candle company does terrific in its new colors or perfumes you're just going to get that \$10,000 dollars back after 10 years. But had you bought stock in the candle company when it only had five flavors and later on it's got hundreds and selling international, that stock might have started out at \$10 and right now be worth \$50.

Sarah: Let's spend a bit of time on why bond prices vary and, honestly, if you can get this, you will be ahead of 99% of investors. I'm not exaggerating. It's so important to understand and it's one of the mistakes that we see very often. As Joe very well explained, stock prices move because of the fundamentals; because of

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expectations regarding how much the company is going to earn, what kind of products it's making and how successful it's going to be.

Bonds are a much a different story. There is a little bit of influence on bond prices due to expectations, but it's pretty small. By far, the biggest factor that influences bond prices are interest rates. And here's a tricky situation: bond prices move inversely (that's the expression we use) to interest rates. All that really means is bond prices, when they go up, it's because interest rates have gone down and when interest rates go up, bond prices go down. They move inversely to each other.

Joe: Ultimately though, no matter what interest rates do, when the bond matures, it matures for what it originally was issued for. So the ups and downs are just something that happens between when it was born until when it matures. And as Sarah was saying, those ups and downs can get pretty violent if you buy some long term bonds versus short ones.

Type # 3: Mutual Funds, ETFs, & Hedge Funds

Joe: So now that you know about stocks and bonds let's go forward and understand mutual funds, ETFs, and what hedge funds are. All three of these investment vehicles take individual stocks and individual bonds, put them together into a pool, and then sell shares of that pool to investors.

So assuming you didn't have the desire or energy after listening to this to go and pick a bunch of individual stocks and individual bonds, you could buy a fund that has already chosen a bunch of individual stocks or individual bonds. Many mutual funds and ETFs have both stocks and bonds. In the market, there's two kinds of mutual funds and ETFs (exchange traded funds) out there that you can get into. You can get into what's known as actively managed mutual funds and ETFs. And those are mutual funds that you pay a big investment company a fee to go and figure out what the best stocks are for whatever the goal or objective of that fund is.

But there's another way to go about it and that's called passive investing. And what passive investing does is you invest in a mutual fund or ETF but the selection of the stocks and/or bonds is not done by a fund manager and all of his research. The decision of what to buy is actually just based on some mathematical model or index, and how that performs going forward is as good as anyone's guess. Here's the interesting thing about guesses: actively managed funds (where you pay somebody more money than in an index one because there's nobody thinking about what to do) don't perform as well as the index ones do. It's almost like the investment industry's best kept little secret.

The biggest purveyor of index funds out there is a company called Vanguard Mutual Funds. Primarily, most of Vanguard's funds are index funds; they have a few active ones but most of them are index. They also happen to be the cheapest way that you could possibly invest in the stock or bond market through a mutual fund. And for the most part, new investors start investing in mutual funds or in exchanged traded funds because it's an easy way to get a lot of stocks and you can quickly see how well it's performed.

Sarah: You might say a word or two about hedge funds here, because they're really a fund as well.

Joe: Yes, indeed, they are a fund and they invest in stocks and bonds as well, and they do a lot of derivatives and so forth. But they have very high minimums and they're only sold to a group of investors known as "accredited" investors. You need to have a minimum net worth of at least \$1,000,000 or make \$200,000 a year on average for the last 3 years as an individual or \$300,000 if married. In any event, you need to be wealthy to buy one and usually the minimum investment is \$250,000. And they're not liquid like stocks or bonds where you could put the money in today and take it out tomorrow. Usually there are holds and lockups. Now these investments are rather exotic and regarding their performance or track record...you can't just go pick up *Money*

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magazine and see the top performing hedge funds and how well they've done for the last five or ten years. You first have to be screened before they'll tell you any information. So while some of them have extraordinary and exceptional track records and performances, what you don't hear about is all of them that don't.

Of course we've all heard about Bernie Madoff and Sanford and so forth, who had Ponzi schemes and how even the very sophisticated, intelligent investors got taken. And as far as risk goes, hedge funds have the highest. You run the risk of possibly losing ALL of your money, but you also have the chance of making an extraordinarily high return. But this is really only for money that you can honestly lose. As my father used to say, "Don't put it into something like that unless you can afford to lose it all"!

Type # 4: Physical Items (Real Estate, Art, Commodities, Etc.)

Joe: Now let's briefly go over physical things you can invest in, like real estate or art. Real estate is a great investment. However, unlike stocks and bonds, the access to the real estate market requires a higher amount to get started. It's not as liquid and it's not necessarily as diversifiable as stocks are.

Then the other types of investments out there that we've mentioned are arts and collectibles. We're not going to get into that too much, but that's everything today from wine to art to old cars. And those investments are difficult to price on a short term basis. They also are, interestingly enough, not taxed the same way stocks and bonds are. As far as capital gains and tax rates go, they are higher at 25% for collectibles (instead of 15% for stocks/bonds). It's also difficult to sell them quickly if you need to or at a fair market value price if you need to sell them early.

And then there are commodities. A commodity is a physical thing like minerals, such as copper; or food such as orange juice, pork bellies, or coffee. Then there are also precious metals like gold and silver. Gold's been doing tremendously well. And as for how well it's going to continue doing, that's anybody's guess. Then there are currencies; we all know what those are. And finally there are derivatives, which are also known as options. Derivatives are the things that get people in trouble, let's just put it that way. We're not going to dig too deep on exactly what derivatives are, other than as the name implies, it derives its value from something else.

INVESTING MISTAKES TO AVOID

Sarah: Before really delving into making good investment decisions let's talk about all the mistakes that we see investors making. There are four that really rise to the surface and if you can avoid these four you'll be really ahead of the game. I mentioned at the very beginning that I spent a lot of time in France and Voltaire is famous for saying that "Noise and opinion have caused more problems on this little earth than plagues or earthquakes." And he probably was not talking about the media back in the 1700s, but he could not have been more accurate in talking about this investor mistake. There is so much information, opinion, views from analysts and gurus, talk shows...everybody has an opinion.

Opinions are a bit like belly buttons; everybody has one. And there is so much information out there in the form of glossy materials that investors often respond in two different ways. They're either numbed into inaction and don't do anything at all or they finally capitulate and make a hasty decision. So one of the biggest investor mistakes we see is succumbing to noise or information overload.

The second investor mistake is fault protection. What I mean by that is there is insufficient protection against inflation. Probably for the last fifty years, inflation has been running on average about 4% percent a year. Some periods have been extraordinarily higher and some have been a bit flatter. But on average for the last, I guess fifty years really, inflation has run about 4%. So think about it like this: in times like today CDs, for example, are paying very low interest rates. And let's say you could find one today that paid 5%, and that would be a miracle in itself, but it will be easy for this example. Let's say you found a CD that's paying 5% and inflation is running

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at 4%. If the average inflation rate is 4% and your CD is paying 5%, then you're losing 4% straight off to inflation. In other words, whatever you're earning on your money is barely enough to keep pace with the ever increasing price of goods and services: that's inflation.

So if I'm earning 5% but I'm losing 4% right off the top to inflation, then I'm really only earning 1% in terms of real value on my investments. And if I'm in the 25% tax bracket, I'm losing another 25% of my 1% earning to federal tax...you can see where I'm going with that example and I haven't even factored in our high state taxes. So sometimes we see mistakes in the form of false security or insufficient protection against inflation.

Another big one, and this is one of the beauties really of mutual funds, is concentration of the same types of investments in a person's portfolio. Another way of looking at that is having too much of a good thing or putting too many eggs in the same basket. In other words, having too much in the portfolio that are basically clones of each other. How do we see that? For example, too many of the shares of the company you work for being held in your 401k. Another great example of that is we looked at a portfolio that had maybe 50 different mutual funds in it and it looked on the surface to be very diversified; but in truth most of these mutual funds were clones of the same thing. So although there was great diversification in terms of number of different funds, they basically were all clones to each other and operating in the same way.

And the last big mistake is emotions and intuition. This is probably a bit counterintuitive. When you think of all the sophisticated mistakes that investors could make, this is probably one of the most powerful ones, but also one of the most damaging. Have you ever bought high and sold low? Have you ever bought a stock or a mutual fund because it did really well last year? Have you ever bought any type of investment because you met someone at a cocktail party or family dinner that recommended a hot stock or had a hot investment idea? Those are our emotions and intuition at play and we should AVOID investing based on them.

HOW TO MAKE GOOD INVESTMENT DECISIONS

Joe: What I'm going to talk about now is some general principles that Sarah and I believe can help you make good decisions. First, go on a media diet. There is so much information out there and if you are constantly watching CNBC and Wall Street, you're not going to ascertain any kind of information that's really going to help your investments perform more. All you're going to do is cause yourself to worry and stress. Go outside; turn the TV off; put the newspaper down and go do what you like to do.

Next thing you need to do is to develop a game plan. To paraphrase Cheshire the Cat in Alice in Wonderland, "If you don't know where you're going, well then any road is going to take you there". So you need to have a plan. The most important take away from this whole audio is to NEVER buy anything you do not understand! If you do not fully understand it, pass...don't buy it. Give up! Move on to the next investment, because there is something out there that you will understand. Anytime there's a catastrophic or major mistake in investments, the common denominator that is that people didn't fully understand what they were buying.

Bernie Madoff is a great example. It was all based on trust and no one did any research. They all thought they understood what they were getting, but they didn't! Whenever you buy something you don't fully understand, you're running a huge risk of a major mistake. Avoiding mistakes over a long period of time is really how you accumulate wealth.

Sarah: Also, if you're speaking with an advisor or anyone who's making recommendations regarding your investments and you don't understand what they're saying, then move on. Or ask them to explain. And if they can't explain it in simple terms, it's time to move on. As we mentioned in the very beginning, there are no concepts that are too difficult to understand and they can all be explained in basic language that we all can get.

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Joe: And make sure whoever you're using doesn't have an economic interest in the investments or services that they're suggesting you buy. As a matter of fact, a very good thing to ask someone when you're getting advice is, "How are you compensated?" Go on, be direct about it. If you don't ask, you don't know. You might find out the hard way later on.

Sarah: Another good thing to do is to buy your investments like you shop for groceries, not like you buy luxury items like fancy watches or perfume. So if we take perfume, you don't look to get the most scented product you can get for the least amount of money. That's not the way you shop for luxury items. Well, you do shop that way for groceries. You look for value, you compare brands, you look for quality, and you read the ingredients. In other words, you're a vigilant shopper for value. It could not be truer for your investments.

Some of the sexiest, glossy investments are also by far also the most expensive. They're run, as Joe mentioned earlier, by active managers. Sometimes they come with heavy operating expenses. These are sometimes called annual expense ratios and they can start at 1% and go up as high as 2% to 3%. And remember that all of those fees you're paying come directly out of your pocket. So you actually end up paying for all for those sexy, glossy items. Whereas the plain vanilla grocery type investments, like no load mutual funds and index funds, are actually the most economical of all. So the takeaway we have here is be very vigilant in what you're paying for your investments and don't be afraid at all if you do not want work with a particular financial advisor.

Also, be sure to keep your eye out for any funds, and this is true for mutual funds, who come with things called loads. Loads are really just sales fees. And one way to recognize them is you sometimes see a letter after the name of the mutual fund, like "Class A, Class B, Class C." Those are simply funds that, no matter whatever virtues they may have, they also come with extra fees. And remember, the fewer and lower fees you can pay, that's more of the return that goes in your pocket.

WHAT SHOULD I INVEST IN?

Joe: People often ask us, "How much stocks should I own and how much bonds should I own"? And the main drivers of how much stocks and how much bonds you should own really depends on you. And this is where everybody is different, just like how everybody likes different clothes and different cars. What really drives it is how much time you have to invest before you need to take money out and what your attitude towards risk is.

So what Sarah and I have put together is our INVESTMENT QUESTIONNAIRE that's included as a download for this presentation. By answering those questions, you should get a pretty good idea of about how much stocks and how much bonds you should have as a mix overall. Alternatively, and I know it sounds like we keep touting Vanguard, but we really do like the company. If you just Google "Vanguard Investor Questionnaire" they have a fantastic questionnaire that, after you answer the questions, spits out how much stocks and how much bonds you should have.

Sarah: Many people, for example, feel very comfortable and have a very high risk tolerance when the markets are going up. But when the market suddenly falls, or even plummets, risk tolerance tends to fall. You'll notice on our questionnaire that at the far end of the spectrum, there's a portfolio that's 100% invested in stocks. And when we say a 100% stock portfolio, we're always assuming that even that portfolio is diversified. So we're talking about a 100% stock portfolio that's fully diversified.

So what kinds of return can you imagine for a portfolio like that? Figure you could target somewhere around 10% or 11% over a long term. But in exchange for targeting that type of return you have to be able to accept what Joe described before: volatility. In other words, how much that portfolio can shake in value. If it's very appealing to target a return of 11% and have a 100% stock portfolio, but you're not comfortable seeing the possibility that

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it could go down by 60%, then you probably want to dial back the allocation to include more bonds.

The starting point for determining the composition of any investment portfolio is something very personal. What is it that you're aiming to accomplish? What are these funds for? What's your time horizon? Are you saving for retirement? Are you putting money aside to buy a home in a few years? The first thing you want to have with as great clarity as possible is what the purpose is for these funds. Make it as vivid and clear as you can. It doesn't have to be incredibly precise, but the greater clarity that you can have about the purpose of the investments, the better off you'll be. That's because the corollary question to that is how much time do you have? Do you have five years? Or thirty years? And as Joe mentioned too, time is one of your greatest assets. So the more that you can build time into the equation the better off you'll be!

To get it started you can pretty much build out the stock portfolio with 4 funds. #1: One domestic US fund invested in large company stocks, which would be the biggest portion. #2: Second fund should be domestic US fund invested in medium sized company stocks. #3: The third should be invested in US small company stocks. #4: And then you could have one additional mutual fund, also in stocks, that's an international diversified fund. Also you could put in bonds, particularly now, since interest rates are very low and you can put CDs in there (certificates of deposit).

BUT WHAT KINDS OF INVESTMENTS DO YOU GUYS OWN?

You might be wondering what sort of investments we own. Given the whole panoply of possible investments like stocks, bonds, or even the more sophisticated things like hedge funds or private equity, what do we choose to own? And which ones do we recommend our own families invest in?

Well, the insider's view, and I hope this will be no surprise at all, is that we own exactly the same things that we've been talking about today. In our own investment portfolios, we own low cost, tax efficient, index ETFs (exchange traded funds). What kind of asset allocations? The exact same ones we talked about. We have funds that are invested in the US in big, small, and medium sized companies. We have others that are invested in foreign companies, so international funds. We have bond funds as well.

So while we may have our own very personalized allocations in terms of how much we have in each of these individual types of investments, we're owning exactly the same ones. So it's that old expression, "What's good for the goose is good for the gander." So we've spent several minutes together now talking about why we think there are virtues associated with this approach and these types of investments and we feel so strongly about them that we invest in exactly the same stuff ourselves.

Joe: More often than not, you don't want an advisor that has an economic interest in the things you buy or sell, but it's kind of funny. We do have an economic interest in the things we recommend clients buy ourselves, only because we own them ourselves and that's the kind of economic interest that you want your advisor to have along with you.

Interesting little tidbit if you'd like to learn more, a guide that Sarah and I really like for people starting off new to investments is from the Wall Street Journal. You could just Google it or go to Amazon.com and put in "Wall Street Journal, Guide to Planning your Financial Future." It's a wonderful all in one about stocks, bonds, different types of accounts, and everything that we've elaborated on here. So we'd like to wish you prosperity and serenity. I'm signing off. Thanks for everything.

Sarah: Thanks for joining us! We hope you feel much more comfortable investing now that you see how easy it really can be. Remember, stay away from anything that's confusing or anything you don't understand! If you have more questions please visit our website www.aequitaswm.com. Cheers!

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