

An Investment Plan for Busy People

A “Set and Forget” Investment Plan

No recommendation of any company or investment scenario discussed in this session is intended—only as a starting point for study.

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UBC 30

An Investment Plan for Busy People

The Handout is a summation

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www.betterinvesting.org/puget
www.betterinvesting.org

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A “Set and Forget” Investment Plan

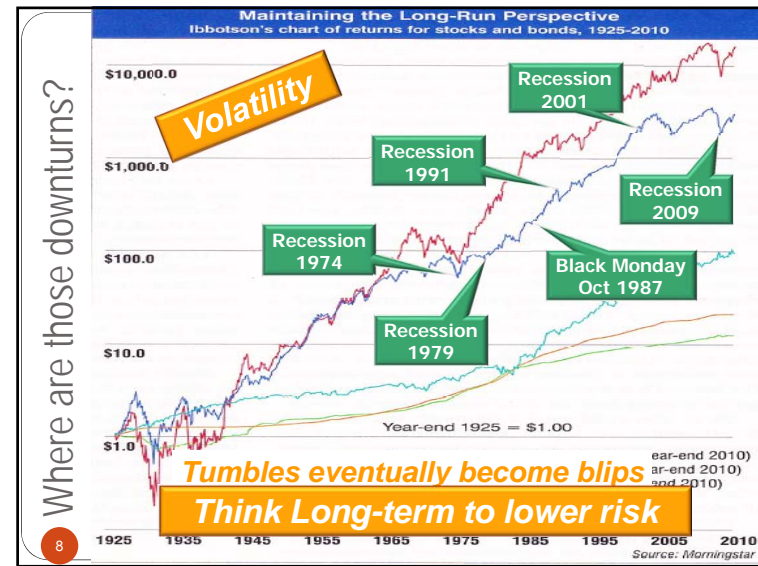
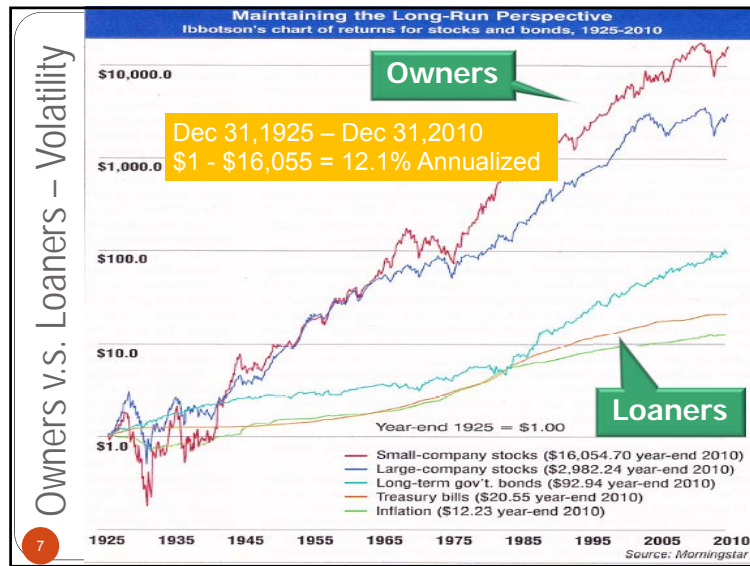
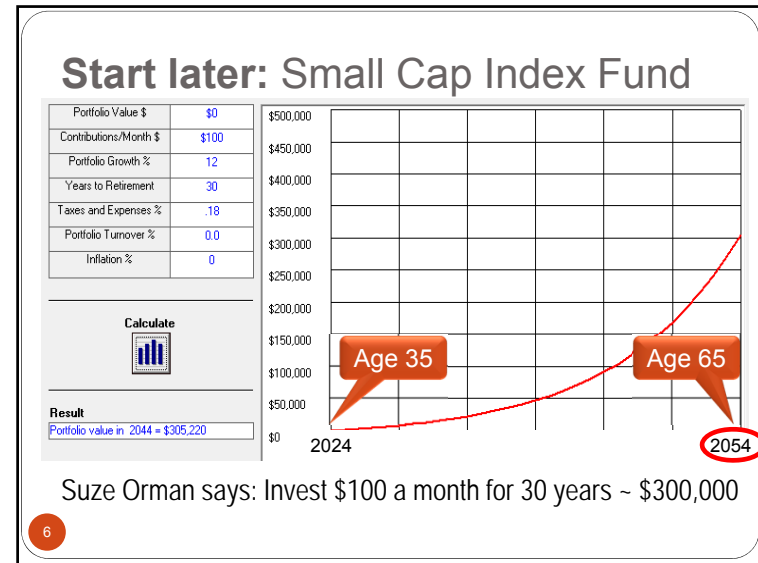
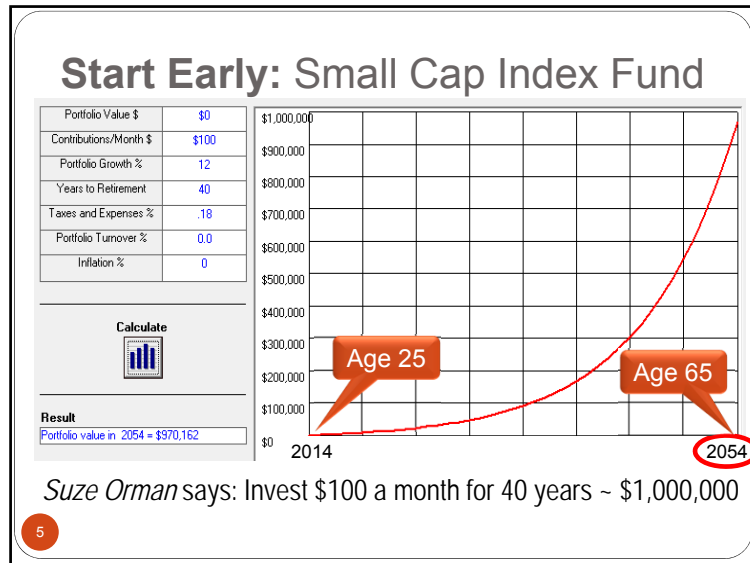
- **Invest in Index funds**
 - What’s an index fund
 - S&P 500
 - Dow Jones Industrial Average
 - NASDAQ
 - A selected group of companies
 - Represent an average of the market

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A “Set and Forget” Investment Plan

- Is it really that easy?
 - Only if you start
- How well can you do?

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Compare Costs and Results

- 401(K) plan through your company
 - Index Funds
 - Mutual Funds
 - Bond Funds

www.finra.org/fundanalyzer

Do index funds out perform managed funds?

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Summary	TIAA-CREF Large-Cap Growth Fund Retail Class	Fidelity Magellan Fund	Vanguard 500 Index Fund Investor Class
Data as of	10/9/2013	10/31/2013	10/28/2013
Investment Amount	\$30,000.00	\$30,000.00	\$30,000.00
Estimated Return You Selected	10.00% (This rate of return is above historical market averages.)	10.00% (This rate of return is above historical market averages.)	10.00% (This rate of return is above historical market averages.)
Holding Period	20	20	20
Fund Value After 20 Year(s)	\$168,919.46	\$182,256.23	\$195,079.14
Profit/Loss	\$138,919.46	\$152,256.23	\$165,079.14
Total Fees & Sales Charges	\$14,308.31	\$8,607.75	\$2,997.91
Total Fees	\$14,308.31	\$8,607.75	\$2,997.91
Total Sales	\$0.00	\$0.00	\$0.00

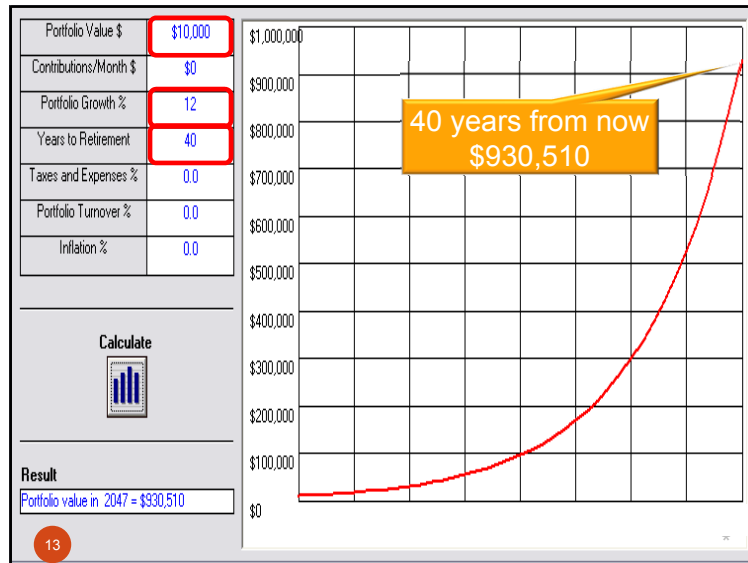
Did returns justify the higher expenses?

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But there are expenses:
 Why Are Expenses Important?

An Example

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Why Are Expenses Important?

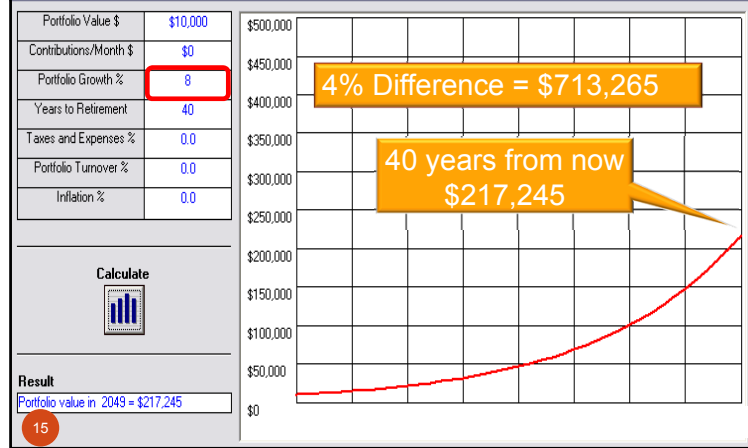
- **Fee:** Annual Maintenance 1.3%
- Uncle Sam taxes Mutual Fund Capital Gains
 Each year 100-300% portfolio turnover
Taxes: Mutual Fund investors = 1.43%*
- **Fee:** 12b(1) Advertising = 0.25% (no load fund)
- **Fee:** Transaction = 1%**

Result:
 $1.3\% + 1.43\% + .25\% + 1\% = \sim 4\%$ annual cost

* Reported by: (2006 Study)

** John Bogle – *Common Sense Investing*

4% annual expenses



But there are expenses:

**Expenses Are Important
 Ask Questions**

S&P 500 Index fund expense examples

Index Funds—Fees

Low cost

Index 500 funds	Expense ratio	w/Load charges
Fidelity Spartan*	0.07%	None
Vanguard Admiral*	0.09%	None
Vanguard Regular	0.18%	None
T. Roe Price	0.35%	None

* Minimum investment and/or specified holding period

High cost

Morgan Stanley	0.64%	1.40%
Wells Fargo	0.64%	1.39%
Evergreen	0.56%	1.31%
J. P. Morgan	0.53%	1.30%

17 *The Little Book of Common Sense Investing—Bogle p128*

Index Funds—Fees

“We have to wonder what allows the truly expensive funds to exist. Answer: Marketing and hype can be more influential than real data.”

Scott Burns – syndicated columnist

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Expenses for Index ETF (Exchange Traded Fund)

- ETF – Low Annual Fee...but
 - Somewhat Inexpensive – 0.15%-0.2% plus transaction fee
 - Not suitable if making a buy with each paycheck
 - No transaction fee for some ETFs
 - Cost normally higher than an Index Fund

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Whatever the Investment method:

- Don't Panic
 - The Market Fluctuates—expect it!
 - Stay the course—don't be a lemming
 - 20 year study (1988-2008)
www.dalbar.com
 - S&P 500 return: **8.35%**
 - Average Equity investor return: **1.87%**
 - Inflation: **2.87%**
 - You can create a permanent loss—only by selling

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What about Age & Longevity

- How long must your money last?
 - How long will I live?
 - How can I live longer?
- Expected Longevity:

<http://gosset.wharton.upenn.edu/mortality/per/CalcForm.html>

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Expected Longevity –

How long will I live?

Fill in the following form then click the button labeled "Calculate Life Expectancy".
 For values which you are unsure of, leave it blank or choose option 'don't know';
 For zero values, enter "0", DO NOT leave them blank

If you're in a hurry, try our [Short life expectancy calculator](#).

I am year old male white

My height is inches (NOTE!!! Only input inches: Eg. 5'8" = 68 inches)

My weight is pounds

I expect to have years of education

My family's total income for the past 12 months is dollars

I expect that for most of my life I will be

Compared to other people of the same age and sex as me, I am in the quintile of fitness (refer to [Fitness Table](#))

I have at least one first degree relative (parents, sibling, children) who has a history of heart diseases

I have at least one first degree relative (parents, sibling, children) who has a history of prostate cancer

I have at least one first degree relative (parents, sibling, children) who has a history of breast cancer

I have at least one first degree relative (parents, sibling, children) who has a history of colorectal cancer

I have at least one first degree relative (parents, sibling, children) who has a history of stomach cancer

I have at least one first degree relative (parents, sibling, children) who has a history of lung cancer

of my first degree relative (parents, sibling, children) has a history of diabetes

I have at least one first degree relative (parents, sibling, children) who has a history of stroke

I reside in

I been diagnosed with asthma

I been diagnosed with diabetes

My diastolic blood pressure (the smaller/bottom number- an average adult's is about 80) is mmHg

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I smoke cigarettes per day

My spouse smokes cigarettes per day

I have drinks per day

I travel thousand miles per year in an automobile

The driver of the automobile which I most frequently travel in is a

The age of the driver of the automobile which I most frequently travel in is years

I regularly wear seat belts when travelling in a automobile

The automobile which I most frequently travel in regularly keep to speeds appropriate to road conditions

The driver of the automobile which I most frequently travel in is drunk while driving

Of the 10 things listed in the [Stress List](#), of them happened to me in the past 12 months

I am a

I work in the industry

My father worked in a job

My first regular occupation is a job

My current occupation is a job

Of the 5 types of food in the [Dietary Diversity List](#), on average I consume types

than 10% of my energy intake comes from fat

I among the 15% most depressed of the population

I have had sexual partners in the past 12 months

For most of my sexual encounters, I use condoms

On average, I have hours of sleep a day

23 Calculate Life Expectancy

I'm convinced – what now?

- If in a company 401(k) retirement plan –
 - Determine what index funds are available
 - If none – ask for three low cost funds to be added: preferably Vanguard
 - Small Cap (VISGX)
 - Medium Cap (IVOG)
 - Large Cap (VFINX or VOOG)
 - Total Market Fund (VTSAX) \$10,000 min. **0.05%**

Ask about fees and expenses

Fees the fund charges

Fees your company charges/pays (who pays?)

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I'm convinced – what now?

- If an **individual retirement account** –
 - Open a Roth IRA account
 - Set up automatic deposit from each paycheck
 - 10-12% minimum
- See previous slide for low cost funds to investigate
- Ask about fees and expenses
 - Use the FINRA comparison tool to compare broker index funds

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Low Cost Index and ETF Plans...

- The following companies offer Index and ETF funds with low fees - and many ETFs with no trading fee

- Vanguard 800-992-8327
- Fidelity 800-343-3548
- Charles Swab 866-855-9102

No recommendation is intended, but these companies are a good starting point for your research.

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One More Thing

- For Teenagers - & their parents: **Train Your Kids to Invest**
 - When they earn their first income dollar
 - Set up an Index Fund – Roth IRA
 - (Custodial account)
 - Offer to match each dollar they deposit
 - Help them understand the broker statement
- Show them the *Quick-Analysis* tool - suggest they invest on paper and measure results
www.bob-adams.net/quick-analysis
 - Hone an interest in investing in equities

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Quick Analysis -- a form created by Kaush Meisheer and modified for Excel by Bob Adams version: 2.28

Apple Incorporated aapl Enter a ticker symbol and press Enter.

Large size September-12 Ticker Symbol aapl Find Ticker Symbol Click here for instructions

Capitalization (size) Last fiscal year ended

SALES GROWTH HISTORY: 1 point each for any of the past 10 years in which sales increased (max 10 pts)	10	Minimum 10 Pts.	Great, Sales increased each of the past 10 years
SALES GROWTH RATE: Doubling of sales in 5 years or less, 10 pts; subtract 2 points for each additional year	8	Minimum 10 Pts.	It took 6 years to double Sales instead of 5
EARNINGS PER SHARE (EPS) GROWTH HISTORY: 1 point each for any of the past 10 years in which EPS increased (max 10 pts)	10	Minimum 10 Pts.	Great, Earnings increased each of the past 10 years
EPS GROWTH RATE: Doubling of EPS in 5 years or less, 10 pts; subtract 2 points for each additional year	8	Minimum 10 Pts.	It took 6 years to double Earnings instead of 5
DIVIDEND GROWTH HISTORY: 1 point each for any of the past 5 years in which dividend increased (max 5 pts.)	1	Minimum 5 Pts.	The Dividend is either new or displaying very poor growth
3-YEAR OPERATING MARGIN (OM) RANGE: 10% or less: 5 pts 11-14%: 8 pts 15 to 19%: 12 pts 20% or more 15 pts (Net Income / Sales)	32%	15	Excellent growth margin
3-YEAR RETURN ON EQUITY (ROE) RANGE: 10% or less: 5 pts 11-14%: 8 pts 15 to 19%: 12 pts 20% or more 15 pts (Net Income / Shareholder Equity)	33%	15	Excellent Return on Equity
LONG-TERM DEBT AS % OF SHARE EQUITY: 80% or more: 0 pts 30-80%: 3 pts less than 30%: 5 pts (Long Term Debt / Shareholder Equity)	No LT Debt	5	Excellent Debt to Equity ratio
CURRENT ASSETS TO CURRENT LIABILITY RATIO: Less than 1: 0 pts 1-2: 3 pts more than 2: 5 pts (Current Assets / Current Liabilities)	1.5	3	Less than desirable Ratio of at least 2:1
FUTURE EPS GROWTH PROJECTIONS: 10% or less: 5 pts 11-14%: 8 pts 15 to 19%: 12 pts 20% or more 15 pts	18%	12	Good future growth projection
TOTAL SCORE 80-100: Superior 60-79: Average Less than 60: below average (If Dividend is not paid, 75-100 is rated as Superior)	87	Superior	Consider a buy if the PEG Ratio is less than 1.5

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PEG RATIO (5 year projection)	The PEG ratio is very low. Why?	0.6
Current Price: 449.91	12 Month Target Price: 536.92	

The Projected 12 Month Target Price represents an estimated increase of: 19%

A Superior rating and a PEG ratio of less than 1.5 makes this company worth a closer look

The PEG ratio helps determine if the current price is reasonable. A ratio of 1 or less is very good, but if the TOTAL SCORE is Superior, and the PEG is greater than 1 but less than 1.5—and the market is bullish—a ratio of up to 1.5 may be acceptable. Anything over 1.5 means you are overpaying for the company.

Competitors: (Compare the results with the competitor companies shown below—then select the best)
 "Pvt1" indicates the competitor is privately held and limited or no data are available.

GOOG = Google Inc.
 HPQ = Hewlett-Packard Company
 BBRY = BlackBerry Limited
 Industry = Electronic Equipment

What does the company do? (From MSN.com)
 Apple Inc is a California corporation established in 1977. The Company designs, manufactures, and markets personal computers, mobile communication devices, and portable digital music and video players and sell a variety of related software, services, peripherals, and networking solutions. It sells its products through its online stores, retail stores, direct sales force, and third-party wholesalers, resellers, and value-added resellers. The Company's products and services include iPhone®, iPad®, Mac®, iPod®, Apple TV®, a portfolio of consumer and professional software applications, the iOS and OS X® operating systems, iCloud®, and a variety of accessory, service and support offerings. It also sells and delivers digital content and applications through the iTunes Store®, App StoreSM, iBookstoreSM, and Mac App Store. In addition, the Company sells a variety of third-party iPhone, iPad, Mac and iPod compatible products, including application software, and various accessories, through its online and retail stores. The Company sells to consumer, small and mid sized business (SMB), education, enterprise, government and creative customers. It

This analysis form was produced by Dr. Kaush Meisheri and modified by Bob Adams

QA

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Recommended reading: *Common Sense Investing*
-- John Bogle

If your mind should go blank, don't forget to turn off the sound.

- Author Unknown

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