

## An Investment Plan for Busy People

### A “Set and Forget” Investment Plan (Information for All Ages)

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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## Wisdom from Warren Buffett

“Risk comes from not knowing what you’re doing.”

- You must have a plan, a method, a qualifier

## Something to Think About

1. Retired?
  - What happens after you....
    - Who takes over your investments?
    - How long do you expect to live?
    - Is there a plan?
2. Do you have children/grand children?
  - Do they understand investing?
  - Do they have an investment plan?
    - Do you have a plan for them
3. We’ll discuss a Set and Forget plan
  - A plan for all of you

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## A “Set and Forget” Investment Plan

- Regardless of age
- Regardless of energy level
- Regardless how busy you are
- Regardless of investing knowledge
  - Advice for all ages—retired – grandkids...

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## A “Set and Forget” Investment Plan

- **OR** – To put it another way—
  - You won’t live forever
  - Your interest may decrease in later years
  - Your skills may decrease in later years
- Is there an heir to take over your portfolio
  - An heir with a burning interest in investing
  - An advisor with fiduciary responsibility

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## Retirement: Yesterday—Today

- In 1975 85% of workers had a workplace retirement plan
  - Provided by company or labor union
- **Today: less than 30%**
  - Most companies (65%) converting to 401(k) plan
- **YOU’RE ON YOUR OWN**

First—some basics

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## Fiduciary Responsibility

- Fiduciary must disclose conflicts of interest
- Has a duty to care for client’s interests
  - Must monitor client’s investments for suitability
  - Must monitor client’s changing circumstances
  - Must disclose all fees
- “DO YOU HAVE FIDUCIARY RESPONSIBILITY?”
  - YES/NO (Accept no other answer)
    - Commission based advisor – normally NO
    - Fee based on portfolio value – normally YES
- **Bonus question:** “Is growth of my portfolio compared to a market average?” (quarterly)

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## DOL Fiduciary Proposal

(Department of Labor)

*“Retirement plan providers will have to decide if they want to change their business model and get competitive or exit the business. Ultimately, no 401(k) plan advisor will be unable to claim they are not a fiduciary.”*

--Ken Perine - Meritage Wealth Advisory in Livermore, Calif.

All 401(k) advisors are to have fiduciary responsibility  
Not adopted – still being reviewed

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## First action to take in “The Plan”

- Do your heirs a favor—give them instructions
  - Write them a letter – (Document location)
    - What accounts you have – and contact information
      - Portfolio – Insurance – Bank accounts – Real Estate
    - How your bills are paid and who to contact
    - What’s to be done with your body, etc.
    - What kind of service
  - Power of attorney – Health
    - Discuss quality of life you find imperative
  - Power of attorney – Financial
  - Trust (Avoid Probate)

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## Why avoid Probate?

- Time: Probate can take up to two years
  - Rules and costs differ from State to State

The Cost of Probate	
If you leave property worth:	Probate may cost about:
\$200,000	\$10,000
\$500,000	\$25,000
\$1,000,000	\$50,000

- Real Estate--probate separately in each State
- Court may appoint unknown person as administrator
- If assets >\$10 million look into a “bypass” trust

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## A “Set and Forget” Investment Plan

### Invest in an Index fund

- A selected group of companies
  - Represents an average of the market
- Index funds:
  - S&P 500
  - Dow Jones Industrial Average
  - NASDAQ 100 (\$NDX)
  - NASDAQ 100 (QQQ)
  - Total Market (all of the above)

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## A “Set and Forget” Investment Plan

### Simplest Plan: (choose one)

- Invest in a **Total Stock Market Index** fund
- Invest in the **NASDAQ 100 ETF (QQQ)**
  - OR **NASDAQ 100 Index Fund (\$NDX)**
- You will be well-diversified
- It will be extremely low cost
- Reinvest the dividends
- Rate of return—slightly less than market index
  - Over last 90 years:
    - Small Cap Stocks: 12.3%
    - Large Cap Stocks: 10.1%

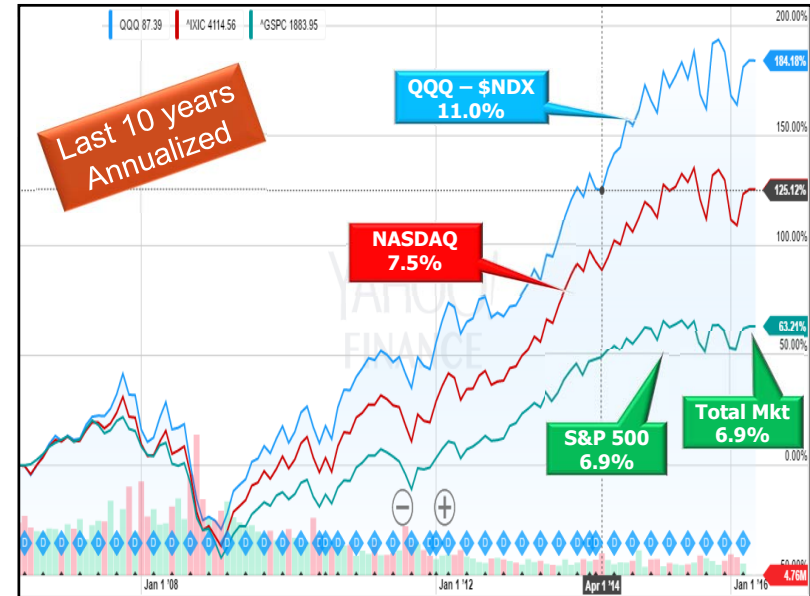
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## Recent Broad Market Indices

Index	One Year %	Three Year %	Five Year %
NASDAQ 100	5.0	17.6	14.6
S&P 500	1.4	15.1	12.6
Russell 2000	-4.4	11.7	9.2
Total Stock Market ETF	0.4	14.7	12.6
Barclays U.S. Aggregate Bond	0.6	1.4	3.3

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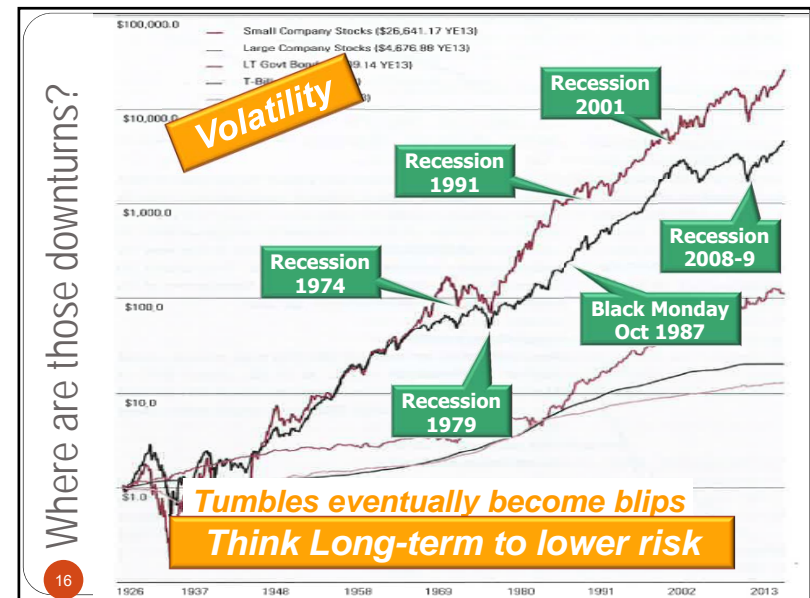
As of 12-31-15



## A “Set and Forget” Investment Plan

- Is it really that easy?
  - Only if you start now
  - If already an investor – dollar cost avg.
- But the market is volatile...
- But the market is dangerous...
  - Why we can we ignore both...

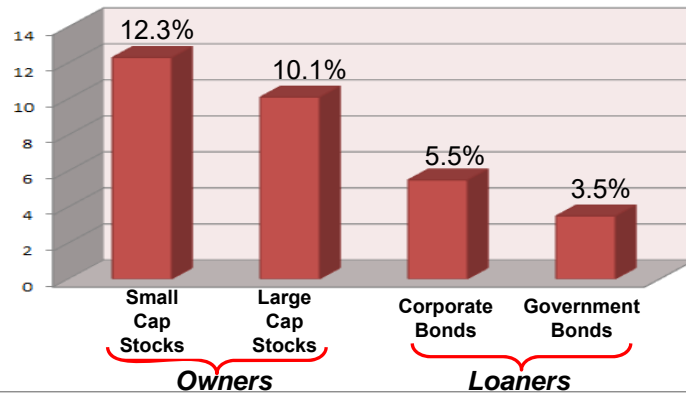
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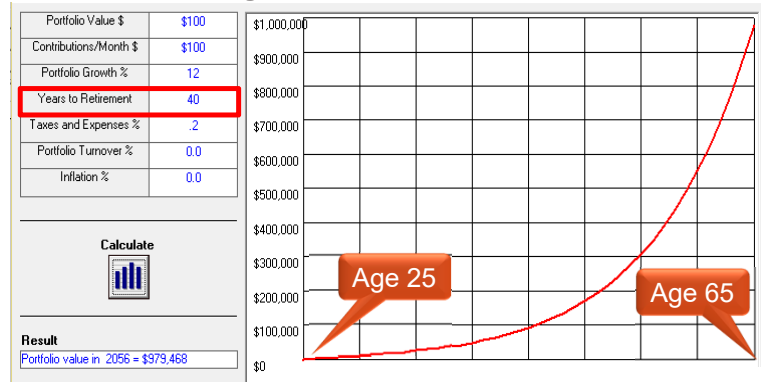
## Are Bonds Safer than Equities? (Think of buying power)

- COMPOUND ANNUAL RATES OF RETURN – 80 years (not adjusted for inflation)



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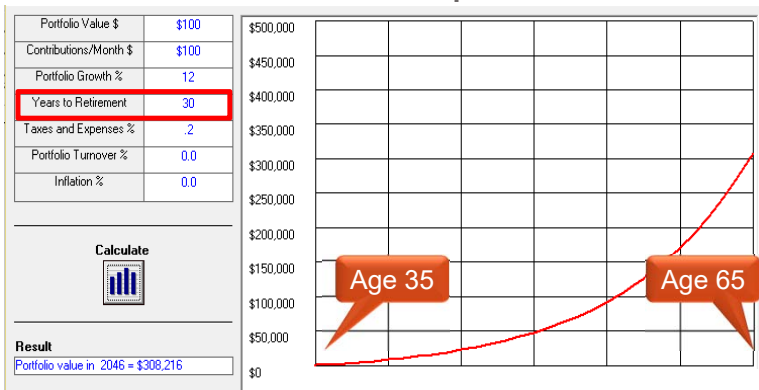
## Start Early: Small Cap Index Fund



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Suze Orman says: Invest \$100 a month for 40 years ~ \$1,000,000

## Start later: Small Cap Index Fund



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Suze Orman says: Invest \$100 a month for 30 years ~ \$300,000

## Start Early – Start Late

- How great an increase in payments must be made to achieve \$1mil over 40 years
- Start at age 25 – pay \$100 each month
- Start at age 35 – pay \$330 each month
- Start at age 45 – pay \$1,100 each month

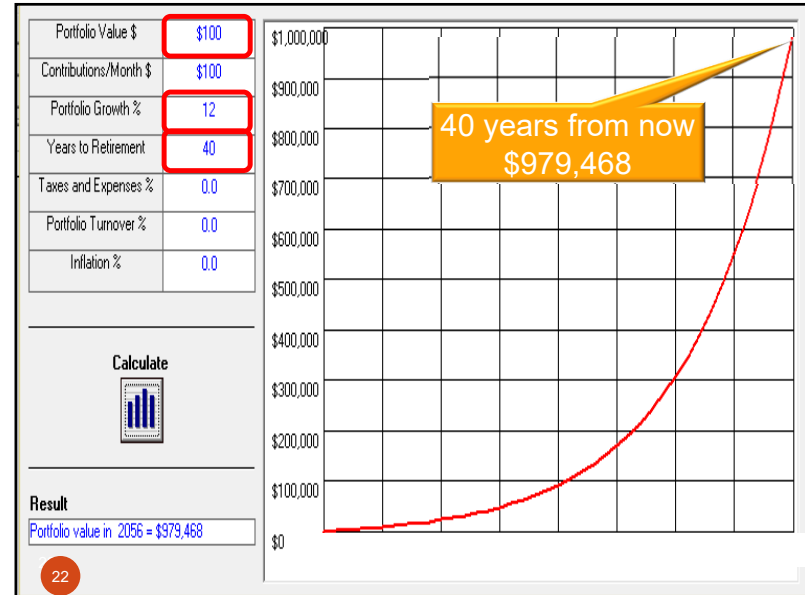
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But there are expenses:

## Why Are Expenses Important?

An Example

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## Why Are Expenses Important?

**MANAGED MUTUAL FUND:**

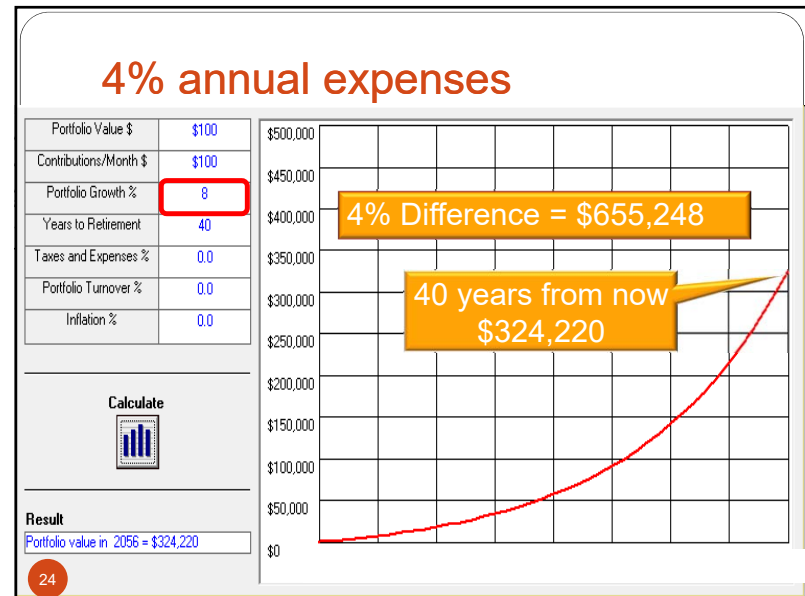
- **Fee:** Annual Maintenance 1.3%
- **Taxes:** Mutual Fund investors = 1.43%\*  
 Uncle Sam taxes Mutual Fund Capital Gains
- **Fee:** 12b(1) Advertising = 0.25% (no load fund)
- **Fee:** Transaction costs = 1%\*\* (100-300% turnover)

Result:  
 1.3% + 1.43% + .25% + 1% = ~4% annual cost

\* Reported by: (2006 Study)

\*\* John Bogle – *Common Sense Investing*

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But there are expenses:

## Expenses Are Important Ask Questions

401(k) Plan Fees explained  
(Department of Labor website)  
[www.dol.gov/ebsa/publications/401k\\_employee.html#section4](http://www.dol.gov/ebsa/publications/401k_employee.html#section4)

S&P 500 Index fund expense examples

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## Index Funds—Fees

	Index 500 funds	Expense ratio	w/Load charges
Low cost	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%

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

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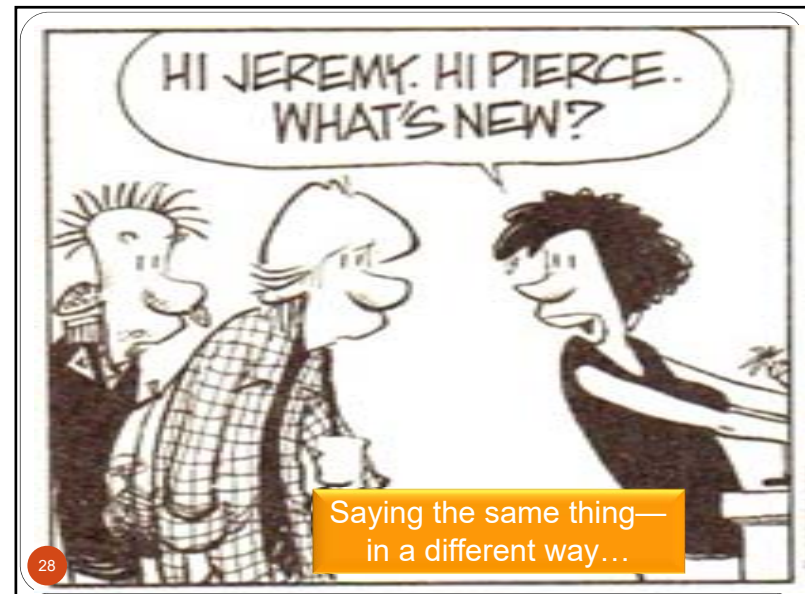
## Index Funds—Fees

*“We have to wonder what allows the truly expensive funds to exist.”*

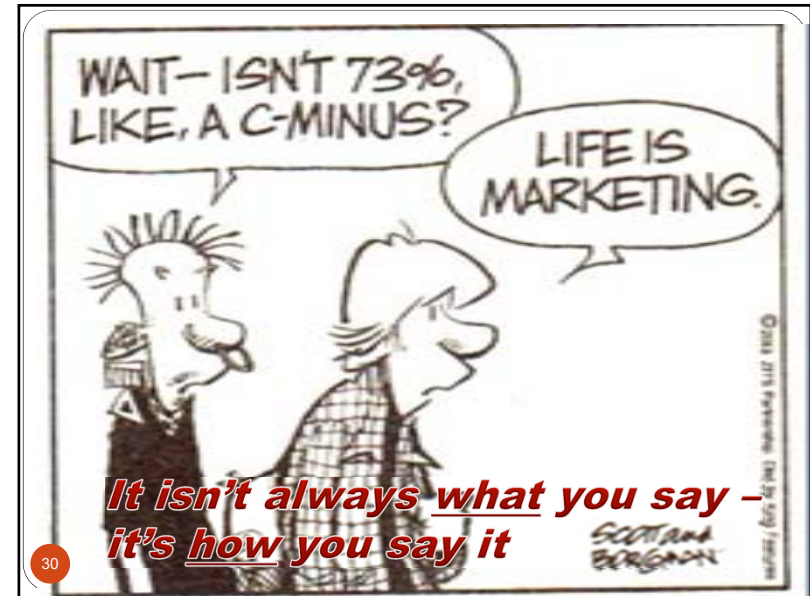
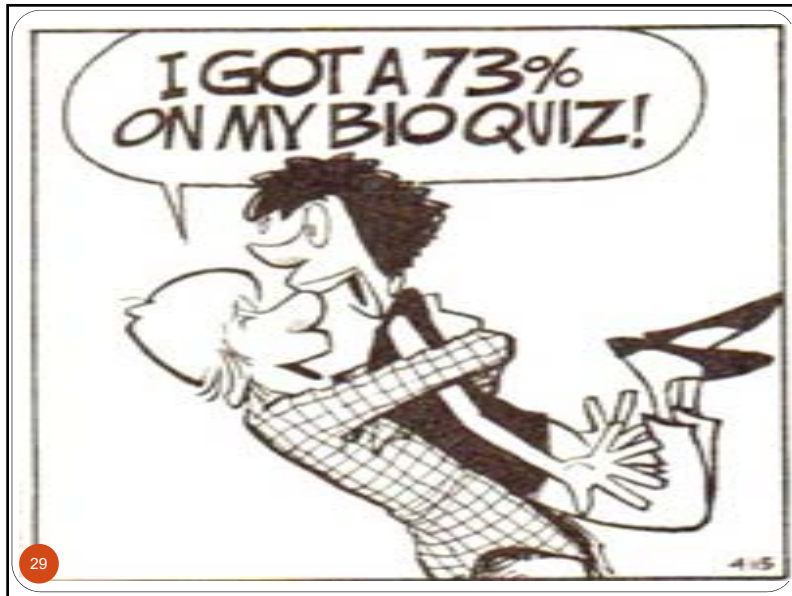
*Answer: Marketing and hype can be more influential than real data.”*

Scott Burns – syndicated columnist

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## Signs of a DUD 401(k)

- No index funds
- Fund expense ratio of 1% or more
- Delayed vesting of employer match >1 year
- Low or nonexistent employer match
- Matches only in company stock

Calculate what high fees may cost you

<http://401kfee.com/> (employee & company)

If company paid fees are too high—company may be at risk in a lawsuit

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## Index ETF—Beware

- Beware of “Ultra” ETFs
  - Leveraged
  - Short-term investing (36-60 times turnover)

• “Individual investors...may not be aware of the risks these funds carry. Given their volatility, these funds typically are not suitable for most retail investors.”

NASAA (North American Securities Administrators Association)

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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](http://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 my money last?
  - How long will I live?
- Expected Longevity:
  - <http://gosset.wharton.upenn.edu/mortality/perl/CalcForm.html>
    - (Requires leaving email address)
  - SSA longevity calculator: (short)  
[www.ssa.gov/OACT/population/longevity.html](http://www.ssa.gov/OACT/population/longevity.html)
  - NW Mutual Insurance (more detailed) - generous  
<http://media.nmfn.com/tnetwork/lifespan/index.html#0>

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## 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

I  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  industry

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

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Calculate Life Expectancy

## I'm convinced – what now?

### • If in a company 401(k) retirement plan –

- Look at what index funds are available
- Ask low cost funds be added—if none
  - Index fund
  - ETF index
- Set up automatic deposit from each paycheck

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
- 10-15% minimum (More if older)
  - Index fund
  - ETF index
- Ask about fees and expenses

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## I'm convinced – what now?

### • If already retired—or near retirement age

- Who will take over your portfolio
- Consider an index fund for your heirs
- Write the financial letter to your heirs
- Have a financial meeting with your heirs
- Power of Attorney for health – Dr. & HMO
- Set up a Trust
  - Simplifies inheritance (Heirs will love you)

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## Must Have Documents

- From Suzi Orman
- “Protection Portfolio” in a box \$90
  - **Will**
  - **Revocable Trust**
  - **Financial Power of Attorney**
  - **Healthcare Durable Power of Attorney**

<http://www.suzeorman.com/index.php/books-kits/collections-and-kits/must-have-documents/>

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## I'm convinced – some specifics

- PowerShares NASDAQ 100 (QQQ)
- PowerShares NASDAQ 100 (\$NDX)
  - Both represent 100 large companies
- Total Market index fund
  - 3,000 companies
- **What about your age?**
  - Plan for 30-35 years in retirement
- **How much will you need?**
  - Portfolio value 8 to 10 times current income

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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
    - Fidelity 800-343-3548
    - Charles Swab 866-855-9102
    - TDAmeritrade 800-454-9272
    - ~~Vanguard 800-992-8327~~
  - Annual fee – less than 0.2%
- No recommendation is intended, but these companies are a good starting point for your research.

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## BetterInvesting.org

- Learn how to evaluate a company
  - Buy only quality companies
  - Buy at a reasonable price
- Attend local classes
  - Look for a BetterInvesting Chapter near you

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Find a Chapter Near You

Enter your zip code

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## A Warning:

- You will be told this is a very bad idea
  - Why? – Broker will lose commissions
- You will be told the “experts” can do better
  - Historically they have not
    - Why? -- Expenses
- Unlikely they will agree to compare your portfolio against an index – S&P 500
  - Why? – Your portfolio will lag the index
- ***Be prepared for objections***

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## An Investment Plan - for Busy People

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Recommended reading:

*Common Sense Investing*—John Bogle

*A Random Walk Down Wall Street*—Burton G. Malkiel

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

- Author Unknown