

**WIN MAKE GIVE**



# WEALTH SERIES

**2.0**

**PART TEN**

Financial Instruments Advanced Strategies

# FINANCIAL INSTRUMENTS



“Know what you  
own, and know why  
you own it.”

- Peter Lynch -

# Part Ten - Financial Instruments

## Advanced Strategies

When it comes to wealth building, financial instruments are one of my favorite topics. In Part Nine, we discussed some of the most common offerings like stocks, bonds, 401(k), IRAs, and 539 plans. We outlined how they work, their benefits, and ways they may help you reach your financial goals.

In today's lesson, we continue on that journey with the help of Goldman Sachs Private Wealth Advisor Molly English, who also happens to be my personal financial planner. She is phenomenal and has helped me learn, understand, and take advantage of advanced strategies I had never heard of before. She covers the basics of what a financial advisor provides, what questions you should be asking, and advanced strategies when you are ready to take your wealth-building to the next level.

Learning from experts is what makes being a student of wealth such a rewarding journey. If you are amazed and overwhelmed by what Molly shares today, that's okay; I was too at first. Don't forget that this lesson, and all the others in the "Wealth Series 2.0," are here for you anytime. All you need to do is download and re-listen!

I'm so excited about this topic, so let's dive right into the nuts and bolts of the strategies Molly uses for her clients.



**Ben Kinney**

Ben Kinney Companies Founder

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# Financial Instruments Advanced Strategies - Financial Advisors

A financial advisor provides financial advice or guidance to clients and may offer an array of wealth services, such as investment management, tax planning, lending, trust and estate planning, and charitable giving. A benefit to hiring a financial advisor the peace of mind you get by knowing that your assets and wealth are being taken care of, giving you more time to focus on the important things in your life.

To help you figure out if the person and their company are the right fit for your needs, Molly suggests interviewing several financial advisors with a focus in these key areas:

1. **Chemistry** – Having a good relationship with your potential advisor helps establish a high level of trust. Are you confident in their ability to provide the services necessary to invest your money wisely?
2. **Communication and Responsiveness** – Make sure your advisor has a quick response time. Molly recommends no more than 24 hours, and suggests a few hours is standard. Does your advisor have a plan for communication if they go on vacation, or do they work with a team of analysts and advisors you can contact in case of their absence?
3. **Resources** – Ask your advisor if they can assist trust and estate planning, taxes, lending, charitable donations, and donor-advised funds. Are these services in-house or available via a relationship outside the firm, and what are the associated fees, or what do the fees look like?
4. **Referrals** – If you have a friend in a similar financial situation, ask them if they like their financial advisor and wouldn't mind making an introduction.

# Financial Instruments Advanced Strategies - Fees

In America, men retire at an average age of 64.6 years, while women retire at an average of 62.3 years ([investopedia.com](https://www.investopedia.com)). Over the course of their lifetime, they accrue a certain amount of investments and assets. While each financial advisor firm has its own fee structure, a good rule of thumb is to expect that the larger amount of assets under management, the more compressed the fee.

Molly breaks it down this way. If there are a million dollars of investable assets, it is reasonable to expect a 1 percent fee, or perhaps a little over.

Molly suggests asking potential advisors to see “all layers of the fee.” Fees to be aware of include:

- **Advisory fees** - Fees paid for professional advisory services.
- **Expense ratio fees** - Some advisors don't show these costs as they are associated with third-party fund management fees, and it is generally the same fee everywhere. However, if this is an expense, you should know the amount.
- **Custody fee** - Fees paid to a brokerage firm for taking care of your investments.
- **“De minimis” amount of commissions** - Small fees within your first year or first couple of years of becoming a client. (De minimis means too trivial or minor to merit consideration, especially in law.)

Hiring a financial advisor doesn't make sense for everyone. To manage your portfolio yourself, research companies like Vanguard or Goldman Sachs Marcus Invest.

When you sit down with a financial advisor, and they start pitching services without getting to know your wealth mindset first, ask if they are getting a commission. If they are, reconsider working with them. A relationship with financial advisor requires connection and trust, and if you don't have that, you won't sleep well at night.

# Financial Instruments Advanced Strategies - Money In, Money Out

At the very core of investing is the act of putting money to work with the expectation that it will grow over time. Ideally, you're saving and investing for retirement in such a way that when the time comes, you have complete control over your time for the next 20-30 years.

**There's only four places that money can go.**

- 1. You can spend it.**
- 2. You can give it away to people you care about.**
- 3. You can give it to charity.**
- 4. You can give it to the government.**

**A financial advisor can help you maximize the first three, and minimize the fourth.**

Up to this point, where has your money gone?

In the future, where would you like more of your money to go?

# Financial Instruments Advanced Strategies - Diversification

Feeling uncertain about a volatile market is normal, but it doesn't mean that it's time to stop investing. Data shows that timing the market is a losing strategy and that staying the course with your strategic asset allocation pays off as you enable compounding to happen.

A financial advisor should be rebalancing your portfolio and even introducing strategies that make sense for your situation.

One of the keys to weathering market volatility is diversification.

**Diversification is investing in different asset classes that benefit from various sources of return.**

When you diversify your portfolio, you can ride out your risk in order to achieve steadier returns. To break this down, Real Estate Investment Trust (REITs) may be at an all-time high one year, while US Small Cap stocks are underperforming. One year later, those US Small Cap stocks outperform REITs. To see this in action, on the next page view the Goldman Sachs Diversification table that illustrates the highs and lows of the market by asset type.

How can you diversify your investment strategy, and what options you would like to consider implementing?





# Financial Instruments Advanced Strategies - Diversification

## The Benefits of Diversification — Taxable

This is the chart Molly refers to in the episode at 29:39.



Asset Class Returns – As of June 30, 2022

2001 – 2022 YTD

Returns

Returns (Ann.)	Vol (Std. Dev.)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 YTD
REITs	MLPs	Emerging Market Equity	US Small Cap	REITs	Non-US Equity (USD Hedged)	US Small Cap	Emerging Market Equity	High Yield Munis	US Large Cap	US Small Cap	REITs	MLPs
8.8%	24.0%	18.6%	38.8%	31.9%	5.0%	21.3%	37.8%	4.8%	31.5%	19.9%	45.9%	10.0%
Emerging Market Equity	REITs	High Yield Munis	US Large Cap	High Yield Munis	REITs	MLPs	Non-US Equity	Investment Grade Munis	Global Equity	Emerging Market Equity	MLPs	Investment Grade Munis
8.8%	22.0%	18.1%	32.4%	13.8%	4.5%	18.3%	25.6%	1.6%	27.3%	18.7%	40.2%	-5.6%
MLPs	Emerging Market Equity	Non-US Equity	MLPs	US Large Cap	Investment Grade Munis	US Large Cap	Global Equity	Hedge Funds	US Small Cap	US Large Cap	US Large Cap	Hedge Funds
7.8%	20.9%	17.9%	27.6%	13.7%	2.4%	11.9%	24.7%	-4.0%	25.5%	18.4%	28.7%	-6.3%
US Large Cap	US Small Cap	Non-US Equity (USD Hedged)	Non-US Equity (USD Hedged)	Non-US Equity (USD Hedged)	High Yield Munis	Emerging Market Equity	US Large Cap	REITs	Non-US Equity (USD Hedged)	Global Equity	Non-US Equity (USD Hedged)	Non-US Equity (USD Hedged)
7.7%	19.8%	17.5%	26.7%	5.7%	1.8%	11.6%	21.8%	-4.2%	24.6%	16.9%	19.4%	-10.5%
US Small Cap	Non-US Equity	REITs	Global Equity	US Small Cap	US Large Cap	Global Equity	Non-US Equity (USD Hedged)	US Large Cap	REITs	Hedge Funds	Global Equity	High Yield Munis
7.6%	16.7%	17.1%	23.5%	4.9%	1.4%	8.5%	16.8%	-4.4%	23.1%	10.9%	19.0%	-11.8%
Global Equity	Global Equity	Global Equity	Non-US Equity	MLPs	Hedge Funds	REITs	US Small Cap	Global Equity	Non-US Equity	Non-US Equity	US Small Cap	Emerging Market Equity
6.8%	15.7%	16.8%	23.3%	4.8%	-0.3%	6.6%	14.6%	-8.9%	22.7%	8.3%	14.8%	-17.5%
High Yield Munis	US Large Cap	US Small Cap	Hedge Funds	Global Equity	Non-US Equity	Non-US Equity (USD Hedged)	High Yield Munis	Non-US Equity (USD Hedged)	Emerging Market Equity	High Yield Munis	Non-US Equity	Non-US Equity
5.1%	15.0%	16.4%	9.0%	4.8%	-0.4%	6.1%	9.7%	-9.0%	18.9%	4.9%	11.8%	-19.3%
Non-US Equity	Non-US Equity (USD Hedged)	US Large Cap	REITs	Investment Grade Munis	Global Equity	High Yield Munis	Hedge Funds	US Small Cap	High Yield Munis	Investment Grade Munis	High Yield Munis	US Large Cap
5.1%	14.2%	16.0%	1.3%	4.7%	-1.8%	3.0%	7.8%	-11.0%	10.7%	4.2%	7.8%	-20.0%
Non-US Equity (USD Hedged)	High Yield Munis	MLPs	Investment Grade Munis	Hedge Funds	US Small Cap	Non-US Equity	REITs	MLPs	Hedge Funds	Non-US Equity (USD Hedged)	Hedge Funds	Global Equity
4.7%	7.2%	4.8%	-0.3%	3.4%	-4.4%	1.5%	3.8%	-12.4%	8.4%	2.5%	6.2%	-20.0%
Hedge Funds	Hedge Funds	Hedge Funds	Emerging Market Equity	Emerging Market Equity	Emerging Market Equity	Hedge Funds	Investment Grade Munis	Non-US Equity	MLPs	REITs	Investment Grade Munis	REITs
3.5%	5.1%	4.8%	-2.3%	-1.8%	-14.6%	0.5%	3.5%	-13.4%	6.6%	-11.2%	0.5%	-21.1%
Investment Grade Munis	Investment Grade Munis	Investment Grade Munis	High Yield Munis	Non-US Equity	MLPs	Investment Grade Munis	MLPs	Emerging Market Equity	Investment Grade Munis	MLPs	Emerging Market Equity	US Small Cap
3.3%	3.1%	3.6%	-5.5%	-4.5%	-32.6%	-0.1%	-6.5%	-14.2%	5.6%	-28.7%	-2.2%	-23.4%

Source: Bloomberg.

Annualized Volatility and Returns from July 2001 through June 2022. Indices: Investment Grade Municipal Bonds – Barclays Capital Municipal 1-10; Municipal High Yield – Barclays Capital Municipal High Yield; US Large Cap – S&P 500; US Small Cap Equity – Russell 2000; Non-US Equity – MSCI EAFE; Global Equity – MSCI All Country Consumer and Wealth Management World; Emerging Market Equity – MSCI Emerging Markets; Hedge Funds – HFRI Fund of Funds Composite; REITs – Dow Jones Wilshire REITs; MLPs – Alerian MLP.

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Pick a couple of different asset types and follow their highs and lows over ten years. Write down the trends you notice:



# Financial Instruments Advanced Strategies - Bonds & Stocks

Fixed income is a fancy word for a **bond**. When you hear someone talk about a **60/40 or 70/30 portfolio**, **stocks are always the first number and bonds are always the second**. Bonds help dampen the **volatility** in your portfolio.

What is the main benefit of a municipal bond? \_\_\_\_\_

\_\_\_\_\_

A corporate bond may have a place in a portfolio if you are looking to generate additional \_\_\_\_\_.

An index fund is a portfolio of assets that diversifies your investments over equities, bonds, and other assets. True \_\_\_\_\_ False \_\_\_\_\_

How do bonds and stocks help improve an investment strategy and protect wealth for the long term?



To learn more about how to buy bonds, visit  
**Marcus.com** or scan the QR code.

# Financial Instruments Advanced Strategies - Reflection

How can a financial advisor help you invest in private equities?

In what ways can an investment strategy benefit from tax loss harvesting?

Stock market sectors are groups of stocks that have a lot in common, usually because they are in similar industries ([fool.com](http://fool.com)). There are 11 different sectors.

Pepsi = Consumer Staples Sector

**Find another company/stock in the same sector.** \_\_\_\_\_

Southwest Airlines = \_\_\_\_\_ Sector

**Find another company/stock in the same sector.** \_\_\_\_\_

Johnson & Johnson = \_\_\_\_\_ Sector

**Find another company/stock in the same sector.** \_\_\_\_\_

Apple = \_\_\_\_\_ Sector

**Find another company/stock in the same sector.** \_\_\_\_\_

# FINANCIAL INSTRUMENTS



“Invest for the long haul.  
Don’t get too greedy and  
don’t get too scared.”

- Shelby M.C. Davis -

# Part Ten Homework Question

When you have more \_\_\_\_\_, you have more control over your \_\_\_\_\_, and when you have more control over your time, you're \_\_\_\_\_.

*Save these answers and submit them in the questionnaire at the end of the course for a chance to win a \$10,000 grand prize!*

## Preparation for Part Eleven

- ☐ If you haven't already, please join the discussion on the [Win Make Give Facebook group](#). Post your thoughts, comments, and takeaways from the first six lessons.
  
- ☐ Go to the app store and download the [PLACE Mortgage Calculator](#).

