WIN MAKE GIVE

benkinney TRAINING

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
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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 on 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 with 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 (if any)?

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.

Hear Molly English discuss questions to ask advisors in more detail beginning at 8:38 in this episode.

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). 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% fee, or perhaps a little more.

Molly suggests asking potential advisors to see "all layers of the fee." Follow along at 13:38 in this episode. 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 a 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?

Please consult with a financial advisor for more details and strategies.

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 but 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 outperformed REITs. To see this in action, view the Goldman Sachs Diversification table on the next page that illustrates the highs and lows of the market by asset type.

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

Please consult with a financial advisor for more details and strategies.

Financial Instruments Advanced Strategies - Diversification

Hear Molly English discuss this chart and diversification benefits beginning at 29:39 in this episode.

The Benefits of Diversification — Taxable

Goldman Sachs

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

Consumer and Wealth Management

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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:

Please consult with a financial advisor for more details and strategies.

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?

Please consult with a financial advisor for more details and strategies.

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). 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. ____________________

Please consult with a financial advisor for more details and strategies.

FINANCIAL INSTRUMENTS

"Invest for the long haul. Don't get too greedy and don't get too scared."

- Shelby M.C. Davis -

Find lesson links and resources at WinMakeGive.com/wealth-part-10

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 ten lessons.

- [ ] Go to the app store and download the PLACE Mortgage Calculator.

Ben Kinney

Bob Stewart

Chad Hyams

Note: The hosts and expert guests of the *Win Make Give* podcast are not recommending any strategies or advising you in any way. Please consult your financial advisor to see which strategies could be useful to your wealth plan.

IMPORTANT

Nothing in this course constitutes investment advice, performance data or any recommendation that any security, portfolio of securities, investment product, transaction or investment strategy is suitable for any specific person.

We cannot assess anything about your personal circumstances, your finances, or your goals and objectives, all of which are unique to you, so any opinions or information contained on this course are just that – an opinion or information.

You should not use our advice to make financial decisions and I highly recommend you seek professional advice from someone who is authorized to provide investment advice.

Win Make Give Series