Knowing, Managing, and Preserving Your Investments

MERIT
Financial Advisors

Why Invest?

- Time Value of Money
- Historical Returns
- Increase the Likelihood of Reaching Your Goals
  - Retirement
  - Paying for College
  - Travel
  - Gifts and Legacy for Your Family

Factors to Consider in Making Investments

- Your Timeframe
- The Amount of Risk You are Comfortable Taking
- Your Tax Bracket
- Other Investments or Expected Sources of Income

Not All Returns are Equal: Sequence of Returns

A 61-year-old client invests $100,000 and begins taking 5% withdrawals.

Over a 30-year period, the annualized rate of return was 7%, but note how the outcome differs between scenario A and B as a result of the sequence of returns.

In **scenario A**, the investor runs out of money at age 80, but in **scenario B**, the investor ends up with more money than he or she started with as a result of the three consecutive negative years beginning at age 77.

This is a hypothetical example and is not representative of any specific situation. Your results will vary. The hypothetical rates of returns used do not reflect the deduction of the fees and charges inherent to investing.

DISCOVERY

Scenario A

Age	Year End Portfolio Value	Return
61	$70,300.00	-26.00%
62	$54,199.00	-17.00%
63	$46,739.05	-5.00%
64	$45,495.56	9.00%
65	$52,644.23	30.00%
66	$44,309.14	-7.00%
67	$49,136.42	25.00%
68	$52,522.34	19.00%
69	$44,671.00	-6.00%
70	$38,084.16	-4.00%
71	$41,355.20	25.00%
72	$35,991.65	-1.00%
73	$34,090.81	10.00%
74	$27,636.27	-5.00%
75	$26,937.17	19.00%
76	$21,279.05	-3.00%
77	$17,744.17	9.00%
78	$14,018.58	10.00%
79	$8,026.54	-11.00%
80	$2,875.21	-5.00%
81	$0.00	15.00%
82	$0.00	36.00%
83	$0.00	26.00%
84	$0.00	-1.00%
85	$0.00	-5.00%
86	$0.00	-4.00%
87	$0.00	24.00%
88	$0.00	11.00%
89	$0.00	16.00%
90	$0.00	26.00%

$0.00 | 7% ROR

Scenario B

Age	Year End Portfolio Value	Return
61	$103,550.00	9.00%
62	$108,405.00	10.00%
63	$92,030.45	-11.00%
64	$94,863.19	9.00%
65	$116,822.15	30.00%
66	$103,994.60	-7.00%
67	$123,743.25	25.00%
68	$141,304.46	19.00%
69	$128,126.20	-6.00%
70	$118,201.15	-4.00%
71	$141,501.43	25.00%
72	$135,136.42	-1.00%
73	$143,150.06	10.00%
74	$131,242.56	-5.00%
75	$150,228.65	19.00%
76	$140,871.79	-3.00%
77	$100,545.12	-26.00%
78	$79,302.45	-17.00%
79	$70,587.33	-5.00%
80	$62,307.96	-5.00%
81	$65,904.16	15.00%
82	$82,829.65	36.00%
83	$98,065.36	26.00%
84	$92,134.71	-1.00%
85	$82,777.97	-5.00%
86	$74,666.85	-4.00%
87	$86,363.90	24.00%
88	$90,339.46	11.00%
89	$98,993.77	16.00%
90	$118,432.15	26.00%

$118,432.15 | 7% ROR

Equity vs Cash Long-Term Projection

Investor A

- Has $500k at age 58 that she has earmarked for her Legacy
- She is invested in equities and has earned 7% annual returns, tax deferred
- At age 83, her portfolio has grown to $2,713,716

Investor B

- Has $250k at age 58 that she has earmarked for her Legacy
- She is invested in cash equilvalents and has earned 3% annual returns, tax deferred
- At age 83, her portfolio has grown to $1,046,888

Rule of 72

- The Rule of 72 shows how inflation can erode your income
- Can also work with Investment Returns

The rule of 72 is a mathematical concept and does not guarantee investment results nor functions as a predictor of how an investment will perform. It is an approximation of the impact of a targeted rate of return. Investments are subject to fluctuating returns and there is no assurance that any investment will double in value.

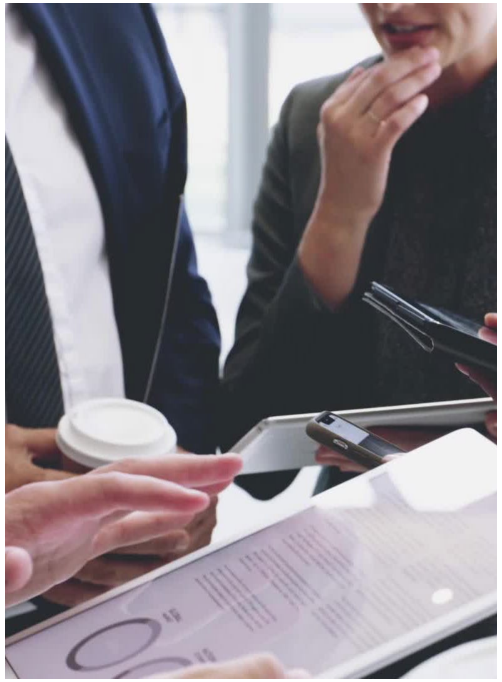
Asset Classes

Equities

- You make an equity investment when you buy shares of stock in an individual corporation or shares in a mutual fund or exchange traded fund (ETF) that owns stock in a number of corporations.
- Two ways to make money:
  - by selling at a profit or
  - by sharing in the corporation's earnings (dividends)
- Historical Returns of US Large Cap Stocks

Fixed Income

- Bonds are essential loans to corporations or governments
- Two ways to make money:
  - Before maturity, if interest rates have declined
  - Bond interest
- Historical Returns of US Corporate Bonds



Cash and Cash Equivilents

- Cash is the money you hold in your wallet, and your savings and checking accounts.
- Cash equivalents, which are highly liquid, include short-term CDs (certificates of deposit), U.S. Treasury Bills, and money market mutual funds.
- Historical Returns on Cash Equivalents

Mutual Funds and ETFs

MUTUAL FUNDS	ETFS (EXCHANGE TRADED FUNDS)
• Portfolio of securities selected to meet fund objective or that reflects index being tracked	• Portfolio of securities that reflects index being tracked
• Price determined by NAV (net asset value) at end of day	• Price determined by market trading throughout the day
• Shares in fund purchased from fund or through a broker or adviser	• Shares bought and sold like stocks through a broker or adviser
• Fund must buy shares to accommodate shareholder redemptions, with potential tax consequences	• ETF does not redeem shares a shareholder wishes to sell, enhancing tax efficiency

From the Texas State Securities Board's Texas Investors Guide

https://ssb.state.tx.us/investors https://ssb.state.tx.us/investors

Investing in mutual funds involves risk, including possible loss of principal. Fund value will fluctuate with market conditions, and it may not achieve its investment objective. ETFs trade like stocks, are subject to investment risk, fluctuate in market value, and may trade at prices above or below the ETF's net asset value (NAV). Upon redemption, the value of fund shares may be worth more or less than their original cost. ETFs carry additional risks such as not being diversified, possible trading halts, and index tracking errors.

Preserving: Cash Equivalents, Structured Notes, Annuities

Cash Equivalents	Structured Notes	Annuities
• Money Markets • CDs • Treasuries	• Principal Procted Notes • Max-Loss Notes • Buffered Notes	• Income Guaranteed Annuities • Fixed Annuities/Fixed Indexed Annuities • Index-Linked Annuities

Principles of Investment Management

- Asset Allocation
- Diversification
- Rebalancing

Asset allocation does not ensure a profit or protect against a loss.
Rebalancing a portfolio may cause investors to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss.
There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

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