

Investing 101 - Building a Strong Financial Foundation

Auto-caption formatting, timestamps, and filler were removed. Light grammar cleanup applied.

Hi, my name is McKenna. I am another advisor here at Journey Financial. Those who I have not had the pleasure of meeting yet, I actually have my bachelor's degree in personal financial planning. I've been in the financial industry for about five years now of learning the ins and outs of investing, as well as being an advisor. I have loved being at Journey for about two years now, and I'm excited to talk to everyone today about Investing 101. Which is building a strong financial foundation and how investing can be able to help you do that. And so to get started, what is investing? When you invest in stocks, you are buying ownership in real business, and as those businesses grow, your money grows over time. And then your money starts to work for you rather than you working for your money, right? Because we spend our entire lives working for money, and now it's time for our money to work for us. And that is a way that investing can be able to help you, not only do that, but create future opportunities over time. In fact, I'd like to start with two little stories. One is about Warren Buffett. Warren Buffett bought his first stock when he was 11. Did that stock go well and according to plan as he thought? No. When he bought his first stock at 11, it actually plummeted over time, and he got really scared and really nervous that he just sold out of it. And I want you to keep that in mind while I talk about a few other things as well as a guy named Ronald Read. He is known as the millionaire janitor. In fact, he grew up in a small town in Vermont, and he went and served in World War II. When he came back, he worked as a gas station attendant. When he retired, he retired for about a year and then just wanted to work as a part-time janitor. And by the time he officially fully retired, and by the time he passed on, he had about \$8 million. And his secret was that he not only saved as much as he possibly could, but he invested his savings. So I want you to also think about that as we go about this presentation, too. The next thing I want to get into is a basic level of how investing works, because investing works through buyers and sellers. There are millions of people out there every single day, every single minute, every single second, that are buying and selling a stock or a company that they own or that they're trying to sell. And when that is happening, when you are buying and selling, you are transferring the ownership to you or to someone else. So if you're buying something, you're obviously gaining the ownership, and then if you're selling something, you're losing that ownership. And another example, if you are buying Apple, per se, then that means that you own one share of Apple, or however many shares that you own. You are participating in the gains, and you have that belief that this company is going to grow over time. That they are going to have great company earnings, and that over time they are going to grow into this wonderful company that you are able to participate in that growth. And another thing to keep in mind is that there are lots of movement in investing. Not only is there all those buyers and sellers and ownership transfers happening, but there's supply and demand, politics, company earning reports, wars, job markets, inflation, opinions, friends, influencers are constantly changing and influencing the market by every second and every news line. Every new

earning report is constantly changing how the market is. And so there's a lot of movement that's going on in investing, and that's a little bit of how the mechanics are working, is based upon all the buyers and sellers, all the ownership transfers, and all the different movement in the economy as well. Well, why should people invest? One of the reasons why people invest is inflation. The cost of living can increase, and so should your money over time. Because having your money stay stagnant loses its purchasing power over time and doesn't help your money stay its course with the rest of the economy. What I mean by that is with inflation and the cost of living always increasing, whether that be with groceries or home prices, it's going to increase over time. And with that being said, if your money's just sitting in a savings account, it's not keeping up with inflation, just the basic cost of living increases. So it's pretty important that having at least majority of your funds and some in savings, right? Because you always want to have that emergency savings funds that we talk about. But having that emergency savings fund and then having a opportunity for your other funds to be able to grow and keep up with inflation over time. And then another reason why people invest is growth. Growth is a very important factor in investing because obviously you are investing for growth. You want your money to grow, and you want the growth to also grow as well. Which leads me to my next point why people invest, is the compounding factor. Compounding is when your money earns growth, and then that growth earns more growth. And then the most important factor of investing of all time is time. Meaning that you want to have time in the market rather than timing the market. For example, there is a example that we talk about quite often, which is the 25-year-old investor versus the 35-year-old investor. Now, the 25-year-old investor starts contributing to their investment account for about \$300 a month for 10 years. They stop at 35, and then they retire at 65. Well, it had about 40 years to grow, and they only contributed \$300 a month for 10 years. With that being said, they were able to grow their account to half a million dollars, and they only contributed for 10 years, which isn't a significant amount of time. However, with the fact that it had the time and the compounding factor involved, they are able to have their retirement funds at the end of 65 be almost double what the 35-year-old. Now let's talk about the 35-year-old. The 35-year-old contributes \$300 every single month for 30 years straight. And since they started later and they had the time and the compounding less on their side because they started 10 years later. Even though they contributed a whole lot more, the fact that the 25-year-old started earlier, was able to have more time to compound and grow. And so that's why the 35-year-old isn't able to have as much as the 25-year-old at retirement. And so it's just having that timeline of investing and having the streamline of compounding together creates that secret sauce of investing. So now I want to talk about day traders versus long-term investors. Day traders are time the market, and long-term investors are people that care about time in the market. They're vastly different. And in fact, on this US market historical return of probabilities since 1871, you can see that equity returns are pretty volatile, like I talked about. All the different movements that are happening, it creates that volatile movement, and especially in a short-term run. So holding equities for a full 12-month cycle has resulted in a positive 73% of the time since 1871. That's a great probability to have on your side. Not only are you, if you hold your securities just for one year, it increases the probability of them being positive 73% of the time, and

that's since 1871. So a lot of things have happened during that time. Because we've had the '08, the Great Depression, the dot-com bubble. You've had 2020 recently of things that have just happened, where we have seen the market completely plummet. And then, however, over time, it comes back. It bounces back. And then another little tidbit to that is over a long time horizon of 10 years, the historical probability of positive returns is 97%. And that's even higher than the one we talked about recently. So even holding your securities in the market for 10 years results in a positive 97% probability, which is a great probability that I would take on as well. And another thing about day traders is 80% to 90% of day traders lose. It's a pretty high percentage of losing. And very small percentage, 1% to 3%, are consistently profitable, which is important to note since you are competing against institutions, algorithms, all that movement that we talked about earlier, and full-time professionals. So with this, I like to think about the story of the tortoise and the hare.

And for those of you who don't know the story of the tortoise and the hare, it's the race of a tortoise and a hare. And a hare is quite faster than a tortoise. However, the hare keeps taking breaks and thinks that it's going to win the race no matter what. So with the tortoise, it gradually takes its time and it wins that race. Now let's talk about the different investment types. And there are a lot more different investment types out there than the ones that I'm going to talk about today. However, I just wanted to talk about the most common ones. There are stocks, ETFs, which are exchange-traded funds, mutual funds, bonds, annuities, and life insurance. I'm briefly going to touch on annuities and life insurance because they could be their own presentation within themselves. However, let's first start with stocks, exchange-traded funds, and mutual funds. So stocks are fractional ownership. So again, you're having ownership in a company when you go out and you buy a stock of Apple. You get to participate in those gains. And with all of these, you have full control on when you want to buy and sell them. There's typically no cost in owning a stock as well. With exchange-traded funds, it is a collection of different investments. And what that means is it's like a holding that's tracking an index as well. It could track the S&P 500, the Nasdaq, the Russell 1000, things like that, that it's a collection of different investments to where you have exposure to broad markets. They are typically lower cost and lower turnover. Lower turnover means how often buying and selling is happening. And that's important to know because how often something is buying and selling can trigger different taxes depending on which account it's in, which we'll get to later. And then mutual funds is kind of similar in the fact that it is a pool. They are a pool of investments, meaning you're pooling your money together with other investors. It's professionally managed by what they call a money manager, and again, just like an exchange-traded fund, it is exposure to broad markets. They typically result in higher fees, higher turnover, and there's quite a few repetition happening, meaning if someone is going out and buying Jack's mutual funds, Jack will buy stocks and then will also buy Bill's mutual funds. Well, Bill also wants the best stocks that Jack also may have, to where you're seeing that repetition of holding Nvidia or holding Apple multiple times because they're all trying to get the best growth in their specific fund. So I like to think of this as well as a best, better, good. So the best option out there is stocks. And obviously for those who are starting out, who have very little funds that they want to start investing, exchange-traded funds is a great place to start. And they also trade just like a stock, meaning

if you go out and you buy it today, you are typically buying it today. With mutual funds, if you go out and you buy it today, it won't actually trade till the next day. So it takes a couple of days, well, a day or two, for mutual funds to actually take into effect. So that's also something to consider as well. And with mutual funds, they typically are the only option in 401 retirement plans. So with that being said, we recommend when you're taking a look into your retirement, your 401, that you only select anywhere between one to three mutual funds. That way it decreases the repetition as well as the fees and the turnover rate as well. Now let's talk about bonds. What are bonds? Well, bonds are where you are lending your money to a government or company who is then using your money to either build an additional building or try to increase their profits a little bit more, but they just need to borrow your funds for a little bit of time or a long period of time, depending on which bond you're buying. And with that, since you're lending your money, they are going to give you something in return, which is called interest. And over the certain amount of time, let's say it's two years, they're going to pay you interest over those two years for you lending your money to them. And then after the two years are up, which is called the maturity, when the maturity date is up, they are going to give you back your initial investment. So let's say you invest \$10,000 over the course of two years, and then they're paying out a percentage of about 4%. You're earning that 4% over time. So you always are getting that interest, and then you get your initial investment back from lending it to them. And they are a little bit more stable and they produce that income through that interest. And how they also work is they are directly inversely related with interest rates. So I want you to think of this as a scale. If interest rates increase, bond prices are going to decrease. If interest rates decrease, bond prices are going to increase. And they're inversely related. Now, because of that, you are wanting to have a strategy in play so that, let's say you buy a bond for 20 years and you're locked into that bond at a 4%. Well, let's say over those 20 years, since interest rates and bonds have that inverse relationship, that let's say interest rates drastically decrease and now in five years, you could buy a bond that's now paying out 8% or 9%. But since you're locked in that 20 years, you're now going to have to come up with additional investment funds to be able to buy a higher bond interest rate. So it's very important to be able to know how they work in order how to structure them and how to invest in them properly as well. Okay. Like I said, we're going to briefly touch on annuities and life insurance. So annuities and life insurance are both an investment contract with an insurance company. Now, annuities are more of the investment type because you're giving your initial investment to this insurance company, let's say \$100,000. Okay. And with that, they are going to give you a cap rate of, let's say 8% for this instance. They're going to give you a cap rate of 8%. Well, you are going to be tied to an index, to an investment type, and if that investment type goes above your cap rate, you are capped at that 8%. So let's say the S&P 500 in a given year, because they work on a year-to-year basis, so if you were to go out and buy an annuity today, then it would be as of May of 2026 to May of 2027, how did that index perform? Well, let's say it went up 10% in that given year. If it went up 10%, however, you're capped at 8%, you only get to receive that 8%. Let's say it went up 5%. Well, that's below your cap rate, but you still get to participate in that 5% gains. You get a 5%. Well, let's say in that given year, it goes down 20%. Well, since they are an insurance company, they are

mitigating the risk on the downside so that you have that downside protection, meaning that 20% that the market went down in that given year, you don't realize that loss. However, you also don't get to gain anything, so you're just at a zero for that year. So they minimize the risk. And sometimes they can also guarantee lifetime income, meaning since you have put your money into this insurance company, they may also give you the opportunity for guaranteed lifetime income, meaning that you can receive, let's say, 10,000 a year for the rest of your life as income from this annuity. However, that does deplete the account, and it's another way to have tax-deferred growth, meaning if you are putting into an annuity. Let me back up. Let's say that you have CDs at the bank that are \$1 million, okay? And because they're so high in interest, because of that 1 million, you're earning around 30 to \$60,000 a year in interest, which is taxed as ordinary income on your taxes. And the way that you can minimize that is, let's say, you put half of that into an annuity. Well, you now are deferring the tax until you take the distributions from it rather than seeing the taxes every single year. And then life insurance. Well, life insurance can be an investable asset, depending on which type. There are mainly two different types. There's permanent, meaning for a lifetime, and then there's term, meaning you can get 10, 20, or 30-year term insurance that lasts for that length of time. They provide financial protection and a death benefit. So for instances, if you have a life insurance, typically you receive financial protection on your spouse or your partner or anyone that you have a life insurance on. If something were to happen to them, you get the death benefit, and that provides a security and financial protection of putting your money into another investment type, having the option for it to grow over time so that when something were to happen to you or someone that you love, that you receive a death benefit to help you financially, which then gives you that protection. And this is more of a long-term planning option as well. So I just wanted to briefly talk about those since they are always showing up on social media or they're quite talked about often. Now let's talk about investment income. This is important to know because investment income is a great way for pre-retirees to reinvest that income and for retirees who need to start using their investments to peel off that income so that you don't deplete your principal. And the reason being is because there are dividends and interest that are typically investment income. Dividends are a way for companies to give earnings back to the shareholders, meaning if you hold Chevron or Lowe's or Home Depot, those are dividend-paying companies, meaning that since they want to reward their shareholders for being shareholders, so they're going to pay a dividend. And when they pay that dividend out, you basically are earning investment income by owning a particular company. And then interest is like what we talked about with bonds, and there are other ways to earn interest on other investments. But typically with bonds, you earn that interest either semi-annually or annually or quarterly. However they pay it out, you're earning that interest. It's also important to know how those are showing up on your taxes and making sure that you're having those different investment incomes in specific accounts as well. Because depending on what type of account it's in and what type of investment income it's creating, it's important to know how that's affecting your taxes as a whole. And then I want to talk about capital gains. It's not really income per se, but capital gains is important to know how that is working in your investments. Meaning if I put \$10,000 into a brokerage account and it

grows to \$20,000. Okay? I now have a \$10,000 growth that I got on my initial \$10,000. Well, let's say in five years from now, I want to pull out the full \$20,000. If I pull out the full \$20,000, I now am going to have to pay what's called capital gains tax on that 10,000 that it grew to. So that's important to be aware of as well and how that works. Which gets me to the types of accounts. So there are 401 s, traditional IRAs, Roth IRAs, and brokerage accounts. There are also different types of accounts, but these are the main and most common ones as well. And with that being said, a 401 is a retirement account that typically has the option to invest in, like we mentioned before, mutual funds. So you're not only contributing, but you're also having the opportunity to invest in your retirement. An IRA, this is another retirement account that allows for contributions. However, they have contribution limits, meaning if you are under the age of 50 for the year of 2026, you can only contribute \$7,500. For those over 50, you can only contribute \$8,600. And they change on a year-to-year basis, so that may change next year. But it's important to know that they have max contributions that you can contribute to for an IRA as well as a Roth IRA. Traditional IRA is contributions before taxes have been taken out, so before you pay your taxes. So it goes in pre-tax, and then when it comes out, so when you take a distribution, you then pay the taxes. So they are called tax-deferred because you haven't paid the tax on the money yet because you put it in pre-tax. It's going to grow, and then when you take money out of it, you're going to have to pay taxes on it once when you do that. And with those contributions that I mentioned earlier, if you qualify, you may be able to get a tax deduction for contributing to this account, which is a plus for having a traditional IRA. However, you can't take distributions for an IRA as well as a Roth IRA and a 401 until you're 59 and a half. And in order to contribute to a traditional IRA as well as a Roth IRA, you have to have earned income, meaning if you retire and Social Security does not count, but if you retire and you're not working and you don't have earned income, you can no longer contribute to an IRA or a Roth IRA. A Roth IRA is very similar to an IRA other than the fact that the contributions go in after you've paid the tax, and then they grow tax-free, and then you take your distributions out tax-free. Which is a pretty good deal. I already have paid the taxes on the money that I'm going to put into this account. It's going to grow tax-free, and then when I go to take a distribution out when I'm 59 and a half, I can now take it out tax-free, which is a huge bonus when trying to consider taxes in the future. And then the last account that I wanted to touch on is a brokerage or non-qualified account. This is a very flexible retirement account. You can contribute however much, whenever much, and take out whenever too. So this is the type of account where watching your capital gains matters. So that \$10,000 that we talked about that your initial put \$10,000 in, it grows to \$20,000, you take out \$20,000, you most likely will have to pay capital gains on the \$10,000 that it grew to, which is approximately around 15%, which can be a benefit when you're taking into consideration how large your IRAs are and the interest that they're earning or how large your CDs are or how large your brokerage account is. So just wanting to make sure that that is being monitored and watched over. But knowing how this account works is very important. One of the main questions that I get about this account is, well, what if I have life insurance proceeds from a previous spouse? Can I put that into a brokerage? Of course. Again, you can put however much you want into a brokerage account, whether that be

\$1,000, \$100, \$100,000, a million, two million, however much. And so knowing how each investment type, each income type, and account type works and how to put this all together to make sure it is working in the best way and most efficient way is vital to how your investing experience could go. Now, I wanted to include some smart tips to investing. The first one is understand what you own, how it works, the risk you're taking on, and how it affects you. Being able to know the mechanics around your investments is important to know how it's working for you, how it's going to benefit you in the future, how it's working for you now, and how it can create either a liability or a bonus or a plus on your income and tax-wise. And then it's also important to know the difference between asset allocation and asset location. So we talked about the different investment types, the different investment income, and the different types of accounts that you can have those in. So asset allocation is one, making sure you're diversified around all those different broad marke

t sectors. And then the location is making sure that you are putting the right types of investments in the right types of accounts to know, okay, well, with this type of account and I have more dividend increasing stocks in this type of account, this is what it's going to look like on my taxes. So having the right asset location and allocation presented in your investing. Which brings me to my next point of diversification, being able to be diversified in all different stocks. So I want to talk about Warren Buffett when he was 11 years old, he invested in that one stock. Well, that one stock tanked, and he put all of it into that one stock. Well, what happens is he now has lost all of his funds in that one stock. Well, let's say he invested in 10 stocks, and now one stock plummeted. However, the other nine are doing okay, meaning that having diversification on your side gives you a little bit more leeway into the down and the ups and the movement, I should say, the movement in investing as well. And then to talk about Ronald Read, one of his secret specialties was reinvesting his investment income. Since he was working part-time in retirement, he didn't need that income from his retirement, so he just kept reinvesting his dividends and his interest, which also is a way to create that compounding event that we talked about earlier. And then dollar-cost averaging. Dollar-cost averaging is a great tool to have when you are starting out investing. And a lot of you may not have noticed that you're already dollar-cost averaging because you're contributing to a 401 . If you are, you're dollar-cost averaging. Dollar-cost averaging means that you are putting a specific amount a month into the market, whether it is down or up. And because of that, you're taking emotion and you're taking timing the market out of the equation, and you're just being invested in general, which is one of the best ways to do it. So I want to talk about what matters most going forward. Well, there's consistency, time, and strategy. Having consistency of being invested in the market and making sure that having the consistency on your side of, okay, I'm going to stay consistent in the market and consistently invest, as well as dollar-cost averaging. And making sure that you're not timing the market, but you're making sure that you have time in the market, and then creating strategy amongst all of that. And for our clients in particular, we make sure that we coordinate a full financial system that not only takes into consideration investment strategy, but income and taxes and retirement and estate. And all of this as a whole broad view of investing that we coordinate a strategy for our clients so that we make sure that their investing experience is planned in a way that matches their goals and what they're

trying to accomplish, and making sure that they are living their retirement they want to live as well. Thank everyone so much for listening today, and I appreciate the time that everyone took to listen to this presentation. And if everyone have any questions, feel free to reach out. I am more than happy to answer any questions that you have. And I thank you for your time. You guys have a great rest of your day.