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# Basics of Investing: Understanding How To Invest Wisely

Office of Investor Education and Advocacy  
United States Securities and Exchange Commission



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# What We Will Cover

- I. Investment Products
- II. Investing Considerations
- III. Planning for Retirement
- IV. Tips to Avoid Fraud
- V. Digital Assets and ICOs

# I. Investment Products





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*All investments have*





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[Video](#)

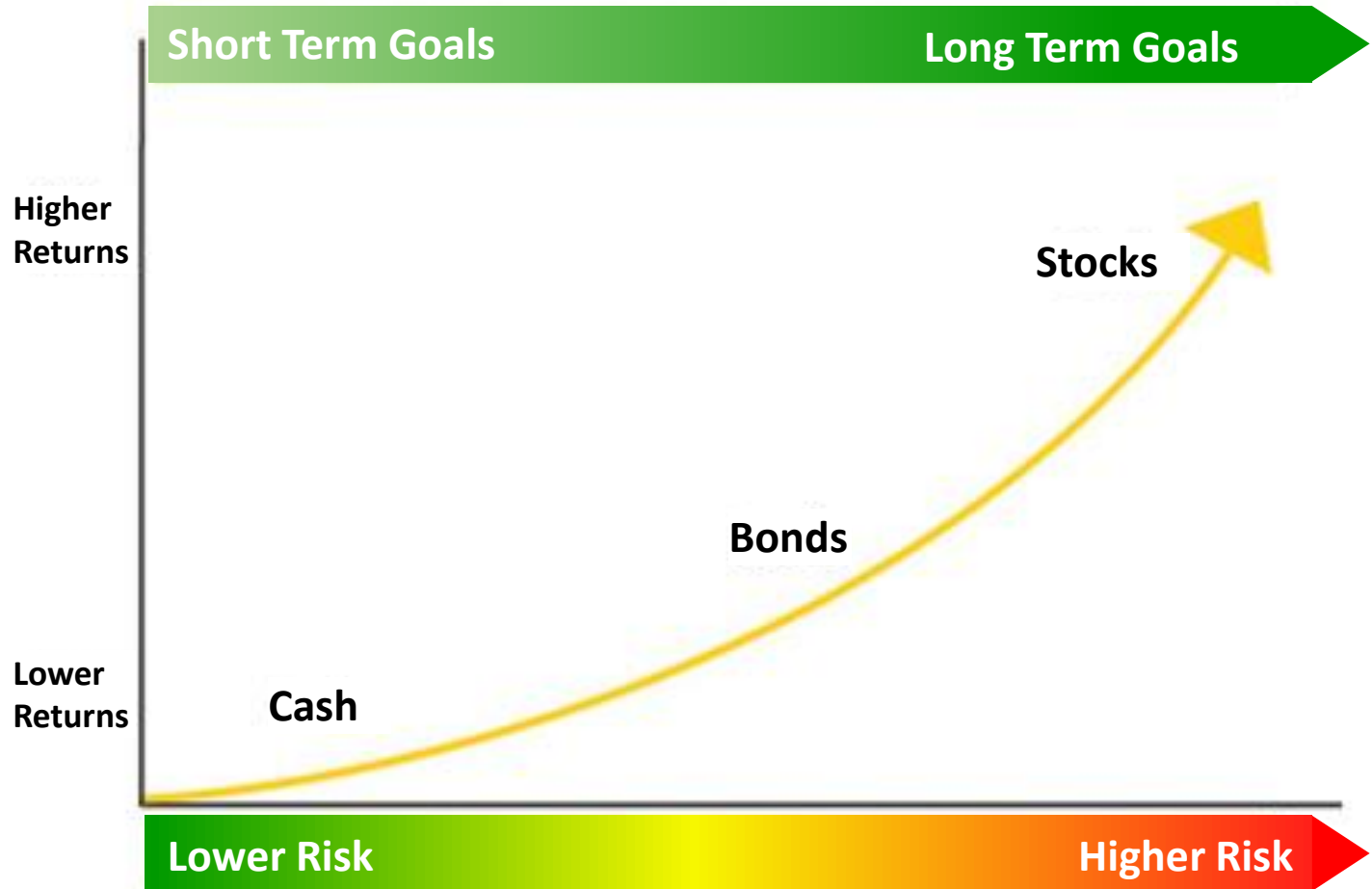


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# Investment Risks/Returns





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# Stocks

Stocks, also called “equities,” give stockholders a share of ownership in a company

## Benefits:

- Share price can increase
- Dividends
- Ability to vote shares

## Risks:

- Share price can decrease
- Companies can go bankrupt







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# Bonds

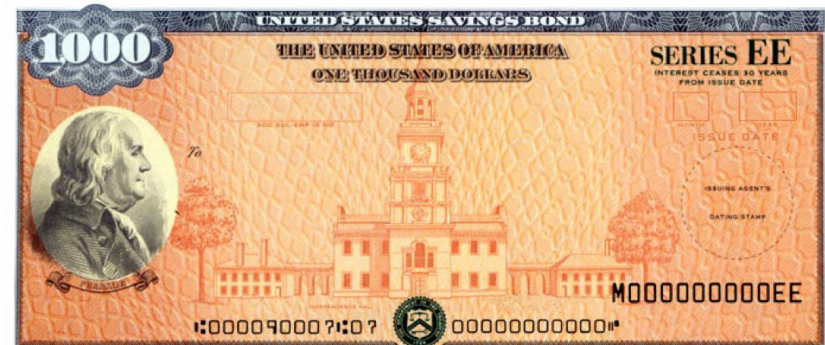
Bonds are loans you make to a government or company on which you receive interest payments.

## Benefits:

- Predictable income stream
- Return of principal after bond matures

## Risks:

- Inflation
- Prices can decrease
- Companies can go bankrupt





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# Types of Bonds

## **Corporate Bonds** – Lend money to a company

- Holders do not own equity in the company
- Credit ratings: investment-grade vs. high-yield (“junk bonds”)

## **Municipal Bonds (“munis”)** – Lend money to a government entity

- Issued by states, cities, counties and other government entities
- Fund day-to-day obligations and finance capital projects

## **U.S. Treasuries** – Lend money to the federal government

- Issued by the U.S. Department of the Treasury
- Backed by the full faith and credit of the U.S. Government



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# Mutual Funds

Pools of money invested by an investment company in stocks, bonds or other securities – or some combination of those investments

## Benefits:

- ✓ Diversification
- ✓ Professional Management
- ✓ Affordability
- ✓ Liquidity

## Examples:

- Money Market Funds
- Bond Funds
- Stock Funds
- Balanced Funds
- Target Date Funds

## Risks:

Typically the same as the underlying securities





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# Exchange-Traded Funds (ETFs)

Like mutual funds, ETFs pool investors' money and invest in securities such as stocks, bonds or other assets

## How ETFs differ from mutual funds:

- ETF shares are traded on a national stock exchange at market prices
- Many ETFs publicly disclose their holdings daily rather than quarterly
- ETFs can be more tax efficient





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# Two Types of Fund Strategies

## Actively-Managed Funds



Often attempt to outperform a specific market index or benchmark

## Index Funds



Attempt to track the performance of a specific market index or benchmark

## II. Investing Considerations



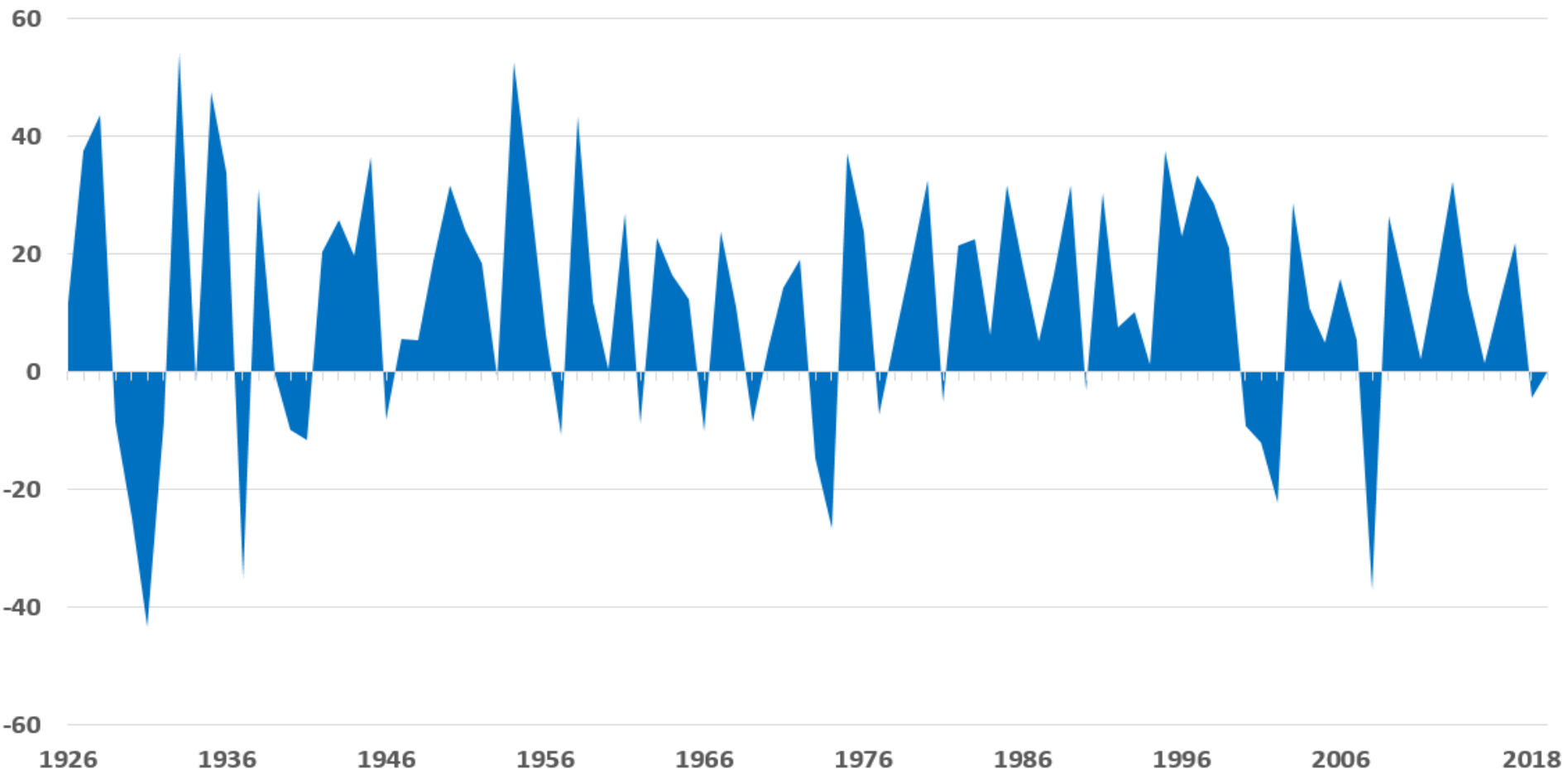




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# Time—Friend or Foe?

US Large Stock Returns 1926 - 2018



Source: Ibbotson/Morningstar IA SBBI US Large Stock TR USD Ext Index



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# Managing Risk

Manage risk with asset allocation and diversification







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# Why Mutual Funds and ETFs May Make Sense

## **Instant Diversification:**

Pools of money invested by an investment company in stocks, bonds or other securities – or some combination of those investments





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While any given company or sector held by a fund may decline, others may post gains





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# Picking a Fund

- How does the fund match my goals?
- What is the fund's performance over time?
- How does that compare with my risk tolerance?
- What are the fund's fees and expenses?
- Will the fund help me diversify my investments?



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# Investor Behaviors That Undermine Performance

**A Library of Congress report identified 9 behaviors that undermine performance:**

1. Active trading
2. Disposition effect
3. Focusing on past performance and ignoring fees
4. Familiarity bias
5. Manias and panics
6. Momentum investing
7. Naïve diversification
8. Noise trading
9. Inadequate diversification

*See our bulletin, Behavioral Patterns of U.S. Investors, on [Investor.gov](https://www.investor.gov)*



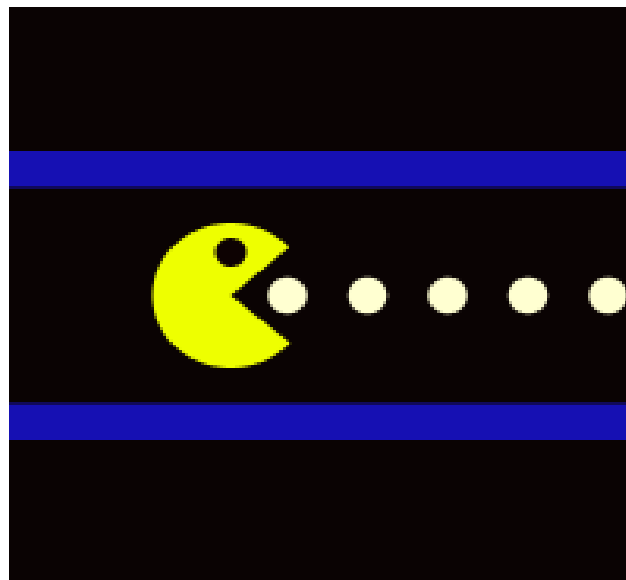
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# Fees

All investments have fees  
And they matter





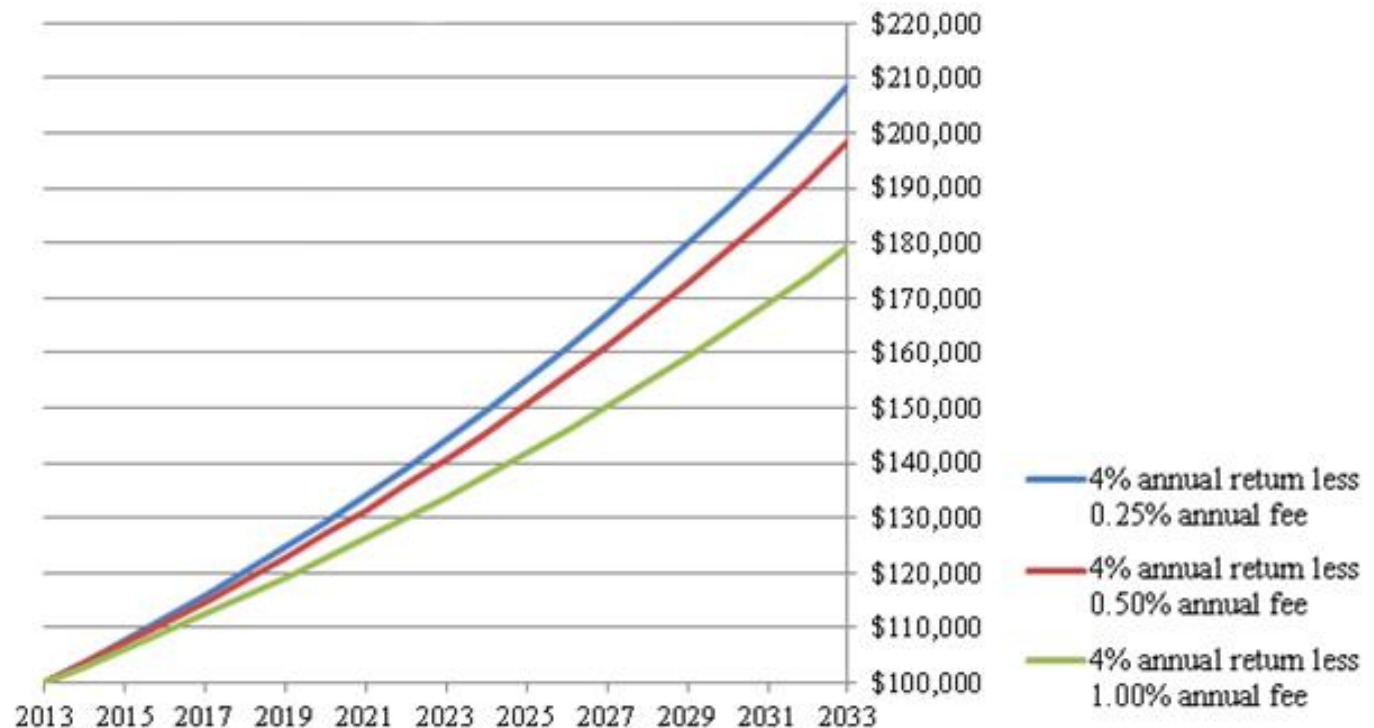
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# Impact of Fees

**Portfolio Value from Investing \$100,000 over 20 Years**





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# FINRA Fund Analyzer

**Fund Analyzer**  
by FINRA

Analyze and compare the cost of owning funds

Search by Fund Name, Family, Ticker or Keywords **SEARCH**

By clicking SEARCH or otherwise using the Fund Analyzer, I agree to the [Fund Analyzer Terms of Use](#).

Filtered Search Favorites Help

Disclaimer: The future values depicted are based on the rates of return chosen by the user and are not a depiction of actual returns.

Why Use the Fund Analyzer

[https://tools.finra.org/fund\\_analyzer/](https://tools.finra.org/fund_analyzer/)



# III. Planning for Retirement





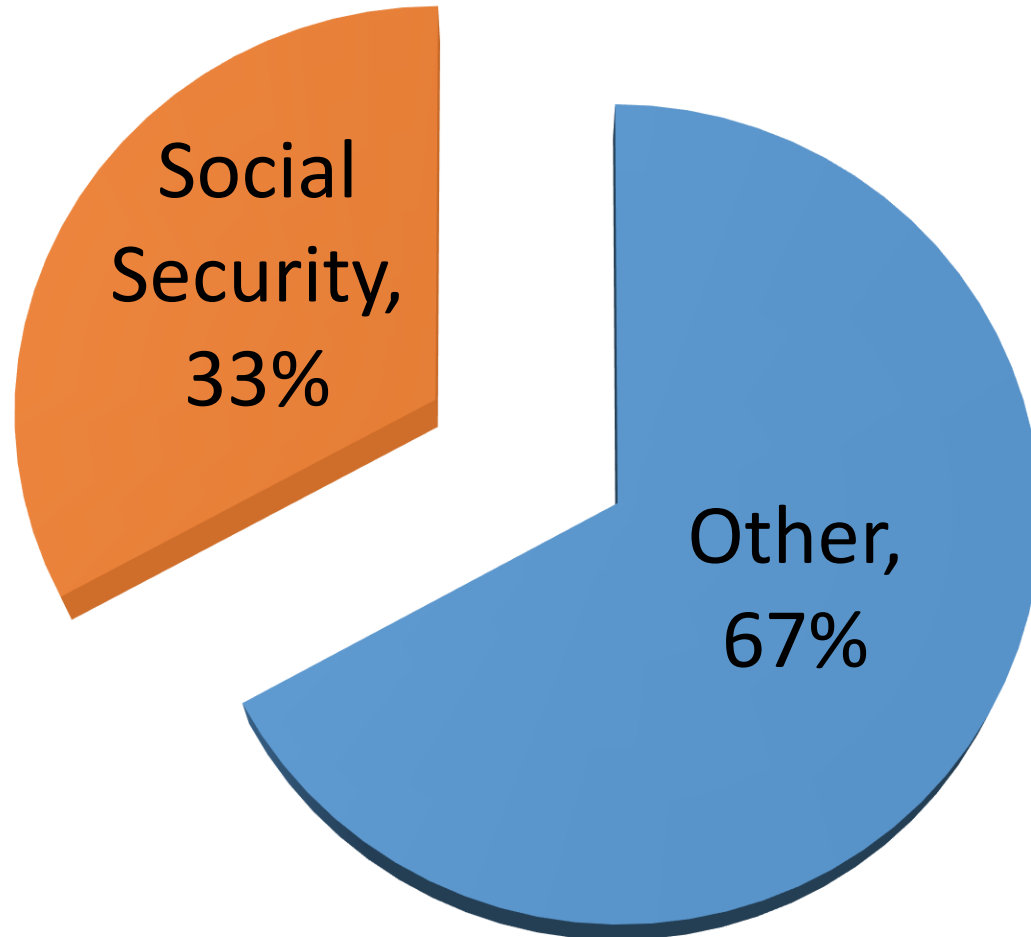


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# Average Retirement Sources





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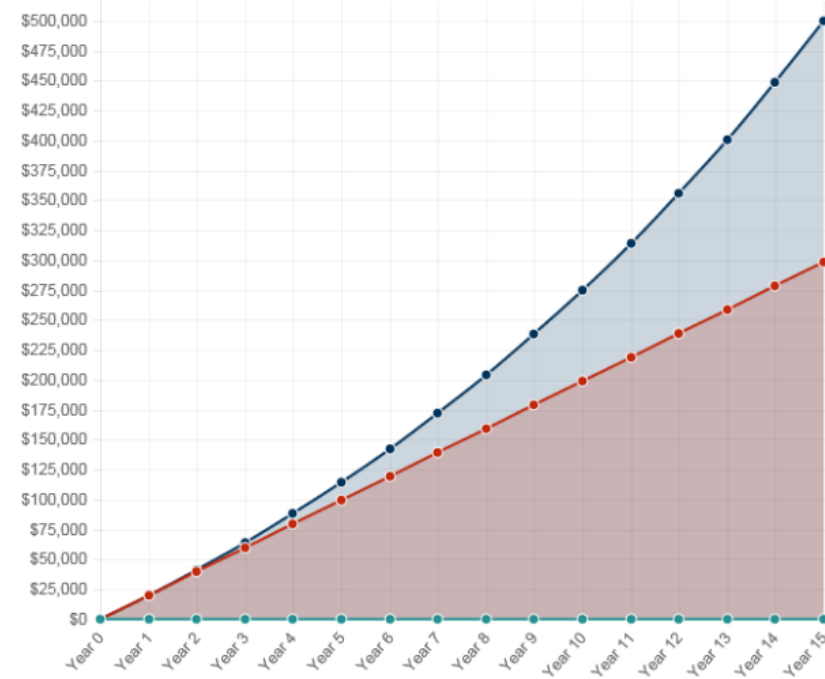
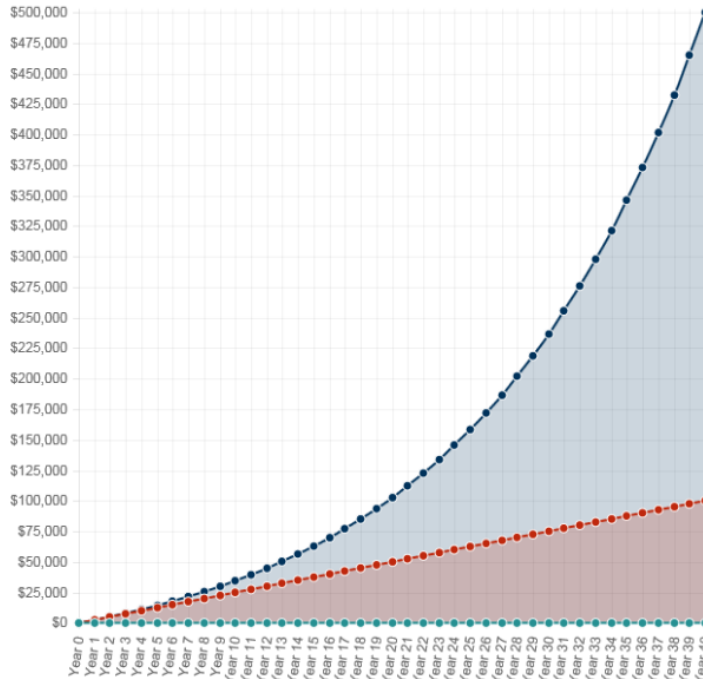
# What It Takes to Save \$500,000 by Age 65

Start at Age 25

\$209 per month

Start at Age 50

\$1,658 per month





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# Tax-Advantaged Accounts

Employee-Sponsored Plans 401(k) / 403(b) / 457(b)	Individual Retirement Account (IRA)
Defined contribution plan sponsored by an employer	Self-directed savings
Distribution based on your contributions (and possible employer matches) and the earnings on those contributions	Distribution based on your contributions and earnings on those contributions
Gives you a choice of investment options, typically mutual funds	Contributions can be invested in mutual funds, individual stocks and bonds, annuities and even certain real estate



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# 2019 Contribution Limits

401(k) / 403(b) /  
457(b)/TSP

IRA

\$19,000

\$6,000

(50+ may add \$6,000)

(50+ may add \$1,000)



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# Retirement Tips

- **Don't delay** - You can start an account with a small amount and increase contributions later when your earnings increase
- **Take advantage of matching** - Your employer may match your contributions up to a certain level
- **Pay attention to fees** - An investment with high costs must perform better than a low-cost investment to generate the same returns

## IV. Tips to Avoid Fraud





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# Check Any Investment Professional

- Are they licensed/registered?
- Check their background:
  - Any disciplinary actions
  - A history of customer complaints
  - Previous employment

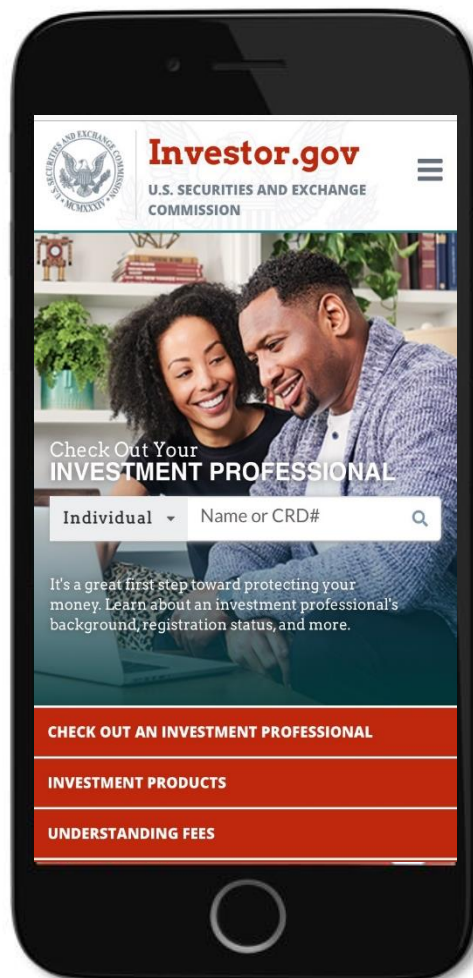


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Jordan Ross Belfort



Matches made to previous employment

**JORDAN ROSS BELFORT**

CRD# 1736122



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# Check Any Investment Professional

**JORDAN ROSS BELFORT**

CRD#: 1736122



Previously Registered Broker

**Ø BARRED**

The SEC has barred this individual from acting as a broker or investment adviser or otherwise associating with firms that sell securities or provide investment advice to the public.



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# Is the Product Registered?

- Scams often involve unregistered companies
- Find out whether the company is registered with the SEC – this provides access to important information about the company
- Investors can check EDGAR, the SEC's online database of corporate filings



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Free access to more than 20 million filings



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# Red Flags of Fraud

- **It sounds too good to be true:** Any investment that sounds too good to be true probably is

**Incredible  
Gains!**

**Breakout  
Stock Pick!**

**Huge Upside,  
No Risk!**

- **Pressure to buy RIGHT NOW:** Don't be pressured into buying an investment before you have a chance to investigate the "opportunity"
- **Lack of documentation:** Be skeptical of investments without documentation reflecting the promoter's claims

# V. Digital Assets and ICOs: What You Need to Know





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# Digital Assets

- Includes cryptocurrencies, ICOs and digital use, or utility, tokens
- Cryptocurrencies claim to be fiat currency replacements
- Digital representation of value using Blockchain technology



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# Digital Assets

To date, there are no ETFs or mutual funds that can invest substantially in cryptocurrency and/or cryptocurrency-related assets





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# Some Digital Investments Are Scams!

HOWEYCOINS ABOUT

**PRE-ICO SALE IS LIVE**

**15% BONUS ENDS IN**

014	:	11	:	29	:	50
Day(s)		Hours(s)		Minute(s)		Second(s)

**TOKEN SALE!**

[Learn More](#)



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# Markers of an ICO-Related Scam

- Claims of high guaranteed returns
- Investing with a credit card
- Celebrity endorsements
- Fancy “white paper”
- Professional-looking website and team members with impressive credentials



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Additional  
Resources

[HOME](#) > [Additional Resources](#) > [Specialized Resources](#) > [Spotlight on Initial Coin Offerings and Digital Assets](#)

## SPECIALIZED RESOURCES

### Spotlight on ICOs and Digital Assets

[Youth](#)



[Seniors](#)

[Caring for Loved  
Ones](#)



[Military](#)



[Native Americans](#)

[Director's Take](#)



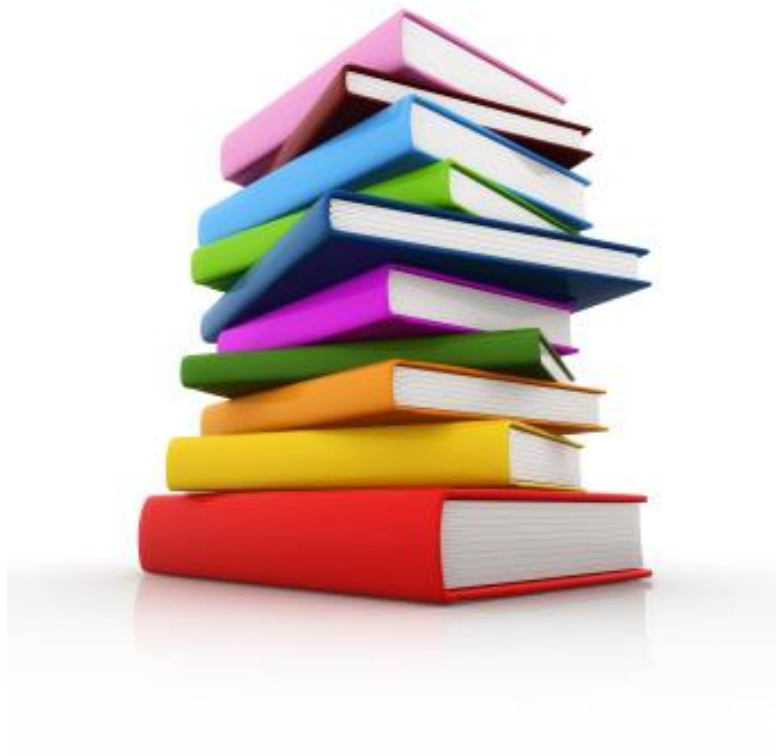
[Librarians](#)

## SPOTLIGHT ON INITIAL COIN OFFERINGS AND DIGITAL ASSETS

The rapid growth of the Initial Coin Offering (ICO) market and digital assets presents individual investors with many questions. If you are considering an ICO or other investment opportunity involving digital assets, you may be wondering if it is legal, if it is right for you, or even whether it might be a scam. Here are some SEC resources to help you better understand these complex topics:

- ▶ [The SEC Has an Opportunity You Won't Want to Miss: Act Now! \(May 2018\)](#)
- ▶ [Chairman Clayton's Statement on Cryptocurrencies and Initial Coin Offerings \(Dec. 2017\)](#)
  - [Sample Questions for Investors Considering a Cryptocurrency or ICO Investment Opportunity \(Dec. 2017\)](#)
- ▶ [Investor Alert: Celebrity Endorsements \(Nov. 2017\)](#)
- ▶ [Investor Alert: Public Companies Making ICO-Related Claims \(Aug. 2017\)](#) (This investor alert is also available in Spanish, [Alerta al inversionista: Las empresas públicas que hacen declaraciones relacionadas a las ICO.](#))
- ▶ [Investor Bulletin: Initial Coin Offerings \(July 2017\)](#) (This investor bulletin is also available in Spanish, [Boletín del inversionista: Oferta inicial de criptomonedas.](#))

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FINANCIAL TOOLS AND CALCULATORS

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# Compound Interest Calculator: Investor.gov

## FREE FINANCIAL PLANNING TOOLS

401 (k) and IRA  
Required Minimum  
Distribution Calculator

Compound Interest  
Calculator

Savings Goal Calculator

Ballpark Estimate

Social Security  
Retirement Estimator

Mutual Fund Analyzer

529 Expense Analyzer

## COMPOUND INTEREST CALCULATOR

Determine how much your money can grow using the power of compound interest. You can find out if you're dealing with a registered investment professional with a free simple search on Investor.gov's homepage.

\* DENOTES A REQUIRED FIELD

### Step 1: Initial Investment

\* Amount of money that you have available to invest initially. ▶

### Step 2: Contribute

Amount that you plan to add to the principal every month. ▶

\* Length of time, in years, that you plan to save. ▶

### Step 3: Interest Rate

\* Your estimated annual interest rate. ▶

Range of interest rates (above and below the rate set above) that you desire to see results for. ▶

### Step 4: Compound It

\* Times per year that interest will be compounded. ▶

ANNUALLY ▼

CALCULATE

RESET



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# Investor Alerts and Bulletins

- Saving and Investing Basics for Military Personnel
- Military Spouses: Ensuring Financial Readiness on the Home Front
- Five Red Flags of Investment Fraud
- Robo-Advisers
- Initial Coin Offerings





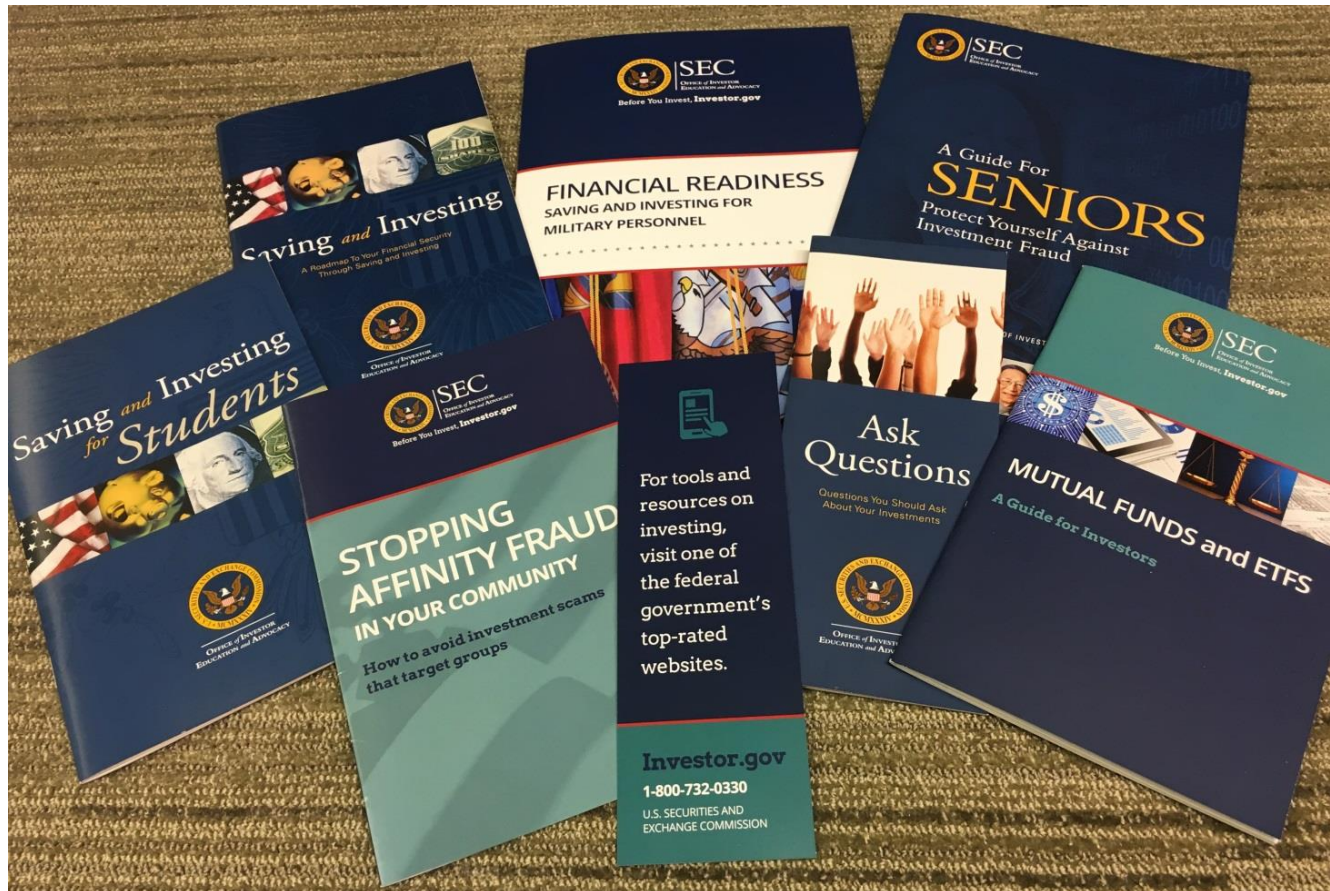
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# Investor Preparedness Checklist

## INVESTOR PREPAREDNESS checklist

Are you prepared for your financial future? Use the checklist to get started.

- ☐ **Start early!** Go to Investor.gov for free tools and information about investing.
- ☐ Identify your financial goals.
- ☐ Create a savings and investment plan based on your goals.
- ☐ Pay off high-interest debt first.
- ☐ Participate in your company's 401(k) plan and max out any employer match.
- ☐ Use Investor.gov to do a background check on any investment professional to make sure they're registered.
- ☐ Understand your risk tolerance.
- ☐ Understand investment fees and their impact on returns.
- ☐ Research all investments thoroughly.
- ☐ Check your investments regularly and maintain a diversified portfolio.
- ☐ Avoid investment opportunities that sound too good to be true.



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