The Basics of Investing

LPL Financial

PERSONAL FINANCE EDUCATION

The Basics of Investing

Many people find it a bit challenging to get interested and engaged with investing and the planning and strategy that comes with it. After all, there is a lot to learn and understand. If you do have experience with investing, chances are you consider yourself to be in one of the following categories:

"I prefer to figure it all out myself."

"I just need a little guidance and I'm good."

"Please, can someone just take care of this for me?"

Over time, the way you approach investing can change. No matter where you are at, your LPL Financial Services Professional can help. We'll talk more about that a little later.

This brochure is intended to give you some of the basic investing concepts you need to know, along with common best practices. But most of all, it's intended to get you to take action regarding your financial future through investing. The confidence and sense of empowerment that comes with having a formal investment strategy for your financial goals can be very powerful.

Are You Ready to Invest?

Investing may seem like an intimidating process, but the sooner you start. the easier it will be to begin building a nest egg for your future. Since investing always includes some risk, it's important to have a solid financial foundation before you begin. Here are some key things to make sure you have covered to make sure you're ready to invest:

- You have a steady income (sounds obvious, but it's kind of important).
- You have money left over after meeting your financial obligations.
- You've considered the effect of upcoming personal changes, such as marriage, children, or divorce, before investing.
- You've built up your savings, including a 3-6 month emergency fund, before establishing an investment account.

Talking the talk

To jumpstart your investing knowledge, here are a couple of major investing benchmarks you may be familiar with but need to know more about.

The Dow

The Dow Jones Industrial Average (DJIA) is the oldest and best-known of the American stock market indexes. The index began in 1896 and currently consists of 30 blue chip stocks. The stocks are selected by the editors of the Wall Street Journal (which, not so coincidentally, is owned by the parent company Dow Jones & Co.). The companies represented in the index are actually quite diverse, representing all the major business sectors. You would recognize most if not all of the companies represented, including Johnson & Johnson, Coca Cola, and McDonald's.

The criteria for a company to get on the Dow is that the companies are leaders in their industry and very large. It takes a significant change in a company for it to be removed from the index. Thus, the DJIA is considered an important and consistent benchmark in evaluating how the stock market in general is performing.

NASDAQ

Most investors are familiar with the New York Stock Exchange, the major marketplace where people go to buy and sell stocks. Perhaps less familiar is another marketplace known as the NASDAQ Exchange. NASDAQ stands for "National Association of Securities Dealers Automated Quotations System," although in conversation people just go by the phonetic pronunciation ("naz-dack"). In the last quarter century, NASDAQ has emerged as one of the largest and most popular stock exchanges and was the first exchange to offer online trading.

Stocks that are traded on the NASDAQ Exchange tend to be tech companies, like Apple, Facebook, Microsoft, and Google. However, companies on the NASDAQ don't have to be as huge as those icons. Smaller companies like Angie's List (the website that offers peer-to-peer reviews of home-repair contractors) and 1-800-Flowers are also listed on the Nasdaq Exchange.

While NASDAQ generally tends to include many tech companies, it also trades some banking companies, airline companies (like Spirit Airlines), and even a few non-tech businesses like Starbucks and shoe company Steve Madden. Amazon is also traded on the NASDAQ.

Knowledge is Investing Power

Becoming an investor means making a commitment to increase your knowledge by subscribing to daily financial news reports such as the Wall Street Journal app (www.wsj.com), among many others available. You can also ask your LPL Financial Services Professional to sign you up to receive the LPL Research Weekly Insights report.

Four Steps to Becoming an Investor

1. Learn which investments are appropriate for your financial goals

Whether it's saving for retirement, buying a new home, funding a college education, or any other financial goal, here's a quick look at the key types of investments available to help you.

Stocks

A stock (also known as "shares" or "equity") is a type of security that signifies proportionate ownership in the issuing corporation. This entitles the stockholder to that proportion of the corporation's assets and earnings.

Stocks are bought and sold predominantly on stock exchanges and are the foundation of nearly every portfolio.

Stocks (and stock mutual funds) have a high return potential, but the potential risk with stocks is also high. For the average investor, they are typically considered as part of a long term investment strategy (such as a 401(k) or Individual Retirement Account) where you have much more time on your side and can afford to be more aggressive and take on more risk. They may not make sense for a short term investment goal where safety and stability are more of a priority.

Bonds

Bonds are used by companies, municipalities, states, and sovereign governments to finance projects and operations. Owners of bonds are debtholders, or creditors, of the issuer. Bond details include the end date when the principal of the loan is due to be paid to the bond owner and usually includes the terms for interest payments made by the borrower.

Historically, bonds (and bond mutual funds) are known for their potential to generate consistent, moderate returns, which may work best in a medium term investment goal (such as a college fund) where you can take on some risk, but not a lot. In addition, as you get closer to retirement (within 10 years in general), bonds and bond funds may also become a bigger part of your retirement account portfolio if you are looking to go less heavy on stocks but still want some growth potential.

Cash Equivalents

Cash equivalent investments are typically money market funds[1] and can include U.S. Treasury Bills as well. They're known for consistent, lower returns (but with much lower risk), which may make more sense for a shorter term investment goal (such as saving for a down payment on a house). As you get closer to retirement (within 5-10 years in general), cash equivalents may also become a bigger part of your retirement account portfolio if you are seeking minimal risk at this life stage.

Keeping a Historical Perspective

History reminds us that the greater the risk, the greater the potential reward. Here's a quick look at historical returns of key asset classes from 1985-2022.

Asset Type	Annualized Return, 1985-2022
Stocks[2]	8.00%
Government Bonds[3]	3.00%
Treasury Bills[4]	0.40%
Inflation[5]	2.74%

Source: Callan, LLC 2023 and U.S. Bureau of Labor Statistics

1. An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the Fund.
2. The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
3. Bloomberg US Aggregate Bond Index includes U.S. government, corporate, and mortgage-backed securities with maturities of at least one year.
4. 90-day T-bill is a short-term debt obligation backed by the Treasury Department of the U.S. government.
5. U.S. Labor Department reports.

2. Embrace diversification

Putting your money into a number of different types of investment options that include different types of asset classes can help manage risk. Generally speaking, if your dollars are invested in materially different types of investments, and market conditions cause one of your investments to not do well, all of your money shouldn't be affected as negatively. There is perhaps no better way to illustrate this than to look to the story of Life Savers candy.

Clarence Crane invented Life Savers in 1912. He manufactured only one flavor of Life Savers: Pep-O-Mint. In 1913, Crane was approached by Edward J. Noble. Noble suggested that offering different flavors of Life Savers would attract more customers. Crane wasn't interested in the concept but agreed to sell the Life Savers business to Noble for $2,900. In his lifetime, Noble went on to develop a billion dollar business manufacturing different flavored Life Savers. By diversifying his product, he appealed to more people and protected his business from the risk of one flavor losing popularity.

Diversification can help with investments, too. Spread the risk to help manage your potential rewards! Keep in mind, 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.

3. Understand how the economy affects your portfolio

The state of the economy (how a country uses money and resources to produce goods and services) greatly affects stock market activity. Whether the economy is growing, shrinking, or standing still, it influences stock performance. To understand the impact of the economy on your portfolio, it helps to see how a few different economic factors affect stock prices.

With a *bull market*, investor confidence is high and stock prices rise, as most stock holdings will increase in value. With a *bear market*, investors are nervous, stock prices decrease, and many stocks are undervalued. This can also be an opportunity to buy a stake in good companies at a discount in their stock price if appropriate for your situation.

When there is *inflation*, prices are rising and purchasing power is falling ($1 buys less than it used to). But when inflation spikes too high, people can't afford to buy as much as they could before, and corporations may start to lose sales, causing stock prices to drop. This can create a drop in investment values. When there is *low inflation*, this can indicate a healthy economy, which can be good for the stock market and stock prices.

When *interest rates* increase, stock prices tend to decrease; when interest rates drop, stock prices usually rise. In 2019, the Federal Reserve (aka "The Fed," the government entity with the responsibility for implementing interest rate strategies to support the economy) decreased interest rates on three separate occasions in an attempt to help offset a potential recession and avoid an economic downturn.

4. Seek professional help if you need it

While this brochure gives you some basics to help you in your investment planning, you should know that professional help is available if and when you need it. LPL Financial services professionals can give you hands-on personal guidance and advice to help you determine your retirement goals and how you can work toward them. Here's how they can help:

- Help you understand different types of investments and their place in a balanced investment portfolio.
- Help you determine your financial goals, such as retirement, buying a home, funding a college education, starting your own business, or just getting better at budgeting and paying down credit card debt.
- Help you determine an appropriate investment strategy for your financial goals, based on your risk tolerance and timeframe.
- Discuss professionally managed investment strategies that may be of interest to you.
- Meet with you on a regular basis to track progress and adjust as necessary.

What Kind of Investor Are You?

Creating an investment mix is how you decide to allocate, or divide, your assets or investment dollars. This guide introduces you to three basic ingredients of any investment mix, helps you understand your feelings about risk, and enables you to review a sample investment mix based on your personal investor profile.

When making your investment decisions, you should consider the three factors below:

- **Your risk tolerance:** the amount of risk you can accept in order to obtain the returns you want.
- **Your time horizon:** the amount of time your money remains invested.
- **Your investment goal:** the amount of money you need to save to make your retirement dream a reality.

The risk tolerance quiz that follows helps you gain a general understanding of your feelings about risk. By determining your risk tolerance level, and considering how long you have to invest, you can begin to create your own personal investment mix.

Answer the following questions:

1. How many years do you have until retirement?

a. Less than five (1 point)
b. Five to ten (2 points)
c. More than ten (3 points)

2. When it comes to making investment decisions, which of the following best describes you?

a. Not very knowledgeable (1 point)
b. Very knowledgeable (3 points)
c. Somewhat knowledgeable (2 points)

3. Are you willing to take on more risk in exchange for potentially higher rates of return?

a. Yes (3 points)
b. No (1 point)
c. Not sure (2 points)

4. When making investment decisions, which of the following best describes your philosophy?

a. I worry about losing my money and lean toward having a more conservative investment mix (1 point)
b. I would not hesitate to take on higher risk because I know it's the only way to achieve potentially higher returns (3 points)
c. I believe in taking my time and investigating all my options before making a decision (2 points)

5. Which of the following best describes your current attitude toward investing for retirement?

a. I would like the opportunity for my retirement savings to grow, but am only comfortable with a medium amount of risk (2 points)
b. I tend to worry that the value of my retirement savings will go down (1 point)
c. I would like the opportunity for my retirement savings to grow as much as possible, and am willing to take on higher risk for potentially higher returns (3 points)

Total Your Points Here _____

Scoring System

5 – 7: Conservative. You are an investor who seeks stability and safety for your money. Remember, not having enough money when you retire is a big risk too. Keep in mind your time horizon and the impact inflation can have on your investments.

8 – 9: Moderate. You want your money to grow but are more concerned about protecting it. You are cautious but may be willing to diversify to spread out some of your risk, depending on your time horizon.

10 – 11: Moderate Growth. You like to balance lower-risk investments with higher-risk investments. Evaluate your situation at least annually to make sure that this balance contains the right mix of lower-risk and higher-risk investments for your situation.

12 – 13 Growth. You want to increase your savings and are somewhat comfortable riding the ups and downs of the stock market in exchange for the possibility of higher returns over the long term.

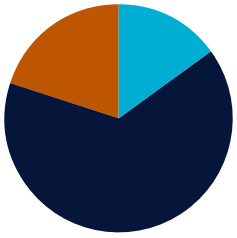
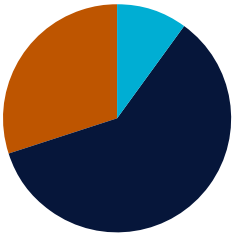
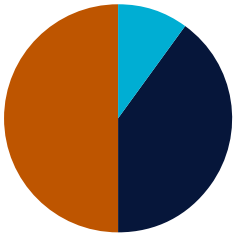
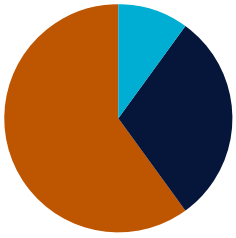
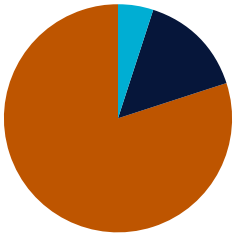
14 – 15 Aggressive Growth. You want to maximize the long-term growth of your retirement savings. You are comfortable taking substantial investment risk in exchange for potentially higher returns. Evaluate your situation at least annually, and modify your investment strategy as your situation changes.

Based on your score, you are a(n)

_____**investor.**

Find Your Investment Mix

Find the asset allocation model below that matches your investment profile and circle it. You may wish to use this model as a starting point to create your own individual mix.

Conservative	Moderate	Moderate Growth	Growth	Aggressive Growth
5–7 Points	8–9 Points	10–11 Points	12–13 Points	14–15 Points
				
Cash 0–15% Bonds 60–85% Stocks 15–35%	Cash 0–15% Bonds 50–70% Stocks 25-50%	Cash 0–15% Bonds 30–60% Stocks 40-70%	Cash 0–15% Bonds20–50% Stocks 50-80%	Cash 0–15% Bonds 5–35% Stocks 65-95%

Allocations are examples only and should not be considered investment advice or as a recommendation of any specific investment product. Please consider your investment choices carefully and obtain and read the appropriate fund prospectuses before investing any money. You should choose your own investments based on your particular objectives and situation. Be sure to review your decisions periodically to make sure they are still consistent with your goals. You may wish to consult a financial professional for more information.

For comprehensive investment assistance based on your own unique situation and outlook, contact your LPL Financial services professional today!

Important disclosures:
The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial professional prior to investing. All performance referenced is historical and is no guarantee of future results.

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments.

All indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal, and potential illiquidity of the investment in a falling market.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

All company names noted herein are for educational purposes only and not an indication of trading intent or a solicitation of their products or services. LPL Financial doesn't provide research on individual equities.

See the next page for additional important disclosures.

This material was prepared by LPL Financial, LLC.

Securities and advisory services offered through LPL Financial (LPL), a registered investment advisor and broker-dealer (member FINRA/SIPC). Insurance products are offered through LPL or its licensed affiliates. To the extent you are receiving investment advice from a separately registered independent investment advisor that is not an LPL Financial affiliate, please note LPL Financial makes no representation with respect to such entity.
Securities and insurance offered through LPL or its affiliates are:

Not Insured by FDIC/NCUA or Any Other Government Agency	**Not Bank/Credit Union Guaranteed**	**Not Bank/Credit Union Deposits or Obligations**	**May Lose Value**

For public use.
Member FINRA/SIPC.
FP-0002015BRO3-0924W Tracking #1-05367830(Exp. 10/26)

LPL Financial